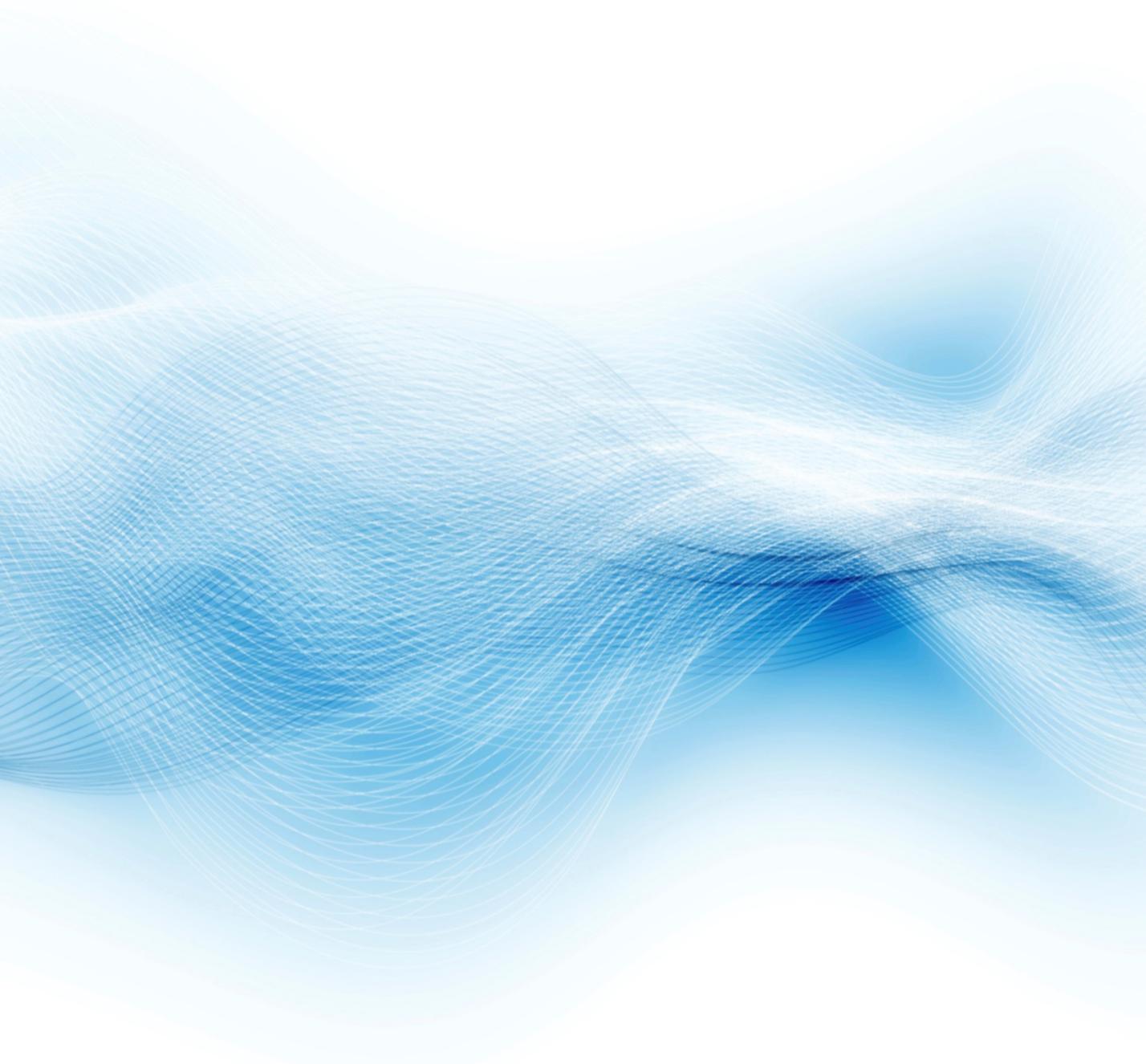




Audit Completion Report

Lincolnshire County Council

Year ending 31 March 2020



CONTENTS

1. Executive summary
2. Significant findings
3. Internal control recommendations
4. Summary of misstatements
5. Value for Money conclusion

Appendix A – Draft management representation letter

Appendix B – Draft auditor’s report

Appendix C – Independence

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.

Mazars LLP
45 Church Street
Birmingham
B3 2RT

Audit Committee Members
Lincolnshire County Council
County Offices
Newland
Lincoln
Lincolnshire
LN1 1YL

4 November 2020

Dear Members

Audit Completion Report – Year ended 31 March 2020

We are pleased to present our Audit Completion Report for the year ended 31 March 2020. 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 issued in March 2020. Since we issued our Audit Strategy Memorandum the UK has been subject to the challenges and restrictions of COVID-19. We have reviewed our Audit Strategy Memorandum and concluded that the original significant audit risks and other areas of management judgement remain appropriate.

One implication of COVID-19 for the Council was that the deadlines for submission of the draft and audited financial statements were pushed back to 31 August and 30 November respectively. Despite the revised deadlines we acknowledge the difficulties encountered by your team during accounts preparation and audit, and 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 07875 974 291.

