

# Audit Completion Report

North East Lincolnshire Council– Year  
ended 31 March 2023

October 2023



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

30 October 2023

Dear Committee Members

## Audit Completion Report – Year ended 31 March 2023

We are pleased to present our Audit Completion Report for the year ended 31 March 2023. The purpose of this document is to summarise our audit conclusions for the Audit and Governance Committee's 9 November 2023 meeting.

The scope of our work, including identified significant audit risks and other areas of management judgement, was outlined in our Audit Strategy Memorandum which we presented in September 2023. We have reviewed our Audit Strategy Memorandum and concluded that the original significant audit risks and other areas of management judgement remain appropriate.

We 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 [Mark.Surridge@mazars.co.uk](mailto:Mark.Surridge@mazars.co.uk).

Yours faithfully



Mark Surridge

Mazars LLP

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# 01

Section 01:

**Executive summary**

# 1. Executive summary

## Principal conclusions and significant findings

The detailed scope of our work as your appointed auditor for 2022/23 is set out in the National Audit Office's (NAO) Code of Audit Practice. Our responsibilities and powers are derived from the Local Audit and Accountability Act 2014 and, as outlined in our Audit Strategy Memorandum, our audit has been conducted in accordance with International Standards on Auditing (UK) and means we focus on audit risks that we have assessed as resulting in a higher risk of material misstatement.

In section 4 of this report we have set out our conclusions and significant findings from our audit. This section includes our conclusions on the audit risks and areas of management judgement in our Audit Strategy Memorandum, which include:

- Management override of controls;
- Valuation of Land and Buildings, Surplus Assets and Investment Properties; and
- Valuation of Defined Benefit Pension Net Liability.

## Misstatements and internal control recommendations

Section 5 sets out internal control recommendations and section 6 sets out any audit misstatements. Section 7 outlines our work on the Council's arrangements to achieve economy, efficiency and effectiveness in its use of resources.

## Status and audit opinion

We have substantially completed our audit in respect of the financial statements for the year ended 31 March 2023.

At the time of preparing this report there are though matters remaining outstanding as outlined in section 2. We will provide an update to you in relation to the significant matters outstanding through issuance of a follow up letter.



### Audit opinion

We anticipate issuing an unqualified opinion, without modification, on the financial statements. Our proposed audit opinion is included in the draft auditor's report in Appendix B. This is subject to the work outstanding, identified at Section 2 of this report.



### Value for Money

We anticipate having significant weaknesses in arrangements to report in relation to the arrangements that the Council has in place to secure economy, efficiency and effectiveness in its use of resources. A summary is provided in section 7 of this report.



### Whole of Government Accounts (WGA)

We have recently received group instructions from the National Audit Office in respect of our work on the Council's WGA submission. This work will be completed as part of our audit closure procedures.



### 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. No such correspondence from electors has been received.






# 02

Section 02:

**Status of the audit**

## 2. 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
Opening Balances		The 2021/22 financial statements audit is expected to be finalised in November 2023 once we received the remaining assurances requested from the Pension Fund auditor. We will then be able to agree the opening 2022/23 balances and agree any changes to the prior year comparators in the draft 2022/23 financial statements.
Valuation of Land and Buildings, Surplus Assets and Investment Properties		We are awaiting residual evidence and explanations to support valuation inputs and judgements by the Council's valuation expert on our samples selected for testing of this significant audit risk area.
Valuation of Defined Benefit Pension Net Liability		The Council has requested an updated IAS19 valuation report from the Pension Fund's Actuary, to reflect the correct approach to the calculation of the 2022/23 Pension asset ceiling, which may require changes to the financial statements. We are awaiting a response to our request for assurances from the Pension Fund Auditor. The assurance letter from the auditor will enable us to complete the remaining audit procedures and conclude on this significant audit risk area.
Evidence compilation and review procedures		We are completing the remaining procedures and clearing queries in the following areas: <ul style="list-style-type: none"> <li>Journals – completing the remain procedures on the sample selected.</li> <li>Pay and Non-pay expenditure, fees and charges and cut-off – completion of testing on the sample of transactions.</li> <li>Cash and bank – completing our testing of the year-end reconciliations</li> </ul>
Completion Procedures		Procedures such as our quality control review, qualitative review of the adjusted financial statements, ongoing consideration of any post balance sheet events, and management representations are ongoing, and will remain as such, through to the date of issuing the auditor's report.



