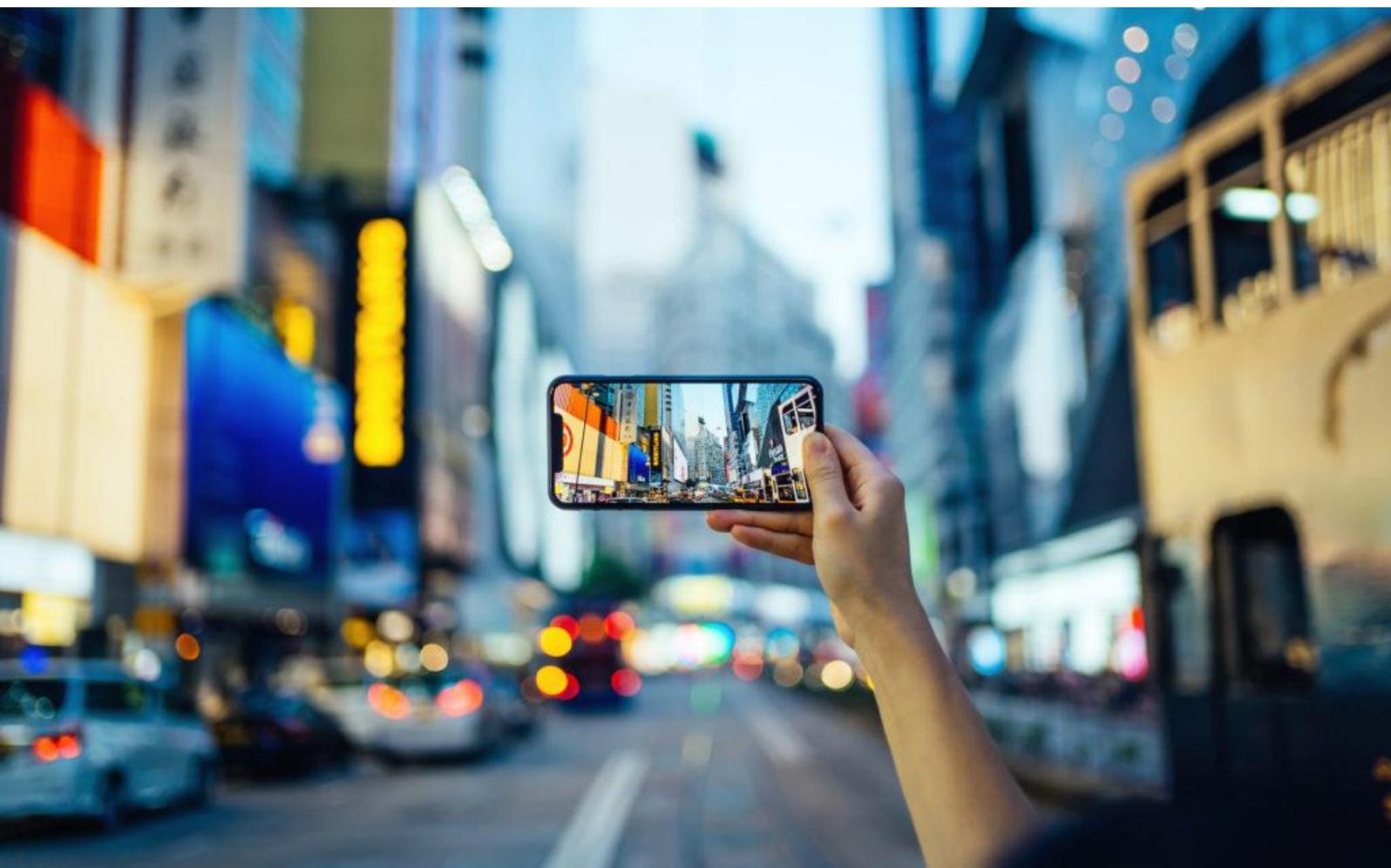


Annual Audit Letter

North East Lincolnshire Council

Year ending 31 March 2020





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1. EXECUTIVE SUMMARY

Purpose of the Annual Audit Letter

Our Annual Audit Letter summarises the work we have undertaken as the auditor for North East Lincolnshire Council (the Council) for the year ended 31 March 2020. Although this letter is addressed to the Council, it is designed to be read by a wider audience including members of the public and other external stakeholders.

Our responsibilities are defined by the Local Audit and Accountability Act 2014 (the 2014 Act) and the Code of Audit Practice issued by the National Audit Office (the NAO). The detailed sections of this letter provide details on those responsibilities, the work we have done to discharge them, and the key findings arising from our work. These are summarised below.

