



# Audit Completion Report

North East Lincolnshire 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  
5th Floor  
3 Wellington Place  
Leeds  
LS1 4AP

Audit and Governance Committee Members  
North East Lincolnshire Council  
Municipal Offices  
Town Hall Square  
Grimsby  
North East Lincolnshire  
DN31 1HU

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 in February 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 Surrige  
Mazars LLP

# 1. EXECUTIVE SUMMARY

## Purpose of this report and principal conclusions

The Audit Completion Report sets out the findings from our audit of North East Lincolnshire Council ('the Council') for the year ended 31 March 2020, and forms the basis for discussion at the Audit and Governance Committee meeting on 12 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, which include:

- Management override of control;
- Valuation of property, plant and equipment; and
- Valuation of 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)

The NAO has not yet issued its Group Instructions regarding the audit work required and its timetable for audit reporting. The Council is expected to again be below the threshold requiring a detailed review of your WGA submission, and we would expect to be able to provide the information required by NAO by the confirmed deadline..

### 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 have received no such objections or questions. 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. At the time of preparing this report the following matters remain outstanding:

Audit area	Status	Description of outstanding matters
Property, plant and equipment	●	We are in the process of finalising our work on additions and valuations and are consulting on the on the form of the audit opinion wording that should be used against the backdrop of COVID-19. We currently expect that the disclosed 'material uncertainty' in property valuations caused by COVID-19 will lead to an emphasis of matter paragraph in the audit opinion. We say more on this at page 7.
Pensions	●	Part of our assurance over the net pensions liability is derived from specified procedures commissioned from the external auditors of the East Riding Pension Fund. We are yet to receive their final report over the procedures we are seeking assurance over for our consideration.
Impairment of Bad Debts	●	We are yet to complete work on debt impairment to ensure that we have the latest position prior to signing the opinion.
Journals	●	Final testing of year-end journals.
Completion of testing debtors, creditors, exit packages and collection fund	●	Although largely complete, we are yet to finalise our work in these areas at the time of writing.
Whole of Government Accounts (WGA)	●	NAO Group Instructions for local authority 2019/20 audits are not yet available and WGA returns and audit certificates cannot be issued at the present time.
Audit Quality Control and Completion Procedures	●	Our audit work is undergoing final stages of review by the Engagement Lead. In addition, there are residual procedures to complete, including agreeing the expected amendments to the final Statement of Accounts, updating post balance sheet event considerations to the point of issuing the opinion, reviewing managements going concern assertion and obtaining final management representations and confirmation of fraud procedures from the Audit and governance Committee .

### 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

We will provide the Audit and Governance Committee with an update in relation to these outstanding matters in a follow-up letter, prior to signing the auditor's report.

# 2. EXECUTIVE SUMMARY (CONTINUED)

### Our audit approach

We provided details of our intended audit approach in our Audit Strategy Memorandum dated February 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 £5.3m using a benchmark of 2% of Gross Operating Expenditure. Our final assessment of materiality, based on the final financial statements and qualitative factors is £5.8m using the same benchmark. We set our trivial threshold (the level under which individual errors are not communicated to the Audit and Governance Committee), at £174k based on 3% of overall materiality.

### Misstatements and internal control recommendations

Section 3 sets out any internal control recommendations that we make, together with an update on any prior year recommendations.

Section 4 outlines the 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 and Governance 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

Management override of controls

#### Description of the risk

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 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 to date 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 **Valuation of property, plant and equipment and assets held for sale**

The Council's accounts contain material balances and disclosures relating to its holding of property, plant and equipment, investment properties and assets held for sale, with the majority of land and building assets required to be carried at valuation. Due to high degree of estimation uncertainty associated with those held at valuation, we determined there is a significant risk in this area.

#### **How we addressed this risk**

We addressed this risk through performing the following audit work:

- 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 methodology used by the Council's valuer is 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 reference to alternative sources of valuation data to provide information on regional valuation trends;
- Assessing 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
- Assessing the approach that the Council adopts to ensure that assets not subject to revaluation in 2019/20 are materially correct, including considering the robustness of that approach in light of the valuation information reported by the Council's valuer.

#### **Findings to date**

We are finalising our sample testing of valuations and completing our testing in relation to the significant audit risk identified.