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.

# 03

Section 03:

**Audit approach**



# 3. Audit approach

## Changes to our audit approach

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

## Materiality

Our provisional materiality at the planning stage of the audit was set at £6.5m using a benchmark of 2% of gross operating expenditure. Our final assessment of materiality, based on the final financial statements, is £7.2m using the same benchmark.

## Use of experts

In our Audit Strategy Memorandum we identified the following experts planned to be used by management in preparing the financial statements, and by ourselves in carrying out our audit. There are no changes to the planned approach or matters arising to report.

Item of account	Management’s expert	Our expert
Defined benefit liability	Hymans Robertson <i>Actuary for East Riding Pension Fund</i>	PWC <i>Consulting actuary appointed by NAO</i>
Property, plant and equipment, Investment Properties and Assets held for Sale valuation	EQUANS	We used available third party information to challenge the key valuation assumptions.
Financial instrument disclosures	Link Asset Services <i>Treasury management advisors</i>	Not applicable

# 04

## Section 04: **Significant findings**

# 4. Significant findings

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

- our audit conclusions regarding other 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 13 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

**Management override of controls**

**Description of the risk**

This is a mandatory significant risk on all audits due to the unpredictable way in which such override could occur.

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.

**How we addressed this risk**

We addressed this risk through performing audit work over:

- 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.

**Audit conclusion**

Based on the work completed to date, no issues have been identified that need to be brought to the attention of Members.

Should any matters arise from the clearance areas set out in section 2 of this report, these will be reported in our follow up letter to the Committee.

## 4. Significant findings

<b>Valuation of the net defined benefit liability</b>	<b>Description of the risk</b>
	<p>The net defined benefit liability relating to the Local Government Pension Scheme represents a significant balance on the Council's balance sheet.</p> <p>The East Riding Pension Fund, as the local scheme administrator, uses an actuary to provide an annual valuation of these assets and liabilities in line with the requirements of IAS 19 Employee Benefits.</p> <p>Due to the high degree of estimation uncertainty associated with this valuation, we have determined there is a significant risk in this area.</p> <p>The 2022 Triennial Valuation of the Fund, and changes in the Actuaries' assumptions in 2022/23 have seen significant movements in the Pension liability valuation, with many employers IAS19 reports showing a net Asset position. The accounting requirements in these circumstances are complicated and require careful judgement.</p>
	<p><b>How we addressed this risk</b></p> <p>We addressed the risk by:</p> <ul style="list-style-type: none"><li>critically assessing the competency, objectivity and independence of the Actuary engaged by the East Riding Pension Fund;</li><li>liaising with the auditors of the East Riding Pension Fund to gain assurance over the design and implementation of controls in place at the Lincolnshire Pension Fund;</li><li>reviewing the appropriateness of the Pension Asset and Liability valuation methodologies applied by the Fund Actuary, 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 reviewing the Actuary's calculation of the Pension asset ceiling; and</li><li>agreeing the data in the IAS 19 valuation report provided by the Actuary for accounting purposes to the pension accounting entries and disclosures in the Council's financial statements</li></ul>
	<p><b>Audit conclusion</b></p> <p>We have, subject to completion of the steps set out in Section 2, which include the Council obtaining an updated Actuary's IAS19 valuation report, obtained sufficient appropriate evidence to conclude that the valuation of the net defined benefit asset included in the financial statements is reasonable.</p>

<b>Valuation of Land and Buildings, Surplus Assets and Investment Properties</b>	<b>Description of the risk</b>
	<p>Property related assets are a significant balance on the council's balance sheet. The valuation of these properties is complex and is subject to a number of management assumptions and judgements.</p> <p>Due to the high degree of estimation uncertainty associated, we have determined there is a significant risk in this area.</p>
	<p><b>How we addressed this risk</b></p> <p>We addressed the risk by:</p> <ul style="list-style-type: none"><li>critically assessing the Council's valuers' scope of work, qualifications, objectivity and independence to carry out the required programme of revaluations;</li><li>considering whether the overall revaluation methodologies used by the Council's valuers were in line with industry practice, the CIPFA code of practice and the Council's accounting policies;</li><li>assessing whether valuation movements were in line with market expectations by considering valuation trends;</li><li>critically assessing the approach that the Council adopted to ensure that assets that were not subject to revaluation in 2022/23 were materially correct, including considering the robustness of that approach in light of the valuation information reported by the Council's valuers.</li></ul>
	<p><b>Audit conclusion</b></p> <p>We have, subject to completion of the steps set out in Section 2, obtained sufficient appropriate evidence to conclude that the valuation of land and buildings, surplus assets and investment properties included in the financial statements is reasonable.</p>