Area of responsibility	Assessment	Summary
Audit of the financial statements	 [Green]	Our auditor's report issued on 16 December 2020 included our opinion that the financial statements: <ul style="list-style-type: none">• give a true and fair view of the Council's financial position as at 31 March 2020 and of its expenditure and income for the year then ended; and• have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20
Other information published alongside the audited financial statements	 [Green]	Our auditor's report included our opinion that: <ul style="list-style-type: none">• the other information in the Statement of Accounts is consistent with the audited financial statements.
Value for money conclusion	 [Green]	Our auditor's report concluded that we are satisfied that in all significant respects, the 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
Reporting to the group auditor	 [Green]	In line with group audit instructions, issued by the NAO on 4 th November, we reported to the group auditor in line with the requirements applicable to the Council's Whole of Government Accounts return.
Statutory reporting	 [Green]	Our auditor's report confirmed that we did not use our powers under s24 of the 2014 Act to issue a report in the public interest or to make written recommendations to the Council.

Executive summary

Audit of the financial statements

Value for money conclusion

Other reporting responsibilities

Our fees

Forward look

2. AUDIT OF THE FINANCIAL STATEMENTS

Opinion on the financial statements

Unqualified

The scope of our audit and the results of our work

The purpose of our audit is to provide reasonable assurance to users that the financial statements are free from material error. We do this by expressing an opinion on whether the statements are prepared, in all material respects, in line with the financial reporting framework applicable to the Council and whether they give a true and fair view of the Council's financial position as at 31 March 2020 and of its financial performance for the year then ended.

Our audit was conducted in accordance with the requirements of the Code of Audit Practice issued by the National Audit Office and International Standards on Auditing. These require us to consider whether:

- the accounting policies are appropriate to the Council's circumstances and have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management in the preparation of the financial statements are reasonable; and
- the overall presentation of the financial statements provides a true and fair view.

Our auditor's report, stated that in our view, the financial statements give a true and fair view of the Council's financial position as at 31 March 2020 and of its financial performance for the year then ended.

Our auditor's report was modified to include an emphasis of matters paragraph, drawing attention to the financial statement disclosure explaining that Covid19 had contributed to 'material valuation uncertainty' in the valuation of the Council's land & buildings and investment properties and in the Council's share of the Pension Fund's property assets.



2. AUDIT OF THE FINANCIAL STATEMENTS

Our approach to materiality

We apply the concept of materiality when planning and performing our audit, and when evaluating the effect of misstatements identified as part of our work. We consider the concept of materiality at numerous stages throughout the audit process, in particular when determining the nature, timing and extent of our audit procedures, and when evaluating the effect of uncorrected misstatements. An item is considered material if its misstatement or omission could reasonably be expected to influence the economic decisions of users of the financial statements.

Judgements about materiality are made in the light of surrounding circumstances and are affected by both qualitative and quantitative factors. We set materiality for the financial statements as a whole (financial statement materiality) and set a lower level of materiality for specific items of account (specific materiality) due to the nature of these items or because they attract public interest. We also set a threshold for reporting identified misstatements to the Audit and Governance Committee. We call this our trivial threshold.

The table below provides details of the materiality levels applied in the audit of the financial statements for the year ended 31 March 2020:

Financial statement materiality	Our financial statement materiality is based on 1.8% of Gross Operating Expenditure.	£5,800k
Trivial threshold	Our trivial threshold is based on 3% of financial statement materiality.	£174k
Specific materiality	We have applied a lower level of materiality to the following areas of the accounts: <ul style="list-style-type: none">• Senior Officer Remuneration• Termination payments• Members Allowances• Related Parties	£5k £50k £50k £50k



2. AUDIT OF THE FINANCIAL STATEMENTS

Our response to significant audit risks

As part of our continuous planning procedures we considered whether there were risks of material misstatement in the Council's financial statements that required special audit consideration. We reported significant risks identified at the planning stage to the Audit and Governance Committee within our Audit Strategy Memorandum and provided details of how we responded to those risks in our Audit Completion Report. The table below outlines the identified significant risks, the work we carried out on those risks and our conclusions.