At the outset of the COVID-19 outbreak, an expectation was raised that valuers were likely to conclude that a "material uncertainty" over the valuation of land and buildings existed at the balance sheet date. The Council's valuer has followed guidance issued by the Royal Institute of Chartered Surveyors and as expected their valuation report concluded that, due the impact of COVID-19 on the property market, there is "material uncertainty" over the valuation of land and buildings at the balance sheet date. This has been properly disclosed in the notes to the Statement of Accounts and we also asked management to extend the scope to include Investment Properties in Note 4 given the valuation is subject to the same uncertainty.

We expect, in line with normal practice, to include reference to this disclosure as an 'emphasis of matter' in our audit report. Our draft Auditor's Report at Appendix B includes the 'emphasis of matter' paragraph we expect to include.

The procedures we have undertaken to date 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)

### Significant 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.

---

#### How we addressed this risk

We addressed this risk through performing the following audit work:

- Assessing the competency, objectivity and independence of the East Riding Pension Fund's Actuary, Hymans Robertson LLP;
- Liaising with the auditors of the East Riding 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;
- Reviewing 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 LLP, the consulting actuary engaged by the National Audit Office; and
- 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.

---

#### Findings to date

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

Part of our assurance over the net pensions liability is derived from specified procedures commissioned from the external auditors of East Riding Pension Fund. We are yet to receive their final report over the procedures we are seeking assurance over for our consideration.

In July 2019, MHCLG consulted on the proposed remedy for the 'McCloud' and 'Sargeant' cases. This indicates that the approach adopted for 2018/19 and 2019/20 was likely to have led to an overstatement of the pension fund liability as at 31 March 2020 as the impact of the cases was recognised within the actuarial valuation. Based upon discussion with the actuary the impact is not expected to be material on the valuation.

A second emerging issue 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. MHCLG have commissioned Government Actuary Department to undertake a review of the potential impact and at a local level, there is an additional risk to evaluate as to whether the scheme is misstated. Management has liaised with the Pension Fund and its actuary and taken the view that this matter would not have a material impact on its estimated net pension liability valuation and it is not reflected in the Statements.

We will update the Audit and Governance Committee if any significant reporting issues emerge from these areas.

---

## 2. SIGNIFICANT FINDINGS (CONTINUED)

### Management judgement

Debt impairment

#### Description of the management judgement

Uncertainty exists that, in the current economic climate, the Council's provision for the impairment of doubtful debts would be sufficient.

#### How our audit addressed this area of management judgement

We addressed this area of management judgement through performing the following audit work:

- Reviewing the level of reported debt as at the 31 March and considering the implications for any material change;
- Ensuring that managements methodology for calculating the provision has been consistently applied and is in line with the requirements of the Code;
- Testing the collectability of both significant and a sample of other non-significant debtor balances; and
- Re-performing the basis of the calculation for the impairment of debtors.

#### Audit conclusion

Our work is ongoing, but the procedures we have undertaken to-date have not identified any material errors in the financial statements.

### Management judgement

Business Rates

#### Description of the management judgement

The issue of a new rating list and a change in the appeals process has created delays in appeals being notified to the Council. Consequently management need to make an assumption over the likely level of appeals that will be successful based on their rating knowledge.

#### How our audit addressed this area of management judgement

We addressed this area of management judgement through performing the following audit work:

- Reviewing the basis of the Council's calculation of its provision by recalculating the provision, evaluating the key assumptions of the provision, vouching movements in the provision and confirming completeness of entries;
- Assessing whether the provision has been calculated and recorded in accordance with the Council's accounting policy;
- Assessing whether the amount provided at the period end is appropriate, taking into account the Council's anticipated actual liability; and
- Assessing whether the reconciliation of movements during the period and description of the nature of the provision have been adequately disclosed in the financial statements.

#### Audit conclusion

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

## 2. SIGNIFICANT FINDINGS (CONTINUED)

### Management judgement

Fair value of Assets and Liabilities

### Description of the management judgement

When the fair values of financial assets and financial liabilities cannot be measured based on quoted prices in active markets their fair value is measured using valuation techniques (e.g. quoted prices for similar assets or liabilities in active markets or the discounted cash flow (DCF) model).

### How our audit addressed this area of management judgement

We addressed this judgment through performing the following audit work:

- Where material we reviewed the basis of the judgements used in creating the provision, including ensuring the judgement is based upon appropriate evidence; and
- We assessed the reasonableness of the estimate.