# 4. Significant findings

## Areas of Audit Focus

In our Audit Strategy Memorandum we identified the following matter as requiring specific audit procedures:

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IT System Change	Description
	<p>The Council has changed its core financial accounting systems in 2022/23. The Council needs to have had effective arrangements in place for managing the changeover and completely and accurately transferring information between the old and new systems.</p>
	<p>Planned Response</p> <p>We reviewed the steps taken by management to ensure the changeover was effective and test the reconciliations carried out on the systems' data transfer. We engaged our IT audit specialists to support the local audit team in this work.</p>
	<p><b>Audit conclusion</b></p> <p>Our audit work is nearing completion and we have not identified any matters that we need to report.</p>

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## 4. Significant findings

### Qualitative aspects of the Council's accounting practices

We have reviewed the Council's accounting policies and disclosures and concluded they comply with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23, as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets, published in November 2022, appropriately tailored to the Council's circumstances.

### Significant matters discussed with management

During our audit we discussed the following significant matters to management:

**The Council's financial position, including development of the medium-term financial plan** - During the year, we have met with officers to discuss the Council's financial position and budget setting process and pressures to enable us to reflect on the Council's financial resilience and sustainability, and to conclude whether the going concern basis of accounting in the preparation of the financial statements is appropriate.

**Consideration of accounting implications of pension asset surpluses** - At 31 March 2023 some employers have, for the first time in many years, a net IAS19 pension asset (surplus). Accounting standards set out the matters to be considered in determining the correct accounting treatment for such surpluses. We have discussed and considered the Council's accounting treatment for its share of the Local Government Pension Scheme and the Actuary's calculation of the Pension Asset ceiling. Management is obtaining an updated IAS19 valuation report based on the expected approach.

**Impact of ISA315** - ISA (UK) 315 (Revised 2019) introduces major changes to the auditor's risk identification and assessment approach, which are intended to drive a more focused response from auditors undertaking work to obtain sufficient appropriate audit evidence to address the risks of material misstatement. This has involved enhanced risk identification and assessment; greater emphasis on understanding IT; and increased focus on controls. We have needed to make additional enquires in these areas to enable us to meet these audit requirements.

### Significant difficulties during the audit

During the course of the audit we have had the full co-operation of management. The audit was again carried out remotely and we have worked with management to overcome any difficulties in carrying out our normal audit procedures and obtaining the audit evidence required to complete the audit. We continue to work with management to complete any remaining audit work and resolve audit queries and are grateful for the co-operation and support provided.

### Modifications required to our audit report

There are no matters arising from our audit work to date that indicate that audit report needs to be modified. Our current draft audit report is set out in Appendix B.

### 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 2022/23 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. No such objections have been raised.

## 4. Significant findings

### Delay in the audit certificate

The issue of the Audit Certificate confirms that we have discharged all of our audit responsibilities and that the audit is formally 'closed'. The Audit Certificate would normally be published in our Auditor's Report on the Statement of Accounts.

The 2021/22 Audit Certificate is still outstanding as the National Audit Office has not finalised its auditor reporting requirements in respect of that year's Whole of Government Accounts (WGA) return. The NAO has also not finalised its requirements for the 2022/23 return.

We expect to issue the 2022/23 audit report but delay the issue of the 2022/23 Audit Certificate until:

- the 2021/22 and 2022/23 WGA auditor procedures are completed and that year's Audit Certificate has been issued; and
- the 2022/23 Auditor's Annual Report has been issued.

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 are not able to issue the Audit Certificate at this stage.