Identified significant risk	Our response	Our findings and conclusions
<p>Management override of controls</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, we consider there to be a risk of material misstatement due to fraud and thus a significant risk on all audits.</p>	<p>We addressed this risk through, amongst other tests, performing audit work over accounting estimates and financial journal entries.</p>	<p>Our audit procedures have not identified any material errors or uncertainties in the financial statements, or other matters that we wish to bring to Members' attention in relation to management override of controls.</p>
<p>Valuation of property, plant and equipment and investment properties</p> <p>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.</p>	<p>We performed a range of audit tests, including, but not limited to:</p> <ul style="list-style-type: none"> 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; and Considering the impact of assets not revalued in 2019/20 to ensure these remained materially correct at the balance sheet date. 	<p>The procedures we have undertaken did not identify any material errors in the financial statements, or other matters that we wish to bring to Members' attention. We do however, note the following:</p> <ul style="list-style-type: none"> The Council's valuer declared that the valuation of the Council's property assets were subject to 'material valuation uncertainty' as a result of COVID-19 and this was disclosed in the financial statements and referred to in the 'emphasis of matter' paragraph in our audit report. A 'material valuation uncertainty' declaration does not mean that the valuation cannot be relied upon, only that, because of the extraordinary circumstances arising from COVID-19, less certainty can be attached to the valuation.



2. AUDIT OF THE FINANCIAL STATEMENTS

Our response to significant audit risks

Identified significant risk	Our response	Our findings and conclusions
<p>Valuation of the Net Pension Liability</p> <p>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.</p>	<p>We performed a range of audit tests, including, but not limited to:</p> <ul style="list-style-type: none"> Assessing the competency, objectivity and independence of the East Riding Pension Fund's (ERPF) Actuary; Liaising with the auditors of the ERPF 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; 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. 	<p>We completed the planned procedures, with the following observations to report:</p> <ul style="list-style-type: none"> 'Material valuation uncertainty' was disclosed on the Pension Fund's property investment assets as a result of COVID-19. As the Council's share of those assets in the net Pension Liability in its own balance sheet is material, the Council has disclosed this in Note 39 of the financial statements and we have reflected this in the 'emphasis of matters' paragraph in our Audit Report. The Pension Fund auditor reported to us that the asset values submitted to the actuary as at 31 March 2020 are on a cash basis rather than an accruals basis. The value of assets originally submitted to the actuary was £4,799.3m. Net assets per the Fund draft accounts are £4,764.0m, a difference of £35.3m. In addition, the Pension Fund auditor reported that a number of bodies requested revised IAS19 Accounting Information Reports from the actuary using updated asset values. The revised asset values were £4,792.5m, a difference of £28.5m compared to net assets per the Fund draft accounts. Given the Council's share of the PF assets at the year end of 9.4% of the scheme investment assets, these differences would amount to £3.33m on the original submission and £2.7m on the updated submission, neither of which are material to our opinion on the Council's accounts. 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. 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.



3. VALUE FOR MONEY CONCLUSION

Value for money conclusion

Unqualified

Our audit approach

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 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.

Significant audit risks

The NAO's guidance requires us to carry out work to identify whether or not a risk to our conclusion exists. Risk, in the context of our 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.

Overall Conclusion

Our auditor's report stated that that, in all significant respects, the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31st March 2020.

Key Findings

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.

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3. VALUE FOR MONEY CONCLUSION

Key Findings (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 Department for Education. 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'.



4. OTHER REPORTING RESPONSIBILITIES

Exercise of statutory reporting powers	No matters to report
Completion of group audit reporting requirements	Below testing threshold
Other information published alongside the audited financial statements	Consistent

The Code of Audit Practice and the 2014 Act place wider reporting responsibilities on us, as the Council's external auditor. We set out below, the context of these reporting responsibilities and our findings for each.

Matters on which we report by exception

The 2014 Act provides us with specific powers where matters come to our attention that, in our judgement, require reporting action to be taken. We have the power 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 statutory reporting powers.

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 did not receive any such objections or questions.

Reporting to the National Audit Office in respect of Whole of Government Accounts consolidation data

The National Audit Office, as group auditor, requires us to complete a Whole of Government Accounts Assurance Statement in respect of financial consolidation data produced by the Council. We submitted this information to the National Audit Office on 16 December 2020.

Other information published alongside the financial statements

The Code of Audit Practice requires us to consider whether information published alongside the financial statements is consistent with those statements and our knowledge and understanding of the Council. In our opinion, the other information in the Statement of Accounts is consistent with the audited financial statements.



5. OUR FEES

Fees for work as the Council's auditor

We reported our proposed fees for the delivery of our work in the Audit Strategy Memorandum.