### Audit conclusion

Our audit procedures relating to Financial instruments have not identified any material errors or uncertainties in the financial statements,. The Council does not hold any complex level 3 assets or liabilities and there are in 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 and concluded they comply with the requirements of the Code of Practice on Local Authority Accounting (the Code), appropriately tailored to the Council's circumstances.

Draft accounts were received from the Council in advance of the 31 August deadline and were of a good quality. These were supported by working papers of a good standard and represents a significant achievement by the finance team.

### 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 required 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 reports conclude 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 has now been disclosed in the notes to the Statement of Accounts at Note 4.
- The Council's adoption of the 'going concern' principle in preparing the Statement of Accounts. 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, means an additional level of scrutiny is required over the going concern assertion in 2019/20. In particular management's explicit considerations of whether the financial statement disclosure for going concern should more explicitly describe the impact of COVID-19.
- 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:
  - As explained in our Audit Strategy Memorandum, we continually strive to maintain high standards of audit quality. One mechanism for doing this is to consider the outcome of independent quality reviews, in particular by the Financial Reporting Council, of our audit work and that of other audit suppliers. In particular, we have increased the level of work we do on defined benefit pension schemes and valuation of property, plant and equipment. We expect this to be a permanent uplift to the audit fee and estimate, to be confirmed on completion of our work, this to be between £6,000 and £9,000; and
  - Additional audit risks arising from COVID-19, we have discussed with management the additional audit testing as a result of uncertainty in the valuation of land and buildings; going concern; and financial instruments. Our fee estimate is between £6,000 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 but with the assistance of officers and strong remote working arrangements these have been resolved.

### 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 gives rights to local electors and other parties, such as the right to ask questions of the auditor and the right to make an objection to an item of account.

We have not received any formal questions or objections.

### Possible 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. If it looks that these Instructions are to be significantly delayed then we may agree with management to issue the Auditor's Report, but without the Audit Certificate, shortly after the audited Statement of Accounts has been approved by the Audit and Governance Committee. We would then issue the Audit Certificate separately as soon as we are able to do so. We will update the Audit and Governance Committee when more information is known but at this stage the draft Auditor's Report at Appendix B assumes that we will not be able 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 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:

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.	1

#### Significant deficiencies in internal control – Level 2

##### Description of deficiency

###### Valuation of Land and Property

To manage the volume of accounting valuations, the Council bases assets valued at Depreciated Replacement Cost using November 2019 indices, which it then updates through to Q1 2020 to ensure that the valuation as at the 31 March is materially correct. Whilst we understand it is impractical to value all assets as at the closing date of the Accounting Period, a number of clients use indices from January (ie January 2020) in order to reduce the risk of material movement in the indices through to 31 March 2020.

##### Potential effects

Material misstatement in asset valuations.

##### Recommendation

The Council should consider whether updating indices to the 1 January is practical

##### Management response

Consideration will be given to the indices used and look to changing the process to use at least 1 January 2020 indices.



# 3. INTERNAL CONTROL RECOMMENDATIONS (CONTINUED)

## Significant deficiencies in internal control – Level 3

### Description of deficiency

#### Unidentified Accruals

During testing of expenditure we identified one invoice for services received in 2019/20 paid in April 2020 totalling £58,297 that was not accrued for in 2019/20. This is reported as an unadjusted misstatement in Section 4 of this report.

Checks do take place at the department level, including under-spending budgets, but no detailed back-stop check is carried out within finance reviewing new year expenditure.

---

### Potential effects

The Council could understate expenditure in the annual accounts.

---

### Recommendation

Staff are reminded of the accrual policies as part of closedown and a central check is introduced to identify possible errors.

---

### Management response

Closedown guidance is produced and circulated on an annual basis to all finance and service staff involved in the closedown process. Particular emphasis to the accruals policy will be given during the next closedown phase.

A central check being put in place will be explored and implemented in conjunction with the Accountancy Business Partnering team.

---





## 4. SUMMARY OF MISSTATEMENTS

We set out below the misstatements identified for adjustment during the course of the audit, above the level of trivial threshold of £174,000.

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 2019/20

From the work performed to date, we identified the following misstatements that management has decided not to adjust.