# 05

Section 05:

**Internal control recommendations**



# 5. Internal control recommendations

As part of our audit of the financial statements, we obtained an understanding of internal controls sufficient to plan our audit and determine the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of internal control, we are required to communicate to Those Charged With Governance any significant deficiencies identified during the course of our work.

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.

No significant findings or recommendations in relation to internal controls have been noted as at the date of this memorandum.

Priority ranking	Description	Number of issues
<b>1 (high)</b>	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
<b>2 (medium)</b>	In our view, there is a need to strengthen internal control or enhance business efficiency. The recommendations should be actioned in the near future.	0
<b>3 (low)</b>	In our view, internal control should be strengthened in these additional areas when practicable.	0

# 06

Section 06:

**Summary of misstatements**

## 6. Summary of misstatements

### **Misstatements and disclosure amendments**

We are pleased to report that no material misstatements, or misstatements above our Trivial threshold of £218k, have been identified during our audit work to date.

We will update the Audit and Governance Committee if any further reportable misstatements are identified as a result of the remaining work summarised at Section 2.

A small number of disclosure amendments to the notes to the Statement of Accounts have been agreed with management to correct minor errors. None of these are significant and we are not required to highlight them in this report.

# 07

Section 07:

**Value for Money**

# 7. 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 2022/23 Auditor's Annual Report alongside or within three months of issuing the audit report on the financial statements

## Status of our work

We have completed our risk assessment in respect of the Council's arrangements for the year ended 31 March 2023 and are completing the remaining fieldwork. We reported our 2020/21 VFM commentary in the Annual Auditor's Report issued to the Council in March 2022. We reported that there were significant weaknesses in the Council's VFM arrangements and made recommendations arising from our work. This followed the November 2021 Office for Standards in Education, Children's Services and Skills (Ofsted) inspection report which graded the overall effectiveness of children's services as "Inadequate", citing weaknesses in assessment, planning and decision-making. We reported in our 2022/23 Audit Strategy Memorandum that the Ofsted rating was unchanged and although there was a programme of planned improvements underway the weaknesses identified continued to represent risks for the 2022/23 VFM commentary.

There have been no changes in the regulator judgements to the date of this report and we expect to continue to report these significant weaknesses in our Audit Report and final Annual Auditor's Report. There are no additional significant weaknesses or recommendations arising from our work to date report. The Council's response to its challenging medium term financial position will continue to be an area of focus for our VFM commentary and we will provide an updated assessment in our final Report.

Our draft audit report at Appendix B outlines the current status of our work and will remain subject to finalisation once our VFM assessment and any other matters identified in Section 2.

# 7. Value for Money

## Significant weaknesses in arrangements

In March 2022 we reported that there were significant weaknesses in the Council’s VFM arrangements and made recommendations arising from our work. This followed the November 2021 Office for Standards in Education, Children’s Services and Skills (Ofsted) inspection report which graded the overall effectiveness of children’s services as “Inadequate”, citing weaknesses in assessment, planning and decision-making. to the Trust and made associated recommendations. We identified these as risks in our 2022/23 Audit Strategy Memorandum. We have provided an update on these matters below. We report that these continue to be significant weaknesses in the Council’s arrangements and our prior year recommendations continue to apply. There are no additional recommendations or significant weaknesses to report.

