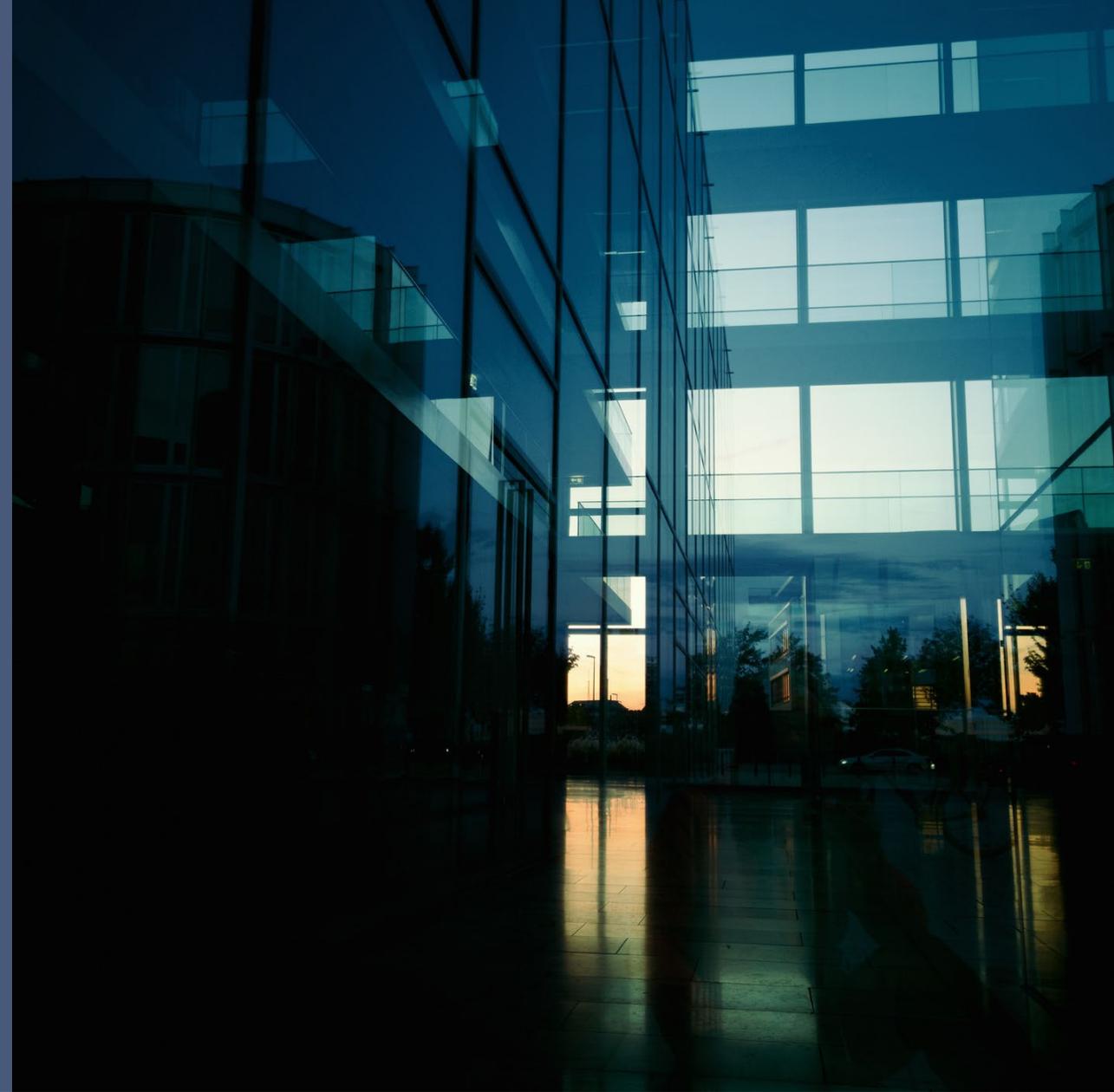


Audit Progress Report

Lincolnshire County Council – Year
ended 31 March 2021

September 2021
Page 19



Status of the audit

The detailed scope of our work as your appointed auditor for 2020/21 is set out in the National Audit Office's (NAO) Code of Audit Practice. Our responsibilities and powers are derived from the Local Audit and Accountability Act 2014 and as outlined in our Audit Strategy Memorandum, our audit has been conducted in accordance with International Standards on Auditing (UK) and means we focus on audit risks that we have assessed as resulting in a higher risk of material misstatement.

During the course of the audit, we have had the full co-operation of management. We continue to work with management to complete any remaining audit work and resolve audit queries and are grateful for the co-operation and support provided.

Significant audit risks

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.

Page 20
New risks have been identified since we issued our Audit Strategy Memorandum, with a reminder of those significant risks and work undertaken to date are set out in the table below.