Yours faithfully

Mark Surridge
Mazars LLP

Mazars LLP – 45 Church Street, Birmingham, B3 2RT
www.mazars.co.uk

Mazars LLP is the UK firm of Mazars, an integrated international advisory and accountancy organisation. Mazars LLP is a limited liability partnership registered in England and Wales with registered number OC308299 and with its registered office at Tower Bridge House, St Katharine's Way, London E1W 1DD.

We are registered to carry on audit work in the UK by the Institute of Chartered Accountants in England and Wales. Details about our audit registration can be viewed at www.auditregister.org.uk under reference number C001139861.
VAT number: 839 8356 73



1. EXECUTIVE SUMMARY

Purpose of this report and principal conclusions

The Audit Completion Report sets out the findings from our audit of Lincolnshire County Council ('the Council') for the year ended 31 March 2020, and forms the basis for discussion at the Audit Committee meeting on 16 November 2020.

The detailed scope of our work as your appointed auditor for 2019/20 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 of Auditing (UK) and means we focus on audit risks that we have assessed as resulting in a higher risk of material misstatement.

Sections 2 and 5 of this report outline the detailed findings from our work on the financial statements and our conclusion on the Council's arrangements to achieve economy, efficiency and effectiveness in its use of resources. Section 2 also includes our conclusions on the audit risks and areas of management judgement in our Audit Strategy Memorandum. The significant audit risks we identified were:

- Management override of control
- Revenue and Expenditure recognition
- Valuation of Property, Plant and Equipment and Investment Properties
- Valuation of the net pensions liability

Status of our work

As we outline on the following page, our work is substantially complete. Subject to the satisfactory completion of the outstanding work, at the time of issuing this report we have the following conclusions:

Opinion on the financial statements

We anticipate issuing an unqualified opinion on the financial statements. Our proposed audit opinion is included in the draft auditor's report in Appendix B.

Value for Money conclusion

We anticipate concluding that the Council had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources. Our draft auditor's report, including proposed conclusion, is provided in Appendix B.

Whole of Government Accounts (WGA)

This work cannot be completed as, at the date of this report, the NAO has not yet issued its Group Instructions regarding the audit work required and its timetable for audit reporting.

Wider powers

The 2014 Act requires us to give an elector, or any representative of the elector, the opportunity to question us about the accounting records of the Council and to consider any objection made to the accounts. We received no such objections or questions, although one matter was brought to our attention. Further details on the exercise of our wider powers are provided in section 2.

1. EXECUTIVE SUMMARY

Status of our audit work

We have substantially completed our work on the financial statements and Value for Money conclusion for the year ended 31 March 2020. The matters outstanding at the time of preparing this report, including the normal review and completion processes, are summarised below. We will provide the Audit Committee with an update in relation to these and any other matters in a follow-up letter, prior to signing the auditor's report.

Audit area	Status	Description of outstanding matters
Property, plant and equipment		We are clearing final queries in relation to the significant audit risk identified regarding valuations. No material issues have been identified from the work carried out to date. We are proposing an emphasis of matter paragraph in the audit opinion in response to the disclosed material uncertainty in property valuations caused by Covid19. We say more on this at page 8.
Pensions		No material issues have been identified from the work carried out to date. Part of our assurance over the net pensions liability is derived from specified procedures carried alongside the Lincolnshire Pension Fund audit, which has not yet been received. We anticipate this will include a disclosure of material valuation uncertainty on the Lincolnshire Pension Fund property assets that will be reflected in the Council's own financial statements.
Audit Quality Control Completion Procedures		Our audit work is undergoing final stages of review by the Engagement Lead and other internal consultation and we are addressing any remaining review points. In addition, there are residual procedures to complete, including updating post balance sheet event considerations to the point of issuing the opinion and obtaining final management representations.

Status

-  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

Whole of Government Accounts

There have been changes to the timetable to the national local authority Whole of Government Accounts (WGA) process, reflecting the changes to this year's accounts publication and audit deadlines. NAO Group Instructions for local authority 2019/20 audits have not been issued yet and the deadline for auditor reporting is expected to be in early December 2020. The WGA return and audit certificate cannot therefore be issued at the present time.



2. EXECUTIVE SUMMARY (CONTINUED)

Our audit approach

We provided details of our intended audit approach in our Audit Strategy Memorandum in March 2020. We have not made any changes to our audit approach since we issued our Audit Strategy Memorandum.

Materiality

We set materiality at the planning stage of the audit at £22.1m using a benchmark of 2% of Gross Operating Expenditure. Our final assessment of materiality, based on the final financial statements and qualitative factors is £22.8m using the same benchmark. We set our trivial threshold (the level under which individual errors are not communicated to the Audit Committee) at £685k based on 3% of overall materiality.

We also set a specific materiality on the following items of account:

- Note 35b Senior Officer Remuneration: £5k – on the basis this is a specific disclosure note that may attract public attention.
- Note 34 Members Allowances: £258k – on the basis this is a specific disclosure note that may attract public attention.
- Note 38 External Audit Costs: £17k – on the basis this is a specific disclosure note that may attract public attention.

Misstatements and internal control recommendations

Section 3 summarises any internal control recommendations we need to report to you.