	Comprehensive Income and Expenditure Statement		Balance Sheet	
	Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
1 Dr: CIES – Expenditure Cr: CIES – Note 23 Creditors other entities and individuals	189			189
We identified one invoice for services received in 2019/20 paid in April 2020 totalling £58,297 that was not accrued for in 2019/20. As we take a sampling approach to our testing we extrapolate the error to the full population. This means there is a factual error of £58k and a projected error of £131k, totalling £189k.				
2 Dr Property Plant and Equipment Note 14 Other Land and Buildings Dr Property Plant and Equipment Note 14 Community Assets Cr Investment Properties			52 148	200
We identified a one-off misclassification in our testing on investment properties.				
<b>Total</b>	<b>189</b>	<b>0</b>	<b>200</b>	<b>(389)</b>

Management have decided not to adjust for these errors on the basis of immateriality. The Audit and Governance Committee should review and formally note its support of management's judgement.

### Adjusted misstatements 2019/20

We identified a small number of disclosure errors in Note 35 Related Parties, which was subject to a reporting threshold of £50k in our Audit Strategy Memorandum. These costs were reported in the ledger, the entries were not identified when the financial statements were being drafted.

Related Party	Creditor £	Debtor £
Cleethorpes Chartered Trustees	£11,357.50	£5,828.96
Sidney Sussex Community Group	£200.00	
Labour Party		£522.50
Northern Lincolnshire and Goole NHS Trust		£1,820.94
Positive Activities	£210,035.00	
Grimsby, Cleethorpes and District Citizens Advice Bureau		£121.00
<b>Total undisclosed</b>	<b>£221,592.50</b>	<b>£8,293.40</b>

## 4. SUMMARY OF MISSTATEMENTS

### Disclosure amendments

In addition to the above numerical errors that relate directly to the primary statements or their related notes, our audit also identified a small number of errors and adjustments in relation to other disclosures. These have been discussed with management who have agreed to the amendments and include, but are not limited to:

- Note 31 Officers Remuneration a compensation for loss of office was originally disclosed as £30,000 the amount per payroll records showed settlement agreement of £52,480.; and
- Note 37 Leases. For operating leases - there was no description of the type of arrangement in place which has been amended.

# 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; and
- 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 2018/19 financial year, we identified no significant audit risks.

## Matters kept under review

Before drawing our conclusion, we have:

- 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;
- Considered the Council's financial outturn position as presented in the financial statements;
- Considered the general findings from our audit work in other areas; and
- Taken into account updated NAO VFM Conclusion guidance

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.

*Other observations:*

## COVID-19

The 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. Service Budgets showed a £6m over-spend mainly in Children's and Family Services but release of contingency budgets were used to reduce the impact of this over-spending and the net overspending was £0.5m.

The impact of COVID-19 on the Council's 2020/21 financial position has been significant and has required a prompt response by management. Additional COVID-19 related funding of £11.9m was reported in the recent Quarter 2 report to Cabinet. The funding is designed to cover additional spending in areas such as additional hospital discharges, provider sustainability payments and increased costs relating to children at risk as well as the loss of fees and charges including car parking. The Council has also recognised the risk of reduced collection rates for council tax and business rates.



## 5. VALUE FOR MONEY CONCLUSION (CONTINUED)

### *Other observations (continued):*

At Quarter 2 the Council was forecasting a net revenue over-spending of £0.7m for 2020/21 after taking account of the additional funding and has sufficient reserves to cover this shortfall if the mitigating actions do not address the over-spending. Overall, management believe a balanced position in 2020/21 is achievable although the situation is acknowledged to be challenging and requiring continued strong management actions.

The full financial impact of COVID-19 in the medium term is not yet certain. The initial outbreak has impacted on the Council's ability to enact its original 2020/21 plan, including the delivery of its savings plans and income targets. We recognise the Council is working through the implications and considerations through business planning and financial planning updates. The 2020/21 budget and MTFP assumptions are continuing to be revisited and updated and it is important the Council continues to ensure its financial resilience is assured over the medium term. There is also an acknowledgement that national funding reviews are unlikely to now take place as originally planned, so creating more uncertainty for 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 our risk assessment and reporting in the new financial year.

### **OFSTED report Families first Access Point (FFAP)**

In last years Audit Completion Report we discussed the May 2019 OFSTED reported the result of a focussed visit on the Council's arrangements for responding to contacts and referrals at their 'front door', the Families First Access Point (FFAP). OFSTED assessed the service as 'Inadequate'. OFSTED reported serious weaknesses in front door decision-making that failed to effectively protect children at risk of significant harm and failed to ensure that vulnerable children had their needs met.