Significant weakness in arrangements	VFM Criteria	Recommendation made in prior year	Current year work undertaken and conclusions reached
<p>1 <b>Children’s Services</b></p> <p>Ofsted is the Office for Standards in Education, Children’s Services and Skills. It inspects and regulates services that care for children and young people. The Authority’s children’s services were last inspected in 2017, when it was rated “Good”. Ofsted has carried out focused visits in the intervening period with the most recent letter being dated in June 2021, but without changing the overall rating.</p> <p>In October 2021, Ofsted commenced an inspection into children’s services, publishing its report on 26 November 2021. The overall effectiveness of children’s services has been graded “Inadequate”, citing weaknesses in assessment, planning and decision-making.</p> <p>The matters identified by Ofsted are relevant to the financial year ending 31 March 2021 and, in our view, indicate a significant weakness in the Authority’s arrangements for Governance (how the body ensures that it makes informed decisions and properly manages its risks) and for 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) reporting</p>	<p>Improving Economy, Efficiency and Effectiveness</p>	<p>In order to ensure systems, processes and training are in place to manage the risks relating to the safety and welfare of service users, the Authority must ensure it embeds and sustains the action plans that it has put in place to address the issues identified by Ofsted.</p> <p>In particular, it needs to ensure that robust monitoring and reporting processes are maintained, and that challenge, scrutiny and escalation arrangements drive the required improvements for service users and sustain the progress made to-date in implementing the actions to address the issues raised by Ofsted.</p>	<p><b>Work carried out</b></p> <p>We have considered the regulator’s reporting on this matter. We have considered reports to members on the actions being taken to address Ofsted’s findings and the matters reported by the Commissioner. We have confirmed that Ofsted’s current ratings on the Council, and the ratings of other significant regulators, are unchanged from the previous year.</p> <p><b>Progress against the recommendation</b></p> <p>The Council has been working to improve its arrangements but Ofsted’s rating is unchanged and the future arrangements for these services are still being determined. There is no evidence to suggest the Council is not attempting to make progress with the recommendations and we do not believe it necessary to escalate the recommendation through use of other audit powers.</p> <p><b>Conclusions</b></p> <p>The significant weakness reported in 2020/21 still exists in 2022/23.</p>

# Appendices

A: Draft management representation letter

B: Draft audit report

C: Independence

D: Other communications

# Appendix A: Draft management representation letter

Mazars LLP  
First floor,  
Two Chamberlain Square,  
Birmingham  
B3 3AX

Dear Mark

## North East Lincolnshire Council - audit for year ended 31 March 2023

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 2023 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 2022/23 (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 Head of Finance 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 the 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).

### 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.



# Appendix A: Draft management representation letter

## 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 Head of Finance 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 to you in accordance with the requirements of the Code and applicable law.

I have disclosed the identity of the Council's related parties and all related party relationships and transactions of which I am aware.

## Impairment review

To the best of my knowledge, there is nothing to indicate that there is a permanent reduction in the recoverable amount of the property, plant and equipment, intangible assets and investment properties below their carrying value at the balance sheet date. I also confirm the Council has assessed the potential impact of Reinforced Autoclaved Aerated Concrete on the Council, and in particular whether there are indications of a need for an

impairment of the Council's property, plant and equipment or investment property balances for this factor. I confirm there are no such indications of impairment in those assets.

## 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.

## 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.

## 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.

## Ukraine

We confirm that we have carried out an assessment of the potential impact of Russian Forces entering Ukraine on the business, including the impact of mitigation measures and uncertainties, and that the disclosure in the Narrative Report fairly reflects that assessment.

## Current banking crisis

We confirm that we have assessed the impact on North East Lincolnshire Council of the on-going Global Banking challenges, in particular whether there is any impact on the company's ability to continue as a going concern, and on the post balance sheet events disclosures.

We confirm that our exposure where applicable (either direct cash exposure or direct / indirect through investments) with any bank reported as in a distress situation, is not material.

# Appendix A: Draft management representation letter

## **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.

## **Annual Governance Statement**

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

## **Narrative report**

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

## **Unadjusted misstatements and internal control recommendations**

I confirm that the effects of any uncorrected misstatements are immaterial, both individually and in aggregate, to the financial statements as a whole.

Yours faithfully

**Executive Director for Place and Resources**

# Appendix B: Draft audit report

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

### Report on the audit of the financial statements

{SUBJECT TO FINALISATION}

#### Opinion on the financial statements

We have audited the financial statements of North East Lincolnshire Council ('the Council') for the year ended 31 March 2023, which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, and the Collection Fund, and notes to the financial statements. 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 2022/23, as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets ("the Code Update"), published in November 2022.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Council and as at 31st March 2023 and of the Council's 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 2022/23 as amended by the Code Update.

#### 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.

#### Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Executive Director of Place and Resources' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, and taking into account the requirements of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 as amended by the Code Update, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Council's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Executive Director of Place and Resources with respect to going concern are described in the relevant sections of this report.