Section 4 summarises the position in relation to any adjusted or unadjusted misstatements noted as part of our audit as at the time of issuing this report. If any additional misstatements are noted on completion of the outstanding work, these will be reported to the Audit Committee in a follow-up letter.



2. SIGNIFICANT FINDINGS

Set out below are the significant findings from our audit. These findings include:

- our audit conclusions regarding significant risks and key areas of management judgement outlined in the Audit Strategy Memorandum;
- our comments in respect of the accounting policies and disclosures that you have adopted in the financial statements. On page 11 we have concluded whether the financial statements have been prepared in accordance with the financial reporting framework and commented on any significant accounting policy changes that have been made during the year;
- any further significant matters discussed with management; and
- any significant difficulties we experienced during the audit.

Significant risks and key areas of management judgement

As part of our planning procedures we considered the risks of material misstatement in the Council's financial statements that required special audit consideration. Although we report identified significant risks at the planning stage of the audit in our Audit Strategy Memorandum, our risk assessment is a continuous process and we regularly consider whether new significant risks have arisen and how we intend to respond to these risks. No new risks have been identified since we issued our Audit Strategy Memorandum.

Significant risk

Description of the risk

Management override of controls

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.

How we addressed this risk

We addressed this risk through performing audit work over:

- Accounting estimates impacting on amounts included in the financial statements;
- Consideration of any identified significant transactions outside the normal course of business; and
- Journals recorded in the general ledger and other adjustments made in preparation of the financial statements.

Audit Conclusion

Our audit procedures have not identified any material errors or uncertainties in the financial statements, or other matters that we wish to bring to Members' attention in relation to management override of controls.

2. SIGNIFICANT FINDINGS (CONTINUED)

Significant risk	Description of the risk
Revenue Recognition	<p>Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. Having considered the factors for revenue recognition, we believe the risk is focused on the year-end balance sheet and in particular the existence and accuracy of receivables and the cut-off of revenue.</p> <p>Relevant balances:</p> <ul style="list-style-type: none">Note 20: Short Term Debtors £65,501k <hr/> <p>How we addressed this risk</p> <p>We evaluated the design and implementation of controls to mitigate the risk of material receivables being recognised in the wrong period. We tested receivables to ensure that they are supported by sufficient and appropriate evidence and have been accounted for correctly.</p> <p>Our audit approach also incorporated a range of other substantive procedures, including, but not limited to the testing of receipts around the year-end to provide assurance that any material items had been recorded in the correct financial year.</p> <hr/> <p>Audit Conclusion</p> <p>Our audit procedures in relation to this risk have not identified any material errors or uncertainties in the financial statements, or other matters that we wish to bring to your attention.</p>

Significant risk	Description of the risk
Expenditure Recognition	<p>Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council (FRC), which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition. Having considered the factors for expenditure recognition, we believe the risk is focused on the year-end balance sheet and in particular the existence and valuation of payables and the cut-off of revenue expenditure.</p> <p>Relevant balances:</p> <ul style="list-style-type: none">Note 23: Short Term Creditors £102,719k <hr/> <p>How we addressed this risk</p> <p>We evaluated the design and implementation of controls to mitigate the risk of material creditors being recognised in the wrong period. In addition, we tested such creditors to ensure that they are supported by sufficient and appropriate evidence and have been accounted for correctly.</p> <p>Our audit approach also incorporated a range of other substantive procedures, including, but not limited to the testing of payments around the year-end to provide assurance that there are no material unrecorded items in the 2019/20 accounts.</p> <hr/> <p>Audit Conclusion</p> <p>Our audit procedures in relation to this risk have not identified any material errors or uncertainties in the financial statements, or other matters that we wish to bring to your attention.</p>

2. SIGNIFICANT FINDINGS (CONTINUED)

Significant risk	Description of the risk
Valuation of Property, Plant and Equipment and Investment Properties	The Council's accounts contain material balances and disclosures relating to its holding of Property, Plant and Equipment, and Investment Properties with the majority of these assets required to be carried at valuation. Due to high degree of estimation uncertainty associated with those held at valuation, we have determined there is a significant risk in this area.

Relevant balances:

- Note 15: Property, Plant & Equipment – Land & Buildings £535,094k
- Note 17: Investment Properties £106,165k

How we addressed this risk

In relation to the valuation of property, plant & equipment and investment properties we:

- Critically assessed the Council's valuer's scope of work, qualifications, objectivity and independence to carry out the required programme of revaluations;
- Considered whether the overall revaluation methodologies used by the Council's valuer's were in line with industry practice, the CIPFA Code of Practice and the Council's accounting policies;
- Assessed whether valuation movements are in line with market expectations by using information available from other sources;
- Critically assessed the treatment of the upward and downward revaluations in the Council's financial statements with regards to the requirements of the CIPFA Code of Practice; and
- Critically assessed the approach that the Council adopted to ensure that any assets not subject to revaluation in 2019/20 were materially correct, including considering the robustness of that approach in light of the valuation information reported by the Council's valuers.

Audit Conclusion

Subject to adequate resolution of any residual queries, the work undertaken has not identified to date any material errors or uncertainties in the financial statements, or other matters that we wish to bring to Members' attention.

