

Current Audit Findings Report

Lincolnshire County Council - Year ended
31 March 2022

November 2022
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01

Section 01: **Status of the audit**

1. Status of the audit

Our work is substantially complete and there are currently no matters of which we are aware that would require modification of our audit opinion, subject to the outstanding matters detailed below.

Audit area	Status	Description of the outstanding matters
IT Control Environment	 [Green]	Although, not expected to result in a material adjustment or significant change to the financial statements, we are still yet to complete our review of the Council's general IT controls for 2021/22. This has been flagged as an area of difficulty within section 4.
Valuations of Land and Buildings	 [Amber]	We are awaiting evidence and response from the Council's Valuer to a number of queries to help support our testing.
Infrastructure Assets	 Red	A consultation is on-going in respect of the accounting treatment of infrastructure assets included on the Council's balance sheet. As infrastructure assets are material, this could create additional work and consideration, and in turn causes a delay with issuing our audit report. Further information has been provided in section 4 of this report.
Related Parties	 [Green]	We are awaiting evidence and response from our queries to help support our testing.
COVID19 Grants Testing	 [Green]	We are awaiting evidence and response from a number of queries to help support our testing and correct classification of sums included within both the CIES and Grant Note disclosures.
Payroll Transaction Testing of Residual balances	 [Green]	We are awaiting evidence and response from a number of queries to help support our testing of residual balances identified through the reconciliation of payroll and the general ledger.
Minimum Revenue Provision	 [Green]	We are in the process of finalising our workings.



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







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



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

1. Status of the audit

Audit area	Status	Description of the outstanding matters
Internal Quality Review	 [Amber]	We are in the process of finalising our internal quality review procedures with the Council and ensuring that all appropriate and relevant changes are reflect in the financial statements.
Whole of Government Accounts	 [Green]	We have not yet received group instructions from the National Audit Office in respect of our work on the Council's WGA submission. We are unable to commence our work in this area until such instructions have been received. This covers both 2020/21 and 2021/22.
Completion procedures	 [Green]	Procedures such as our quality control, review for post balance sheet events, and management representations are ongoing, and will remain as such, through to the date of issuing the auditor's report.
Value for Money	 [Green]	Our VFM work is substantially complete and we have not identified any significant weaknesses that require further work or reporting to members. Our commentary, included within our Annual Auditor's Report, remains open due to the Infrastructure Asset issue above.



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



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



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



02

Section 02:

Significant findings to date

2. Significant findings to date

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

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

Significant risks

Management override of controls	<p>Description of the risk</p> <p>This is a mandatory significant risk on all audits due to the unpredictable way in which such override could occur.</p> <p>Management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur there is a risk of material misstatement due to fraud on all audits.</p>
	<p>How we are addressing this risk</p> <p>We are performing audit work over:</p> <ul style="list-style-type: none"> • Accounting estimates impacting amounts included in the financial statements; • Consideration of 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.
	<p>Audit observations to date</p> <p>We have not identified any significant transactions outside the normal course of business. We applied a combination of audit judgement and computer aided audit tools to analyse and perform tests over journal entries.</p> <p>No issues have been identified that need to be brought to the attention of members.</p>

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2. Significant findings to date

Defined benefit liability valuation

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

Description of the risk

The defined benefit liability relating to the Local Government and Fire-Fighter's pension scheme represents significant balances on the Council's balance sheet. The Council uses two actuaries to provide an annual valuation of these liabilities in line with the requirements of IAS 19 Employee Benefits. Due to the high degree of estimation uncertainty associated with this valuation, we have determined there is a significant risk of misstatement in this area.

Relevant Account Balances (taken from the 2021/22 draft financial statements):

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

How we are addressing this risk

Our work covers:

- critically assessing the competency, objectivity and independence of the Pension Funds' Actuaries;
- liaising with the auditors of the Lincolnshire Pension Fund to gain assurance that the controls in place at the Pension Fund are designed and implemented correctly;
- reviewing the appropriateness of the Pension Asset and Liability valuation methodologies applied by the Pension Fund Actuaries, and the key assumptions included within the valuations. This included comparing them to expected ranges, utilising information by the consulting actuary engaged by the National Audit Office; and
- agreeing the data in the IAS 19 valuation report provided by the Fund Actuaries for accounting purposes to the pension accounting entries and disclosures in the Council's financial statements.

Audit Observations

The Council's share of the LGPS pension fund net liability (being a deficit position) of £598m has decreased from £773m in the prior year as shown in Note 29 of the financial statements. The main movements being an increase in the value of pension assets from £1,427m to £1,575m; and a decrease in the value of pension liabilities from £2,200m to £2,174m. The Fire-fighters Pension Fund net liability has decreased from £311m to £292m.