#### 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. The Executive Director of Place and Resources is responsible for the other information. 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 audit report

## Responsibilities of the Executive Director of Place and Resources for the financial statements

As explained more fully in the Statement of the Executive Director of Place and Resources' Responsibilities, the Executive Director of Place and Resources is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 as amended by the Code Update, and for being satisfied that they give a true and fair view. The Executive Director of Place and Resources is also responsible for such internal control as the Executive Director of Place and Resources determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Executive Director of Place and Resources is required to comply with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 as amended by the Code Update and prepare the financial statements on a going concern basis, on the assumption that the functions of the Council will continue in operational existence for the foreseeable future. The Executive Director of Place and Resources is responsible for assessing each year whether or not it is appropriate for the Council to prepare its accounts on the going concern basis and disclosing, as applicable, matters related to going concern.

## Auditor's responsibilities for the audit of the financial statements

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

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Based on our understanding of the Council, we identified that the principal risks of non-compliance with laws and regulations related to the Local Government Act 2003 (and associated regulations made under section 21), the Local Government Finance Acts of 1988, 1992 and 2012, and the Accounts and Audit Regulations 2015 and the Local Government and Housing Act 1989 and we considered the extent to which non-compliance might have a material effect on the financial statements.

To help us identify instances of non-compliance with these laws and regulations, and in identifying and assessing the risks of material misstatement in respect to non-compliance, our procedures included, but were not limited to:

- inquiring with management and the Audit and Governance Committee as to whether the Council is in compliance with laws and regulations, and discussing their policies and procedures regarding compliance with laws and regulations;
- communicating identified laws and regulations throughout our engagement team and remaining alert to any indications of non-compliance throughout our audit; and
- considering the risk of acts by the Council which were contrary to applicable laws and regulations, including fraud.

We evaluated the Executive Director of Place and Resources' incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls) and determined that the principal risks were related to posting manual journal entries to manipulate financial performance, management bias through judgements and assumptions in significant accounting estimates, and significant one-off or unusual transactions.

Our audit procedures in relation to fraud included but were not limited to:

- making enquiries of management and the Audit and Governance Committee on whether they had knowledge of any actual, suspected or alleged fraud;
- gaining an understanding of the internal controls established to mitigate risks related to fraud;
- discussing amongst the engagement team the risks of fraud; and
- addressing the risks of fraud through management override of controls by performing journal entry testing.

There are inherent limitations in the audit procedures described above and the primary responsibility for the prevention and detection of irregularities including fraud rests with management and the Audit and Governance Committee. As with any audit, there remained a risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

We are also required to conclude on whether the Executive Director of Place and Resources' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. We performed our work in accordance with Practice Note 10: Audit of financial statement and regularity of public sector bodies in the United Kingdom, and Supplementary Guidance Note 01, issued by the National Audit Office in February 2023.

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.

# Appendix B: Draft audit report

**Report on the Council’s arrangements for securing economy, efficiency, and effectiveness in its use of resources**

**Matter on which we are required to report by exception**

We are required to report to you if, in our opinion, we are not satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2023.

We have not completed our work on the Council’s arrangements. On the basis of our work to date, having regard to the guidance issued by the Comptroller and Auditor General in January 2023, we have identified the following significant weaknesses in the Council’s arrangements for the year ended 31 March 2023.

In March 2022 we identified significant weaknesses in relation to the Council’s arrangements for Improving Economy, Efficiency and Effectiveness. In our view these significant weaknesses remain for the year ended 31 March 2023:

Significant weakness in arrangements – issued in a previous year	Recommendation
<p>Ofsted is the Office for Standards in Education, Children’s Services and Skills. It inspects and regulates services that care for children and young people. The Authority’s children’s services were last inspected in 2017, when it was rated “Good”. Ofsted has carried out focused visits in the intervening period with the most recent letter being dated in June 2021, but without changing the overall rating.</p> <p>In October 2021, Ofsted commenced an inspection into children’s services, publishing its report on 26 November 2021. The overall effectiveness of children’s services has been graded “Inadequate”, citing weaknesses in assessment, planning and decision-making.</p> <p>The matters identified by Ofsted are relevant to the financial year ending 31 March 2021 and, in our view, indicate a significant weakness in the Authority’s arrangements for Governance (how the body ensures that it makes informed decisions and properly manages its risks) and for 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) reporting.</p>	<p>In order to ensure systems, processes and training are in place to manage the risks relating to the safety and welfare of service users, the Authority must ensure it embeds and sustains the action plans that it has put in place to address the issues identified by Ofsted.</p> <p>In particular, it needs to ensure that robust monitoring and reporting processes are maintained, and that challenge, scrutiny and escalation arrangements drive the required improvements for service users and sustain the progress made to-date in implementing the actions to address the issues raised by Ofsted.</p>

# Appendix B: Draft audit report

## Responsibilities of the Council

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

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

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. 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.