The Council's valuers have followed guidance issued by the Royal Institute of Chartered Surveyors and their valuation reports conclude that, due the impact of COVID-19 on the property market, there is "material uncertainty" over the valuation of land and buildings and investment properties at the balance sheet date. This has been properly disclosed at Note 3 to the Statement of Accounts.

The disclosure of this material valuation uncertainty at note 3 is in our view important to the users' understanding of the financial statements. As such we will be including an emphasis of matter paragraph on this matter in our audit report. Our draft Auditor's Report is included at Appendix B.

2. SIGNIFICANT FINDINGS (CONTINUED)

Significant risk

Description of the risk

Valuation of net pensions liability

The Council's accounts contain material liabilities relating to the local government pension scheme. The Council uses an actuary to provide an annual valuation of these liabilities in line with the requirements of IAS 19 Employee Benefits. Due to the high degree of estimation uncertainty associated with this valuation, we determined there is a significant risk in this area.

Relevant balances:

- Note 29: Net Pension Liability £816,544k

How we addressed this risk

In relation to the valuation of the Council's defined benefit pension liability we:

- Critically assessed the competency, objectivity and independence of the Lincolnshire Pension Fund's Actuary, Hymans Robertson;
- Liaised with the auditors of the Pension Fund to gain assurance that the controls in place at the Pension Fund which support the IAS 19 valuation process were operating effectively. This includes the processes and controls in place to ensure data provided to the Actuary by the Pension Fund for the purposes of the IAS 19 valuation is complete and accurate;
- Reviewed the appropriateness of the Pension Asset and Liability valuation methodologies applied by the Pension Fund Actuary, and the key assumptions included within the valuation. This included comparing them to expected ranges, utilising information provided by PWC, the consulting actuary engaged by the National Audit Office; and
- Agreed the data in the IAS 19 valuation report provided by the Fund Actuary for accounting purposes to the pension accounting entries and disclosures in the Council's financial statements.

Audit Conclusion

The procedures we have undertaken to date have not identified any material errors or uncertainties in the financial statements.

The draft Financial Statements were prepared on the basis of the IAS19 actuarial valuation report received in May 2020. In July 2020, MHCLG consulted on the proposed remedy for the 'McCloud' case. This indicated that the approach adopted for 2018/19 and 2019/20 is likely to have led to an overstatement of the pension liability as at 31 March 2020. The Council obtained in September 2020 an updated actuarial valuation to take account of this matter and the change in the Pension Fund's year end assets valuation. The differences between the original and latest valuation reports are not material and management do not propose to amend the draft Financial Statements. We have included this in our summary of non-material unadjusted misstatements at page 15.

A second matters arising is the Goodwin case that was brought against the Secretary of State for Education earlier this year regarding discrimination owing to sexual orientation in the Teachers' Pension Scheme. Management have assessed the impact to be immaterial to the estimate of pension liabilities and no action has been taken for 2019/20. Our work does not contradict that assertion.

Part of our assurance over the net pensions liability is derived from specified procedures undertaken by the the Lincolnshire Pension Fund auditor. We will complete the remaining audit work in this area when the information required is available. Our expectation is that this assurance will also report material valuation uncertainty over property assets in the pension fund portfolio. This will also need to be disclosed in the Council's financial statements and referred to within the 'emphasis of matter' paragraph in our audit report. Our draft Auditor's Report is included at Appendix B.

2. SIGNIFICANT FINDINGS (CONTINUED)

Management judgement

Minimum Revenue Provision (MRP)

Description of the management judgement

Local authorities are normally required each year to set aside some of their revenues as provision for debt in respect of capital expenditure financed by borrowing or long term credit arrangements, by reference to the prior year's closing Capital Financing Requirement. The amount to be set aside each year is not prescribed although an overarching principle of prudence is expected to be adopted. This is supported by statutory guidance as to how this could be achieved and the Council is required to have regard to this in setting its MRP policy. Management judgement is therefore exercised in determining the level of its prudent provision.

How we addressed this judgement

We addressed this judgement by:

- reviewing the Council's MRP policy to ensure that it continues to have been developed with regard to the statutory guidance;
- assessing whether the provision had been calculated and recorded in accordance with the Council's policy; and
- assessing whether the amount provided for the period is appropriate, taking into account the Council's Capital Financing Requirement.

Audit conclusion

Our audit procedures have not identified any material errors or uncertainties in the 2019/20 financial statements in relation to the Council's MRP.

Management judgement

Accounting for the schools Private Finance Initiative and other school assets and liabilities

Description of the management judgement

The Council's financial statements set out its accounting policies in relation to these, and their inclusion on the balance sheet. These assets and liabilities are material and the accounting treatment is based on management judgement and interpretation of the relevant accounting standards.

How our audit addressed this area of management judgement

We addressed this by:

- challenging the reasonableness of judgments management has made; and
- Substantively testing the assets and liabilities as part of our planned testing programmes.

Audit conclusion

The procedures we have undertaken have not identified any material errors or uncertainties in the financial statements, or other matters that we wish to bring to Members' attention.