The work undertaken to date is subject to Audit Quality Control, including ongoing and final stages of review by the Engagement Lead, Engagement Quality Control Reviewer as well as further quality and compliance checks designed to support audit quality.

	Significant audit risks: description	Fraud	Error	Judgement	Work undertaken to date
1	<p>Management override of controls</p> <p>This is a mandatory significant risk on all audits due to the unpredictable way in which such override could occur.</p> <p>Management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.</p> <p>Due to the unpredictable way in which such override could occur there is a risk of material misstatement due to fraud on all audits.</p>	●	-	-	<p>No significant issues have been identified to date as part of work undertaken on journal entries included within the financial statements.</p> <p>A number of queries remain open and are currently being discussed with management, but nothing that needs to be brought to the attention of members.</p>

Status of the audit

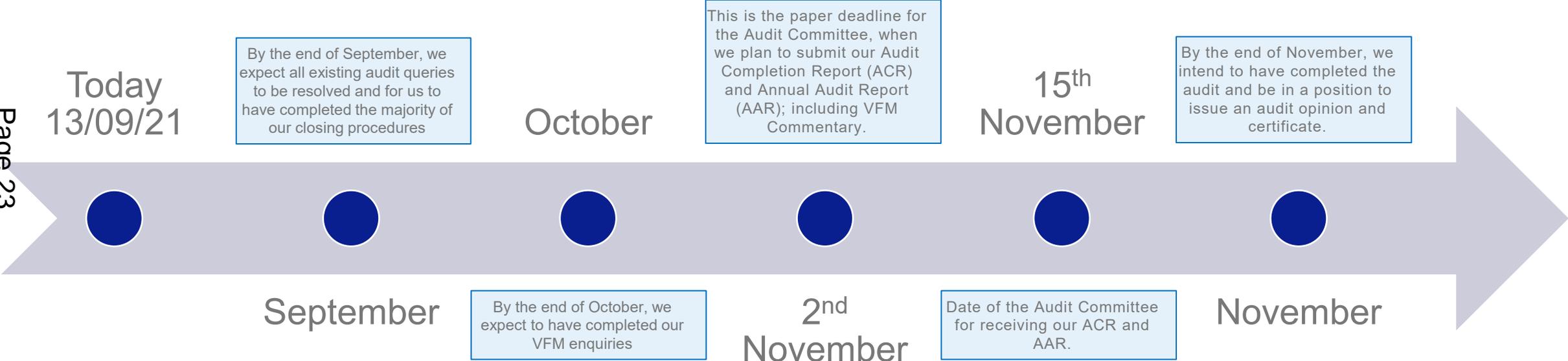
	Significant audit risks: description	Fraud	Error	Judgement	Work undertaken to date
2	<p>Net defined benefit liability valuation</p> <p>The defined benefit liability relating to the Local Government pension scheme represents a significant balance on the Council's balance sheet.</p> <p>The Council uses an actuary to provide an annual valuation of these liabilities in line with the requirements of IAS 19 Employee Benefits.</p> <p>Due to the high degree of estimation uncertainty associated with this valuation, we have determined there is a significant risk in this area.</p> <p>Relevant Account Balances (taken from the 2019/20 draft financial statements):</p> <ul style="list-style-type: none"> • £857m – Note 28 (Net pension liability), made up from: • Local Government Pension Scheme - £617m • Fire-Fighters Pension Scheme - £240m 	-	●	●	<p>We have undertaken a number of key substantive tests to date, these include:</p> <ul style="list-style-type: none"> • critically assessing the competency, objectivity and independence of the Pension Fund's Actuary; • liaising with the auditors of the Lincolnshire Pension Fund to gain assurance that the controls in place at the Pension Fund are operating effectively. This included the processes and controls in place to ensure data provided to the Actuary by the Pension Fund for the purposes of the IAS 19 valuation is complete and accurate; • agreeing 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. <p>We are aware of a potentially material movement in the pension fund asset carrying values, that would lead to a change in the Council's financial statements. This is continually being monitored by the audit team and updates provided to management on a timely basis.</p>
3	<p>Property Valuation</p> <p>Property related assets are a significant balance on the council's balance sheet.</p> <p>The valuation of these properties is complex and is subject to a number of management assumptions and judgements. Due to the high degree of estimation uncertainty associated, we have determined there is a significant risk in this area.</p> <p>At the planning stage of the audit, this risk covers (figures have been taken from the draft 2019/20 financial statements):</p> <ul style="list-style-type: none"> • Land & Buildings (£535m - Note 15) • Investment Properties (£106m – Note 17) 	-	●	●	<p>We have undertaken a number of key substantive tests to date, these include:</p> <ul style="list-style-type: none"> • critically assessing the scope of work, qualifications, objectivity and independence of the Council's valuer to carry out the required programme of revaluations; • engaging our internal valuation expert to support our testing, including performing a detailed review of the County Farms which has a carrying value of £106m within the balance of Investment Property in the financial statements; • challenged key assumptions to both management and management's expert over the methodology used and considered whether valuation movements in line with wider market trends. <p>The work undertaken on the County Farms has not identified any significant concerns that may have led adjustments to the financial statements.</p> <p>Valuation is complex and we do have a number of queries outstanding with management's expert. There have been delays caused by both Covid-19 and annual leave.</p>