Having completed our work for the 2019/20 financial year, we can confirm that our final fees are as follows:

Area of work	2019/20 proposed fee	2019/20 final fee
Delivery of audit work under the NAO Code of Audit Practice	£91,866	£91,866
Fee Variations*:		
• Additional Testing on Property, Plant & Equipment and Defined Benefit Pensions Schemes		£7,952
• Additional costs associated with 2019/20, including, but not limited to:		£5,032
• Impact of 'Material Valuation Uncertainty' in Council's Assets and its share of Pension Fund Assets		
• Updating audit risk assessments, including the value for money conclusion		
• Additional considerations of estimation uncertainty in going concern,		
• Changes impacting pension liabilities through McCloud & Goodwin		
Final audit fee		£104,850
Assurance related services:		
• Housing benefit**	£7,400	£7,400
• Teachers pensions	£2,100	£2,100
Assurance	£9,500	£9,500

*Fee variations subject to confirmation from PSAA.

**Work is ongoing

Fees for other work

We confirm that we have not undertaken any non-audit services for the Council in the year.



6. FORWARD LOOK: AUDIT CHANGES 2020/21

Changes to the Code of Audit Practice

The Code of Audit Practice (the Audit Code), issued by the Comptroller and Auditor General, prescribes the way we carry out our responsibilities as your auditors. On 1st April 2020 a new Code came in to force and will apply to our work from 2020/21 onwards.

The new Audit Code continues to apply the requirements of International Standards on Auditing (ISAs) to our audit of the financial statements. While there are changes to the ISAs that are effective from 2020/21 the Audit Code has not introduced any changes to the scope of our audit of the financial statements. We will continue to give our opinion on the financial statements in our independent auditor's report.

There are however significant changes to the work on value for money arrangements, and the way we report the outcomes of our work to you.

The auditor's work on value for money arrangements

From 2020/21 we are still required to satisfy ourselves that you have made proper arrangements for securing the economy, efficiency and effectiveness in your use of resources, however unlike under the 2015 Audit Code, we will no longer report in the form of a conclusion on arrangements. Instead, where our work identifies significant weaknesses in arrangements, we are required to report those weaknesses to you, along with the actions that need to be taken to address those weaknesses.

Our work will focus on three criteria specified in the revised Audit Code:

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

Under the new Audit Code, we will be expected to report and make recommendations as soon as we identify a significant weakness in arrangements, as opposed to reporting our conclusion on arrangements at the end of the audit cycle as has previously been the case.

Reporting the results of the auditor's work

We currently issue you with an Annual Audit Letter which provides a summary of our work across all aspects of our audit. From 2020/21 the Annual Audit Letter will be replaced by the Auditor's Annual Report. This will continue to provide a summary of our work over the year of audit but will also include a detailed commentary on your arrangements in place to achieve economy, efficiency and effectiveness. This commentary replaces the conclusion on arrangements that was previously provided and will include details of any significant weakness identified and reported to you, follow up of any previous recommendations made, and the our view as to whether recommendations have been implemented satisfactorily.

The new Audit Code will result in additional officer time and auditor time and fees.



6. FORWARD LOOK: AUDIT CHANGES 2020/21

Redmond Review

In September 2020, Sir Tony Redmond published the findings of his independent review into the oversight of local audit and the transparency of local authority financial reporting. The report makes several recommendations that, if implemented, could affect both the financial statements that local authorities are required to prepare and the work that we as auditors are required to do.

The report and recommendations are wide-ranging, and includes:

- the creation of the Office of Local Audit and Regulation (OLAR), be created to manage, oversee and regulate local audit;
- reviewing reporting deadlines;
- reviewing governance arrangements in local authorities, including the membership of the Audit Committee; and
- increasing transparency and reducing the complexity of local authority financial statements.

The full report is available here: <https://www.gov.uk/government/publications/local-authority-financial-reporting-and-external-audit-independent-review>

The recommendations and findings have been considered by the Ministry of Housing, Communities and Local Government and a response was published in December 2020

<https://www.gov.uk/government/publications/local-authority-financial-reporting-and-external-audit-government-response-to-the-redmond-review/local-authority-financial-reporting-and-external-audit-government-response-to-the-independent-review>

The main highlights are a recognition that fees are not sufficient to meet the work required, and the date for publication of audited accounts has been confirmed as 30th September for the 20/21 and 21/22 financial years (with a commitment to review whether it is realistic to return to a 31st July date)

A new body to oversee local audit will not be created, however, a new, audited 'standardised statement of service information and costs' to be produced by LG bodies, with CIPFA being asked to work on this for introduction in 21/22.



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