2. SIGNIFICANT FINDINGS (CONTINUED)

Qualitative aspects of the Council's accounting practices

We have reviewed the Council's accounting policies and disclosures. We have provided feedback on the draft financial statements and agreed amendments in any areas where disclosures could be strengthened. We have discussed with management specific accounting policies, for example the approach to debtors impairment under IFRS 9, and taken into account their assessment that the extent of any non compliance is immaterial. We are satisfied that the final statements comply with the requirements of the Code of Practice on Local Authority Accounting (the Code), appropriately tailored to the Council's circumstances. The national timetable for the accounts completion and audit this year was changed in response to the COVID-19 pandemic. The draft Statement of Accounts, including the Council's draft financial statements, were received on at the end of June 2020, well ahead of the 31 August 2020 deadline, and were of a good quality.

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 impact of COVID-19 on the Council's business, including any potential impact on risks of material misstatement. This included the disclosures made regarding the key sources of estimation uncertainty that management has made in preparing the Statement of Accounts. The Council's valuers have followed RICS guidance and as expected their valuation report concludes that, due to the impact of COVID-19 on the property market, there is "material uncertainty" over the valuation of land and buildings and investment properties at the balance sheet date. This extends to property assets held by the Pension Fund. This has been disclosed in the notes to the Council's Financial Statements.
- The Council's adoption of the 'going concern' principle in preparing the Financial Statements and its consideration of any material uncertainties regarding events or conditions which may cast doubt over its ability to continue as a 'going concern' which need to be disclosed. The 'going concern' status is confirmed through the 2019/20 local government accounting code, and must also follow International Accounting Standard (IAS) 1: Presentation of Financial Statements. We must comply with a revised ISA (UK) 570 Going Concern, effective for periods commencing on or after 15 December 2019. The above, combined with the impact of COVID-19, meant an additional level of scrutiny was required over the going concern assertion in 2019/20.
- The Council's response to relevant legal cases which impact on the valuation of certain pension liabilities. These included:
 - the proposed remedy for the 'McCloud' case (which emerged initially in 2018/19 and was reported on in our previous Audit Completion Report) which is likely to have led to an overstatement of the original estimate of the Council's pension fund liability as at 31 March 2020. Management has requested an updated IAS19 valuation report from the Council's actuary for this matter and the impact is not regarded by management as material.
 - The 'Goodwin' case brought against the Secretary of State for Education earlier this year regarding discrimination owing to sexual orientation in the Teachers' Pension Scheme. The factors underpinning this case are likely to apply to the Local Government Pension Scheme and employers are being asked to determine whether there is a risk that their liabilities are materially misstated. Management has sought advice from its actuary in relation to this matter and concluded that the impact on this accounting estimate is not material and need not be included in the Council's pension liability estimates.
- Impact of changes in audit scope on the external audit fee. We have provided management with a fee estimate and final fees will be agreed with management prior to inclusion and cover the following matters identified to date:
 - We continually strive to maintain high standards of audit quality and consider the outcome of independent quality reviews, in particular by the Financial Reporting Council, of our audit work and that of other audit suppliers. We have increased the level of work we do on defined benefit pension schemes and valuation of property, plant and equipment. Alongside this, as the Council is designated as a 'Major Local Audit', we have also needed to include additional levels of supervision and review to meet regulators' expectations. These factors will lead to a permanent uplift to the audit fee and have provided management with an estimate, to be confirmed on completion of our work, of between £12,000 and £13,000.
 - Additional audit risks arising from COVID-19. We have discussed with management the additional audit testing and audit work required relating to pension assets and liabilities as well as adjustments for 'McCloud'; uncertainty in the valuation of land and buildings; going concern; and other areas. Our fee estimate given to management is between £6,750 and £9,000.

2. SIGNIFICANT FINDINGS (CONTINUED)

Significant difficulties during the audit

During the course of the audit we have had the full co-operation of management. Officers have been very helpful and responsive in addressing our audit queries. The changes to the Council's and Mazars' working arrangements' in response to COVID-19 and other pressures across the sector has lead to a number of challenges during the year-end accounts closedown and audit process. There have understandably been some difficulties in carrying out our normal audit procedures and obtaining the audit evidence required We are grateful for the co-operation and support provided.

Wider responsibilities

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

- issue a report in the public interest;
- make statutory recommendations that must be considered and responded to publicly;
- apply to the court for a declaration that an item of account is contrary to law; and
- issue an advisory notice under schedule 8 of the 2014 Act.

We have not exercised any of these powers as part of our 2019/20 audit.

The 2014 Act also requires us to give an elector, or any representative of the elector, the opportunity to question us about the accounting records of the Council and to consider any objection made to the accounts. We have received one item of correspondence that we have considered through the course of our audit. We issued a response on 15 September 2020 concluding that that no action is required of us at this time in our capacity as the Council's external auditor. Our response to the individual was shared with Council Officers.