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

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

2. Significant findings to date

Valuation of land & buildings and investment properties

Description of the risk

Land, Building and Investment Property assets are significant balances on the council’s balance sheet. The valuation of these properties is complex and is subject to a number of management assumptions and judgements. Due to the high degree of estimation uncertainty associated, we have determined there is a significant risk in this area.

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

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

How we are addressing this risk

The work we are performing includes:

- critically assessing the Council's valuers scope of work, qualifications, objectivity and independence to carry out the required programme of revaluations;
- considering whether the overall revaluation methodologies used by the Council’s valuers are in line with industry practice, the CIPFA Code of Practice and the Council’s accounting policies;
- assessing whether valuation movements are in line with market expectations by using third party information to provide information on regional valuation trends;
- critically assessing the approach that the Council adopts to ensure assets that are not subject to revaluation in 2021/22 are materially correct, including considering the robustness of that approach in light of the valuation information reported by the Council’s valuers; and
- testing a sample of individual valuations, back to source records to ensure appropriateness and to gain assurance over whether the correct accounting treatment has been applied.

Audit observations

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

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

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2. Significant findings to date

Significant matters discussed with management

Significant matters discussed with management during our audit, and which had implications for our audit testing and reporting included:

- The on-going impact of Covid-19 on the Council's business, including any potential impact on risks of material misstatement;
- How the current financial market, has impacted the Council's budget setting process, and assumptions made within the financial statements, alongside the impact of future funding.
- Earlier this year, the Government became aware of an issue relating to the reporting of infrastructure assets, which has led to delays in local authority audits. In response, CIPFA LASAAC Code Board agreed to try to assist in the resolution of the issue through changes to the Code of Practice on Local Authority Accounting (the Code). An accounting solution has not been found and a proposal has been made for an accounting statutory override under the Local Government Act 2003. Consultation via the Department for Levelling Up, Housing and Communities website closes on 7 November 2022. This means that our audit report will remain open until the issue has been rectified and the Council forms its own conclusion on the appropriateness of its accounting treatment.
- Through our year-end testing of asset existence, we identified a total of one asset (worth £13k), where the Council had disposed of the asset in the current financial year, however the asset itself remained on the fixed asset register. This meant that Property, Plant and Equipment balances included on the balance sheet were overstated. Additional testing was undertaken to determine the extent of the issue, with no further errors being identified. The amount is highly trivial, with no adjustment to the financial statements required however, an internal control recommendation has been raised within section 5 of this report.
- We are currently in discussion with the Council in respect of their financial instrument's disclosures and classification of Low Volatile Money Market Funds in relation to IFRS9.

Significant difficulties during the audit

Similar to 2020/21, we have encountered difficulties in undertaking our work on the Council's IT controls, with significant delays in gaining the relevant assurance over the Council's IT controls and overarching control environment, our queries were raised in a timely manner and some aspects remain unresolved. We continue to work with management to complete remaining audit work and resolve audit queries and are grateful for the co-operation and support provided. The item's outstanding are:

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

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

03

Section 03:

Internal control recommendations

3. Internal control recommendations

The purpose of our audit was to express an opinion on the financial statements. As part of our audit, we have considered the internal controls in place relevant to the preparation of the financial statements in order to design audit procedures to allow us to express an opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of internal control or to identify any significant deficiencies in their design or operation.

The matters reported are limited to those deficiencies and other control recommendations that we have identified during our normal audit procedures and that we consider to be of sufficient importance to merit being reported. If we had performed more extensive procedures on internal control, we might have identified more deficiencies to be reported or concluded that some of the reported deficiencies need not in fact have been reported. Our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.

Our findings and recommendations are set out below. We have assigned priority rankings to each of them to reflect the importance that we consider each poses to your organisation and, hence, our recommendation in terms of the urgency of required action. In summary, the matters arising fall into the following categories:

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

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

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3. Internal control recommendations

Other deficiencies in internal control – Level 2

Matters arising

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

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

Description of deficiency

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

Potential effects

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

Recommendation

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

Management response

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

Other deficiencies in internal control – Level 2

Matters arising

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

Description of deficiency

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

Potential effects

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

Recommendation

No additional concerns were identified through our testing that would suggest the financial statements are materially misstated. The Council need to ensure that their processes are reviewed and updated to ensure that such disposals are being identified and deleted from the fixed asset register.

Management response

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

3. Internal control recommendations

Follow up on previous internal control points

Matters arising

Within our substantive testing of Taxation and Non Specific Grant Income, we identified one grant, where the Council had breached the conditions of the grant during 2020/21. The Council has accounted for the breach by creating an accrual for the amounts to be repaid (total accrued amount was £727k).

Description of deficiency

The Council's controls did not identify the breach in terms and conditions and therefore require review.

Potential effects

There is a risk that where the Council fail to comply with specific grant conditions, a clawback of the associated income may occur.