Status of the audit

	Significant audit risks: description	Fraud	Error	Judgement	Work undertaken to date
4	<p>Expenditure recognition</p> <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.</p> <p>Having considered the factors for expenditure recognition, we believe the risk is focused on the year-end balance sheet and in particular whether cut-off (recognition in the correct financial year) is materially accurate. From our consideration of the Council's expenditure streams, we believe the risk is focused on Premises, transport, and supplies & services (being £632m per Note 10 of the draft 2019/20 financial statements).</p>	●	●	-	<p>No significant issues have been identified to date as part of work undertaken on the expenditure recognition risk identified.</p> <p>A number of queries remain open and are currently being discussed with management, but nothing that needs to be brought to the attention of members.</p>
5	<p>Covid-19 Grants recognition</p> <p>Over March and April 2020, the government provided £3.2 billion of emergency grant funding and over £5 billion of cashflow support to support local authorities through COVID-19. Throughout 2020/21, the Government has continued to provide substantial sums of financial support to local authorities, including Lincolnshire County Council.</p> <p>Management have had to exercise a level of judgement in relation to these specific COVID-19 grants, including:</p> <ul style="list-style-type: none"> • the extent to which the Council is acting as an agent or principal and therefore whether to account for the grant income on a gross or net basis; and • whether conditions associated with the grants have been met at the reporting date. <p>Overall therefore, we believe there is a significant audit risk relating to the completeness and accuracy of Covid-19 grant income in the 2020/21 financial statements.</p>	●	●	-	<p>Our work has commenced, but we are awaiting further working papers from the Council for us to complete our substantive testing. Management are fully aware and are supporting our requests and we do not currently expect any further impact to the timeline on the following page.</p>

Status of the audit

Page 23



Status of the audit

Internal controls

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.

Based on the audit work carried out to date, we have not identified any significant control deficiencies in 2020/21 that we are required to report to you.

Errors and misstatements

We are pleased to report that 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. None of these are significant and we are not required to highlight them in this report.

Value for Money

We continue to review the Council's board papers and meet with management and review reports by regulators to inform our 2020/21 value for money risk assessment, this process is ongoing throughout the audit year. In addition, and as part of the new VFM approach, management have kindly agreed to complete a self-assessment against the new VFM criteria and to provide supporting evidence, which we will reflect on in our risk assessment.

Our evaluation is ongoing, but no significant weaknesses have been identified that need to be brought to the attention of members.

Delay in the 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. We expect to issue the audit report but delay the issue of the Audit Certificate until the following procedures are complete:

- Value for Money - We are yet to complete our work in respect of the Council's arrangements for the year ended 31 March 2021 (as previously stated) and expect to report our findings in the 2020/21 Annual Auditors Report. At the time of preparing this report, we have not identified any significant weaknesses in the Council's arrangements that require us to make a recommendation.
- Whole of Government Accounts - The NAO has not yet issued its Group Instructions for local authority audits.

We will update the Audit Committee when more information is known.

Appendix A

Lincolnshire County Council
County offices
Newland
Lincoln
LN1 1YL

Dear Committee Members

Audit letter – Delay in issuing the Auditor’s Annual Report

The 2020 Code of Audit Practice requires us to issue our Auditor’s Annual Report, which includes our commentary on the Council’s arrangements to secure economy, efficiency and effectiveness in its use of resources (our VFM commentary) within 3 months of issuing our opinion on the financial statements, and before 30th September. Where this is not possible, we are required to write to you setting out the reasons for the delay in an ‘audit letter’. For the purposes of compliance with the Code of Audit Practice, this letter constitutes the ‘audit letter’.

As a result of the ongoing pandemic, the National Audit Office updated its guidance to auditors in April 2021 to allow auditors to delay the completion of their work on VFM arrangements. The revised guidance requires auditors to complete their work and issue their Auditor’s Annual Report no more than three months after the date of the date of the opinion on the financial statements.

In line with the National Audit Office guidance, we have not yet issued our Auditor’s Annual Report including our VFM commentary. We expect to publish the Auditor’s Annual Report no later than 30th November 2021.

Yours sincerely

Mark Surridge

For and on behalf of Mazars LLP

Mark Surridge, Key Audit Partner

mark.surridge@mazars.co.uk

Mazars

2 Chamberlain Square
Birmingham
B3 3AX

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*where permitted under applicable country laws.

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.