Delay in Audit certificate

The issue of the Audit Certificate confirms that we have discharged all of our audit responsibilities and that the audit is formally 'closed'. The Audit Certificate would normally be published in our Auditor's Report on the Statement of Accounts alongside the accounts opinion and value for money conclusion. The NAO has not yet issued its Group Instructions for local authority audits. We therefore expect to issue the Auditor's Report, but without the Audit Certificate, shortly after the audited Statement of Accounts has been approved by the Audit Committee. We will then issue the Audit Certificate separately as soon as we are able to do so. We will update the Audit Committee when more information is known but at this stage the draft Auditor's Report at Appendix B states that we are unable to issue the Audit Certificate alongside the accounts audit opinion and value for money conclusion.



3. 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 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 assign priority rankings to each of them to reflect the importance that we consider each poses to your organisation and, hence, our recommendation in terms of the urgency of required action. In summary, the matters arising fall into the following categories:

Priority ranking	Description	Number of issues
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.	1
3 (low)	In our view, internal control should be strengthened in these additional areas when practicable.	0

3. INTERNAL CONTROL RECOMMENDATIONS (CONTINUED)

Deficiencies in internal control – Level 2

Description of deficiency

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

Potential effects

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

Recommendation

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

Management response

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

4. SUMMARY OF MISSTATEMENTS

No material misstatements have been identified during our audit work to date.

A small number of disclosure amendments to the notes to the Statement of Accounts have been agreed with management to correct minor errors. There are no significant amendments that we are required to highlight in this report. The main audit adjustments relate to:

- Note 3 Assumptions Made About The Future And Other Major Sources Of Estimation Uncertainty: to reflect the material valuation uncertainty caused by Covid19 on the Council's land and buildings and investment properties and Council's share of pension fund property assets

Unadjusted misstatements

The unadjusted misstatements identified during the course of the audit work completed so far above the trivial reporting threshold of £685k are summarised below. Any unadjusted misstatements above the trivial threshold need to be included in the Management Letter of Representation (Appendix A).

	Draft Statements May 2020 IAS19 Report £000s	September 2020 IAS19 Report £000s	Difference £000s
1 Comprehensive Income and Expenditure Statement – Costs of Services (Past Service Cost element)	(74,491)	(72,025)	(2,466)
Comprehensive Income and Expenditure Statement – Other Comprehensive Income and Expenditure (Remeasurement of the Net Defined Benefit Liability/(Asset))	229,030	225,084	3,946
Comprehensive Income and Expenditure Statement – Total Comprehensive Income and Expenditure	177,695	179,175	1,480
Balance Sheet – Net Pension Liability	856,614	858,094	1,480
Balance Sheet - Pension Reserve	(856,614)	(858,094)	1,480

The draft Statements have been prepared based on the IAS19 actuarial valuation received in May 2020. Management has in September 2020 obtained a further valuation report from the Actuary, to take into account changes to the valuation approach for the McCloud liability and to the Pension Assets valuation.

The table above summarises the impact of differences between the two reports on the financial statements (for ease of presentation it does not identify all areas and notes affected). Management do not propose to amend the Financial Statements for these differences on the grounds of materiality.

5. VALUE FOR MONEY CONCLUSION

Introduction

We are required to form a conclusion as to 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 in order to form our conclusion, and sets out the criterion and sub-criteria that we are required to consider.

The overall criterion is that, 'in all significant respects, the Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.' To assist auditors in reaching a conclusion on this overall criterion, the following sub-criteria are set out by the NAO:

- Informed decision making
- Sustainable resource deployment
- Working with partners and other third parties

Our approach

Our overall approach is set out in our Audit Strategy Memorandum and involves a detailed risk assessment at the planning stage to identify whether or not a Value for Money (VFM) risk exists. Risk, in the context of our VFM work, is the risk that we come to an incorrect conclusion rather than the risk of the arrangements in place at the Council being inadequate. As set out in our Audit Strategy Memorandum, for the 2019/20 financial year, we identified no significant audit risks. We did though identify the Council's medium term financial sustainability as a matter which we needed to keep under close review during our audit

Before drawing our conclusion we have:

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

From the work performed, no new significant VFM risks were identified and we have no additional matters to report.

In April 2020 NAO issued an update to its VFM guidance to auditors which set out how local auditors should approach considering the impact of COVID-19 on their 2019/20 VFM arrangements conclusion risk assessment. The guidance states that auditors should generally consider local bodies' arrangements and their response to the pandemic as part of their 2020/21 work on VFM arrangements, and that only where there is a clear indication of a significant failure of arrangements during the 2019/20 financial year as a result of COVID-19 would it be appropriate to raise a 2019/20 significant risk. We have not identified any significant failures in the Council's arrangements during 2019/20 and are satisfied that no additional significant VFM risks have been identified in relation to these matters.



5. VALUE FOR MONEY CONCLUSION

The COVID-19 lockdown occurred in the final two weeks of the Council's financial year and the impact on the 2019/20 financial outturn was not significant. The Council reported a £15.1m underspend on non-school budgets (schools' budgets were £11.9m underspent) which was similar to earlier forecasts. The main areas of underspend were in capital financing charges where the net £5.1m underspend reflected changes to and an underspend against the schemes in the capital programme, and in the central contingency budget which was £2.3m underspent. Around £0.4m of Government's COVID-19 emergency support grant was used in 2019/20 to support additional costs and losses.