Recommendation

Upon inspection of the grant in question, we identified that the Council had correctly accounted for the breach of conditions within the financial statements. Our substantive work did not identify any additional concerns that would suggest the financial statements are materially misstated.

The Council need to ensure close monitoring of all grants is undertaken within a timely manner to allow for the grant monies to be fully utilised and services delivered.

Management update 2021/22

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

Matter arising

Through our substantive testing of property, plant and equipment; in particular school disposals, we identified a total one school (disposal amount £2,078k), where the Council had correctly accounted for the transaction. Upon receipt and inspection of the evidence, we confirmed that the disposal should have taken place a number of years ago, given the ending of the lease and transfer to Academy status. We were satisfied that the amount is not significant enough to warrant a prior period adjustment.

Description of deficiency

The Council's arrangements to monitor lease agreements to correctly derecognise (or potentially recognise) assets were not operating effectively.

Potential effects

There is a risk that property, plant and equipment, in particular school related assets is overstated within the financial statements, as the Council no longer has legal ownership of the school and therefore, should be disposing of such asset. There is also a risk that the Council are not undertaking timely monitoring of any school, or any other asset, that contain a lease.

Recommendation

No additional concerns were identified through our testing that would suggest the financial statements are materially misstated. The Council need to ensure that their processes are reviewed and updated to ensure that such disposals are being identified and accounted for in the correct financial year.

Management update 2021/22

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

3. Internal control recommendations

Follow up on previous internal control points (continued)

Matter arising

In 2014 an additional allowance was made to include external works in the baseline for building cost indices (BCIS) for the valuation of schools, fire stations and libraries. These have been increased annually so that external works costs have remained included in the build costs for these valuations.

Description of deficiency

The Council has not maintained an up-to-date assessment of variables to support valuation estimates.

Potential effects

Valuation methodology permits valuer judgement, however using an approach developed more than six years ago creates unnecessary risk in the accuracy of calculations.

Recommendation

For 2021/22, management have told us that build costs have been obtained via BCIS for each individual asset type and the Council has discussed the figures with the Quantity Surveyor's and rather than adopting an annual All In – TPI increase as in previous years, the external works will be updated to reflect the increase in the cost of completing a new build project as a result of the Covid-19 pandemic and Brexit issues.

The calculation and judgements used to perform this review needs to be retained and a process built in to prevent such as a long interval between the next detailed review.

Management update 2021/22

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

Matter arising

There has been an increase in financial control and financial reporting errors this year leading to, as per section 6, £15m in errors currently recorded as unadjusted misstatements within the financial statements.

Description of deficiency

Inaccuracies in financial reporting.

Potential effects

Although below our performance materiality threshold of £17,693k, the cumulative extrapolated impact unadjusted misstatements still represents a large amount and all indicate an under-recording of expenditure in the Council's financial statements.

Recommendation

The Council needs to consider the impact of these unadjusted errors and whether the closedown process of the Council for 2021/22 will reduce the risk of significant recurrence. In addition, the Council should ensure finance teams are made aware of the root cause of the errors to aid training and development.

Management update 2021/22

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

3. Internal control recommendations

Follow up on previous internal control points (continued)

Matter arising

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

Description of deficiency

Inaccurate property records being maintained.

Potential effects

Increased risk of misstatement in the financial statements

Recommendation

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

Management update 2021/22

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

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04

Section 04:

Summary of misstatements to date

4. Summary of misstatements to date

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

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

Unadjusted misstatements

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

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4. Summary of misstatements to date

Adjusted misstatements

Mazars advised management of a matter brought to their attention by the Lincolnshire Pension Fund auditors.

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

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

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

Disclosure amendments

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

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

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Balance Sheet

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

Executive summary

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05

Section 05: **Value for Money**

5. Value for Money

Approach to Value for Money

We are required to consider whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The NAO issues guidance to auditors that underpins the work we are required to carry out and sets out the reporting criteria that we are required to consider. The reporting criteria are:

- **Financial sustainability** - How the Council plans and manages its resources to ensure it can continue to deliver its services
- **Governance** - How the Council ensures that it makes informed decisions and properly manages its risks
- **Improving economy, efficiency and effectiveness** - How the Council uses information about its costs and performance to improve the way it manages and delivers its services

At the planning stage of the audit, we undertake work to understand the arrangements that the Council has in place under each of the reporting criteria and we identify risks of significant weaknesses in those arrangements. Although we describe this work as planning work, we keep our understanding of arrangements under review and update our risk assessment throughout the audit to reflect emerging issues that may suggest significant weaknesses in arrangements exist.

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

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

Status of our work

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

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



Mark Surridge, Key Audit Partner

Mazars

2 Chamberlain Square

Birmingham

B3 3AX

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