We have undertaken our work in accordance with the Code of Audit Practice, having regard to the guidance issued by the Comptroller and Auditor General in January 2023.

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.

## 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 or 2021/22 and 2022/23;
- the work necessary to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency, and effectiveness in its use of resources.

[Signature]

Mark SurrIDGE Key Audit Partner

For and on behalf of Mazars LLP

2 Chamberlain Square

Birmingham

B3 3AX

[Insert date]





# Appendix C: Independence

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

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



Issue	Perceived threats	Safeguards
We have been separately engaged by the Council to carry out additional work on Assurance services – Teachers Pensions End of Year Certificate Agreed upon Procedures. Before agreeing to undertake any additional work, we consider whether there are any actual, potential or perceived threats to our independence.	Self interest	The proposed fees for this work, is significantly below the fee for the external audit.

# Appendix D: Other communications

Other communication	Response
 <b>Compliance with Laws and Regulations</b>	<p>We have not identified any significant matters involving actual or suspected non-compliance with laws and regulations.</p> <p>We will obtain written representations from management that all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements have been disclosed.</p>
 <b>External confirmations</b>	<p>We did not experience any issues with respect to obtaining external confirmations.</p>
 <b>Related parties</b>	<p>We did not identify any significant matters relating to the audit of related parties.</p> <p>We will obtain written representations from management confirming that:</p> <ul style="list-style-type: none"> <li>a. they have disclosed to us the identity of related parties and all the related party relationships and transactions of which they are aware; and</li> <li>b. they have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirements of the applicable financial reporting framework.</li> </ul>
 <b>Going concern</b>	<p>We have not identified any evidence to cause us to disagree with the Chief Finance Officer that North East Lincolnshire Council will be a going concern, and therefore we consider that the use of the going concern assumption is appropriate in the preparation of the financial statements.</p> <p>We will obtain written representations from management, confirming that all relevant information covering a period of at least 12 months from the date of approval of the financial statements has been taken into account in assessing the appropriateness of the going concern basis of preparation of the financial statements.</p>



# Appendix D: Other communications

Other communication	Response
 <p><b>Subsequent events</b></p>	<p>We are required to obtain evidence about whether events occurring between the date of the financial statements and the date of the auditor's report that require adjustment of, or disclosure in, the financial statements are appropriately reflected in those financial statements in accordance with the applicable financial reporting framework.</p> <p>We will obtain written representations from management that all events occurring subsequent to the date of the financial statements and for which the applicable financial reporting framework requires adjustment or disclosure have been adjusted or disclosed.</p>
 <p><b>Matters related to fraud</b></p>	<p>We have designed our audit approach to obtain reasonable assurance whether the financial statements as a whole are free from material misstatement due to fraud. In addition to the work performed by us, we will obtain written representations from management, and the Audit and Governance Committee, confirming that</p> <ol style="list-style-type: none"> <li>a. they acknowledge their responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud;</li> <li>b. they have disclosed to the auditor the results of management's assessment of the risk that the financial statements may be materially misstated as a result of fraud;</li> <li>c. they have disclosed to the auditor their knowledge of fraud or suspected fraud affecting the entity involving:             <ol style="list-style-type: none"> <li>i. Management;</li> <li>ii. Employees who have significant roles in internal control; or</li> <li>iii. Others where the fraud could have a material effect on the financial statements; and</li> </ol> </li> <li>d. they have disclosed to the auditor their knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.</li> </ol>

# Mark Surridge

## Mazars

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Mazars is an internationally integrated partnership, specialising in audit, accountancy, advisory, tax and legal services\*. Operating in over 90 countries and territories around the world, we draw on the expertise of 40,400 professionals – 24,400 in Mazars' integrated partnership and 16,000 via the Mazars North America Alliance – to assist clients of all sizes at every stage in their development.

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