The full financial impact of COVID-19 is not yet certain and we recognise the Council is working through the implications and considerations through business planning and financial planning updates. In September 2020 the Council was forecasting a £3.5m overspend (excluding schools and capital financing charges) against the 2020/21 budget, with the variances largely attributable to the impact of Covid-19 and demand pressures in the budgets for looked after children, school transport and waste recycling. The total forecast Covid-19 expenditure and losses was £43.1m with £40.3m support grant received to date. The Council expected to be able to bridge this gap from further grant available to compensate for lost income. Management is carefully tracking and challenging budget variances and the demands being placed on the COVID-19 grants. The Council was forecasting that general reserves would still be at target levels at the end of the year and did expect to draw on the Financial Volatility Reserve (£52.6m), although this was available if needed. The approach to managing the capital financing charges budget (which was forecast to be £6.9m underspent) and funding is being revised to reflect updates to the capital spending plans and the Council's overall financial position.

The COVID-19 outbreak has impacted on the Council's ability to enact its original 2020/21 plans, including income generation and expenditure reductions and other developments. The Council is continuing to evaluate this impact and taking steps to update and revise its arrangements to ensure it has clear and robust plans to secure the Council's financial resilience over the medium term.

The Council's response to the pandemic will be a major focus of our 2020/21 audit and value for money assessment under the new Code of Audit Practice framework and supporting NAO guidance. We will continue to liaise with management and update our understanding of the Council's arrangements as part of risk assessment and reporting in the new financial year.

Overall Conclusion

Based on the work performed to date, and subject to our completion and review procedures, there are no matters arising that would prevent us from issuing an unqualified Value for Money conclusion for the 2019/20 financial year in line with the indicative wording included at Appendix B.



APPENDIX A

DRAFT MANAGEMENT REPRESENTATION LETTER

Mark Surridge

Mazars LLP

45 Church Street

Birmingham

B3 2RT

xx November 2020

Dear Sirs

Lincolnshire County Council - audit for year ended 31 March 2020

This representation letter is provided in connection with your audit of the financial statements of Lincolnshire County Council (the Council) for the year ended 31 March 2019 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 2019/20 (the Code) and applicable law.

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

My responsibility for the financial statements and accounting information

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

My responsibility to provide and disclose relevant information

I have provided you with:

- access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other material;
- additional information that you have requested from us for the purpose of the audit; and
- unrestricted access to individuals within the Council you determined it was necessary to contact in order to obtain audit evidence.

I confirm as Executive Director of Resources that I have taken all the necessary steps to make me aware of any relevant audit information and to establish that you, as auditors, are aware of this information.

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

Accounting records

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

Accounting policies

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

APPENDIX A

DRAFT MANAGEMENT REPRESENTATION LETTER

Accounting estimates, including those measured at fair value

I confirm that any significant assumptions used by the Council in making accounting estimates, including those measured at current or fair value, are reasonable.

I confirm that I am satisfied that the actuarial assumptions underlying the valuation of pension scheme liabilities for IAS19 disclosures are consistent with my knowledge. I confirm that all settlements and curtailments have been identified and properly accounted for. I confirm that all significant retirement benefits have been identified and properly accounted for (including any arrangements that are statutory, contractual or implicit in the employer's actions, that arise in the UK or overseas, that are funded or unfunded).

Material Valuation Uncertainty

The outbreak of COVID-19, has impacted global financial markets and as such identified that less weight can be attached to the previous market evidence for comparison purposes and to inform opinions of value. The current response to COVID-19 has resulted in an unprecedented set of circumstances on which to base judgement, resulting in the valuations recognised within the Statement of Accounts being reported on the basis of 'material valuation uncertainty' as per VPS 3 and VPGA 10 of the RICS Red Book Global. Given the unknown future impact that COVID-19 might have on the real estate market. I am satisfied that sufficient and appropriate disclosures have been made in the Statement of Accounts to reflect the impact of 'material valuation uncertainty' on the Council's assets.

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 Council have been brought to your attention. All known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to you and accounted for and disclosed in accordance with the Code and applicable law.

Laws and regulations

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

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

Fraud and error

I acknowledge my responsibility as Executive Director of Resources for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

I have disclosed to you:

- all the results of my assessment of the risk that the financial statements may be materially misstated as a result of fraud;
- all knowledge of fraud or suspected fraud affecting the Council involving:
- management and those charged with governance;
- employees who have significant roles in internal control; and
- others where fraud could have a material effect on the financial statements.

I have disclosed to you all information in relation to any allegations of fraud, or suspected fraud, affecting the Council's financial statements communicated by employees, former employees, analysts, regulators or others.

APPENDIX A

DRAFT MANAGEMENT REPRESENTATION LETTER

Related party transactions

I confirm that all related party relationships, transactions and balances, have been appropriately accounted for and disclosed in accordance with the to you the requirements of the Code and applicable law. I have disclosed the identity of the Council's related parties and all related party relationships and transactions of which I am aware.

Impairment Review

To the best of my knowledge there is nothing to indicate that there is a permanent reduction in the recoverable amount of the plant, property, equipment and investment property balances below their carrying value at the balance sheet date.

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.

Service Concession Arrangements

I am not aware of any material contract variations, payment deductions or additional service charges in 2019/20 in relation to the Council or the Council's PFI schemes that you have not been made aware of.