In October 2019 a further report by OFSTED showed only marginal improvement and in December 2019 issued an improvement notice to ensure clear evidence of progression through reporting to the improvement board highlighting areas which a slow to progress and taking on the views of front line staff. The Improvement Board was chaired by an independent member appointed by the DfE. The Council reported progress against the improvement plan to Cabinet in July 2020 noting that the Independent Chair of the Improvement Board that the escalation measures detailed in the improvement notice had been met.

We are required to use the results of Inspectors as expert evidence in assessing the Council's arrangements for Value for money in making our assessment of the Council's arrangements. We considered the results of the focussed visit and update to Cabinet in July 2020. We note that OFSTED have not changed their formal assessment of the Council's overall arrangements for Children's services which remain assessed as 'Good'.

### **Our overall Value for Money conclusion**

We have completed our procedures and, as set out in our draft auditor's report included at Appendix B, we intend to issue an unqualified Value for Money conclusion for the 2019/20 financial year.

# APPENDIX A

## DRAFT MANAGEMENT REPRESENTATION LETTER

Mazars LLP  
5th Floor  
3 Wellington Place  
Leeds  
LS1 4A

Dear Sirs

### **North East Lincolnshire Council - audit for year ended 31 March 2020**

This representation letter is provided in connection with your audit of the financial statements of North East Lincolnshire Council (the Council) for the year ended 31 March 2020 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 Chief Finance Officer 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.

#### **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.

Executive summary

Significant findings

Internal control  
recommendations

Summary of  
misstatements

Value for Money  
conclusion

Appendices

# APPENDIX A

## DRAFT MANAGEMENT REPRESENTATION LETTER (CONTINUED)

### 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 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.

### 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 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 property, plant and equipment and intangible assets below their carrying value at the balance sheet date. I have considered the impact of COVID-19 on our Investment Properties. An impairment review is therefore not considered necessary. An impairment review is therefore not considered necessary.

### Charges on assets

All the Council's assets are free from any charges exercisable by third parties except as disclosed within the financial statements.

### 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.

# APPENDIX A

## DRAFT MANAGEMENT REPRESENTATION LETTER

### (CONTINUED)

#### 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.

#### COVID-19

We confirm that we have carried out an assessment of the potential impact of the COVID-19 Virus pandemic on the Council, including the impact of mitigation measures and uncertainties, and that the disclosure in the Statement of Accounts fairly reflects that assessment.

#### Brexit

We confirm that we have carried out an assessment of the potential impact of the United Kingdom leaving the European Union, including the potential outcomes at the end of the Implementation Period, and that the disclosure in the Statement of Accounts fairly reflects 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

Yours faithfully

**Chief Finance Officer**

Executive summary

Significant findings

Internal control  
recommendations

Summary of  
misstatements

Value for Money  
conclusion

Appendices



# APPENDIX B

## DRAFT AUDITOR'S REPORT

### Independent auditor's report to the members of North East Lincolnshire Council

#### Report on the financial statements

##### Opinion

We have audited the financial statements of North East Lincolnshire Council ('the 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 North East Lincolnshire Council as at 31<sup>st</sup> 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

We draw attention to note 4 in the General Notes to the Accounts, which describes the effects of the COVID-19 pandemic on the valuation of the Council's land, buildings and investment properties. As disclosed in note 4 of the General Notes to the Accounts, the Council'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 Chief Finance Officers' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Chief Finance Officer 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.

##### Other information

The Chief Finance Officer is responsible for the other information. The other information comprises the 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.

# APPENDIX B

## DRAFT AUDITOR'S REPORT (CONTINUED)

### Responsibilities of the Chief Finance Officer for the financial statements

As explained more fully in the Responsibilities of the Chief Finance Officer, the Chief Finance Officer 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 Director of Resources is also responsible for such internal control as the 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 Chief Finance Officer 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 Chief Finance Officer 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](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our 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 North East Lincolnshire 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, North East Lincolnshire 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.

# APPENDIX B

## DRAFT AUDITOR'S REPORT (CONTINUED)

### 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.

### Use of the audit report

This report is made solely to the members of North East Lincolnshire 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



# 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

Phone: +44 (0) 787 597 4291

Email: [mark.surridge@mazars.co.uk](mailto:mark.surridge@mazars.co.uk)

### **Rob Walker**

Senior Manager

Phone: +44 (0) 791 276 3085

Email: [rob.walker@mazars.co.uk](mailto:rob.walker@mazars.co.uk)