Subsequent events

I confirm all events subsequent to the date of the financial statements and for which the Code and applicable law, require adjustment or disclosure have been adjusted or disclosed. Should further material events occur after the date of this letter which may necessitate revision of the figures included in the financial statements or inclusion of a note thereto, I will advise you accordingly.

Other matters

I can confirm in relation to the following matters that:

- Brexit - we have assessed the potential impact of the United Kingdom leaving the European Union and that the disclosure in the Narrative Report and note 3 to the Statement of Accounts fairly reflects that assessment.
- COVID-19 - we have assessed the potential impact of the COVID-19 Virus pandemic on the Authority and the Statement of Accounts, including the impact of mitigation measures and uncertainties, and are satisfied that the Statement of Accounts and supporting notes fairly reflect that assessment.

Going concern

To the best of my knowledge there is nothing to indicate that the Council will not continue as a going concern in the foreseeable future. The period to which I have paid particular attention in assessing the appropriateness of the going concern basis is not less than twelve months from the date of approval of the accounts. I have updated our going concern assessment in light of the Covid-19 pandemic. I continue to believe that the Council's financial statements should be prepared on a going concern basis and have not identified any material uncertainties related to going concern on the grounds that current and future sources of funding or support will be more than adequate for the Council's needs. We believe that no further disclosures relating to the Council's ability to continue as a going concern need to be made in the financial statements

Annual Governance Statement

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

Narrative report

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

Unadjusted misstatements

I confirm that the effects of any uncorrected misstatements (including those identified at the appendix to this letter are immaterial, both individually and in aggregate, to the financial statements as a whole.

This letter was tabled and agreed at the meeting of the Audit Committee on 16 November 2020.

Yours faithfully

Executive Director of Resources

Executive summary

Significant findings

Internal control
recommendations

Summary of
misstatements

Value for Money
conclusion

Appendices

APPENDIX B

DRAFT AUDITOR'S REPORT

TO BE UPDATED FOLLOWING CONSULTATION

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

Opinion

We have audited the financial statements of Lincolnshire County Council for the year ended 31 March 2020, which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

In our opinion, the financial statements:

- give a true and fair view of the financial position of Lincolnshire County Council as at 31st March 2020 and of its expenditure and income for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities section of our report. We are independent of the Council in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter – Effect of the Covid-19 pandemic on the valuation of land, buildings and investment properties and Pension Fund property investment assets

We draw attention to Note 3 of the financial statements, which describes the effects of the Covid-19 pandemic on the valuation of the Council's land, buildings and investment properties and the valuation of the Council's share of Lincolnshire Pension Fund's property assets. As disclosed in Note 3 of the financial statements, the Council's and Pension Fund's valuers included a 'material valuation uncertainty' declaration within their reports as a result of the Covid-19 pandemic creating a shortage of relevant market evidence on which to base their judgements. Our opinion is not modified in respect of this matter.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Executive Director of Resources' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Executive Director of Resources has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Council's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

APPENDIX B

DRAFT AUDITOR'S REPORT

Other information

The Executive Director of Resources is responsible for the other information. The other information comprises the Annual Governance Statement and 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, the Executive Director of Resources is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20, 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 2019/20 and prepare the financial statements on a going concern basis, unless the Council is informed of the intention for dissolution 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 Council to prepare its accounts on the going concern basis and disclosing, as applicable, matters related to going concern.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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. This description forms part of our auditor's report.

APPENDIX B

DRAFT AUDITOR'S 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.

Conclusion on Lincolnshire County Council's arrangements for securing economy, efficiency and effectiveness in the use of resources

Conclusion

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

Basis for conclusion

We have undertaken our review in accordance with the Code of Audit Practice issued by the Comptroller and Auditor General, having regard to the guidance on the specified criterion issued in April 2020, as to whether the Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider in satisfying ourselves whether the Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Responsibilities of the Council

The Council is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities for the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We are required under section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice requires us to report to you our conclusion relating to proper arrangements. We are not required to consider, nor have we considered, whether all aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

APPENDIX B

DRAFT AUDITOR'S REPORT

Use of the audit report

This report is made solely to the members of Lincolnshire County Council, as a body, in accordance with part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 44 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the members of the Council those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the members of the Council, as a body, for our audit work, for this report, or for the opinions we have formed.

Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate until we have completed the work necessary to issue our assurance statement in respect of the Council's Whole of Government Accounts consolidation pack. We are satisfied that these matters do not have a material effect on the financial statements or on our conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources.

Mark Surridge
For and on behalf of Mazars LLP
45 Church Street
Birmingham
B3 2RT

Date

APPENDIX C INDEPENDENCE

As part of our ongoing risk assessment we monitor our relationships with you to identify any new actual or perceived threats to our independence within the regulatory or professional requirements governing us as your auditors.

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

CONTACT

Mark SurrIDGE

Director

Mobile: +44 (0) 7875 974 291

Email: mark.surrIDGE@mazars.co.uk

Mike Norman

Senior Manager

Mobile: +44 (0) 7909 984 151

Email: michael.norman@mazars.co.uk

This page is intentionally left blank