

Auditor's Annual Report

North East Lincolnshire Council – year
ended 31 March 2022 and 31 March
2023

April 2024



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01

Section 01: **Introduction**

1. Introduction

Purpose of the Auditor's Annual Report

Our Auditor's Annual Report (AAR) summarises the work we have undertaken as the auditor for North East Lincolnshire Council ('the Council') for the year ended 31 March 2022 and 31 March 2023. Although this report 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 and the Code of Audit Practice ('the Code') issued by the National Audit Office ('the NAO'). The remaining sections of the AAR outline how we have discharged these responsibilities and the findings from our work. These are summarised below.



Opinion on the financial statements

Our audit was conducted in accordance with the requirements of the Code, and International Standards on Auditing (ISAs).

2021/22

Our audit report, issued in December 2023, gave an unqualified opinion on the financial statements for the year ended 31 March 2022.

2022/23

Our audit report, issued 12 April 2024, gave an unqualified opinion on the financial statements for the year ended 31 March 2023.



Value for Money arrangements

Section 3 provides our commentary on the Council's arrangements.

2021/22

In our audit report issued we reported that we had not completed our work on the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources and had issued recommendations in relation to identified significant weaknesses in those arrangements at the time of reporting.

2022/23

In our audit report we reported that we have completed our work on the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources and had issued recommendations in relation to identified significant weaknesses in those arrangements.



Wider reporting responsibilities

At the date of reporting our work on the Council's Whole of Government Accounts for both 2021/22 and 2022/23 remains incomplete whilst we wait for final instructions from the National Audit Office on sampled components.

02

Section 02:

Audit of the financial statements

2. Audit of the financial statements

The scope of our audit and the results of our opinion

At Appendix A, we have set out the main financial statement risks addressed in our audit – detailed findings were presented to the Audit Committee, and in the table below, we set out the main audit outcomes for 2022/23.

Audit Area	Description	Outcome: 2021/22	Outcome: 2022/23
Financial Statements	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 and of its financial performance for the year then ended.	Our audit report, issued in December 2023, gave an unqualified opinion on the financial statements for the year ended 31 March 2022.	Our audit report, to be issued in March 2024, is expected to give an unqualified opinion on the financial statements for the year ended 31 March 2023.
Qualitative aspects of the Council's accounting practices	We review the Council's accounting policies and disclosures to determine if they comply with the Code of Practice on Local Authority Accounting, appropriately tailored to the Council's circumstances.	We review the Council's accounting policies and disclosures and concluded they complied with the 2021/22 Code of Practice on Local Authority Accounting, appropriately tailored to the Council's circumstances.	We review the Council's accounting policies and disclosures and concluded they complied with the 2022/23 Code of Practice on Local Authority Accounting, appropriately tailored to the Council's circumstances.
Internal Control Recommendations	As part of our audit, we considered the internal controls in place that are relevant to the preparation of the financial statements. We did this to design audit procedures that allow us to express our opinion on the financial statements, but this did not extend to us expressing an opinion on the effectiveness of internal controls.	No 'High' Priority recommendations were raised	No 'High' Priority recommendations were raised
Annual Governance Statement	We review the governance statement for compliance with the guidance issued by CIPFA/LASAAC Code of Practice on Local Authority Accounting.	We did not identify any matters where, in our opinion, the governance statement did not comply with the guidance issued by CIPFA/LASAAC Code of Practice on Local Authority Accounting.	We did not identify any matters where, in our opinion, the governance statement did not comply with the guidance issued by CIPFA/LASAAC Code of Practice on Local Authority Accounting.
Wider responsibilities	Our powers and responsibilities under the 2014 Act are broad and include the ability to: <ul style="list-style-type: none"> • 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 2021/22 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.	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.

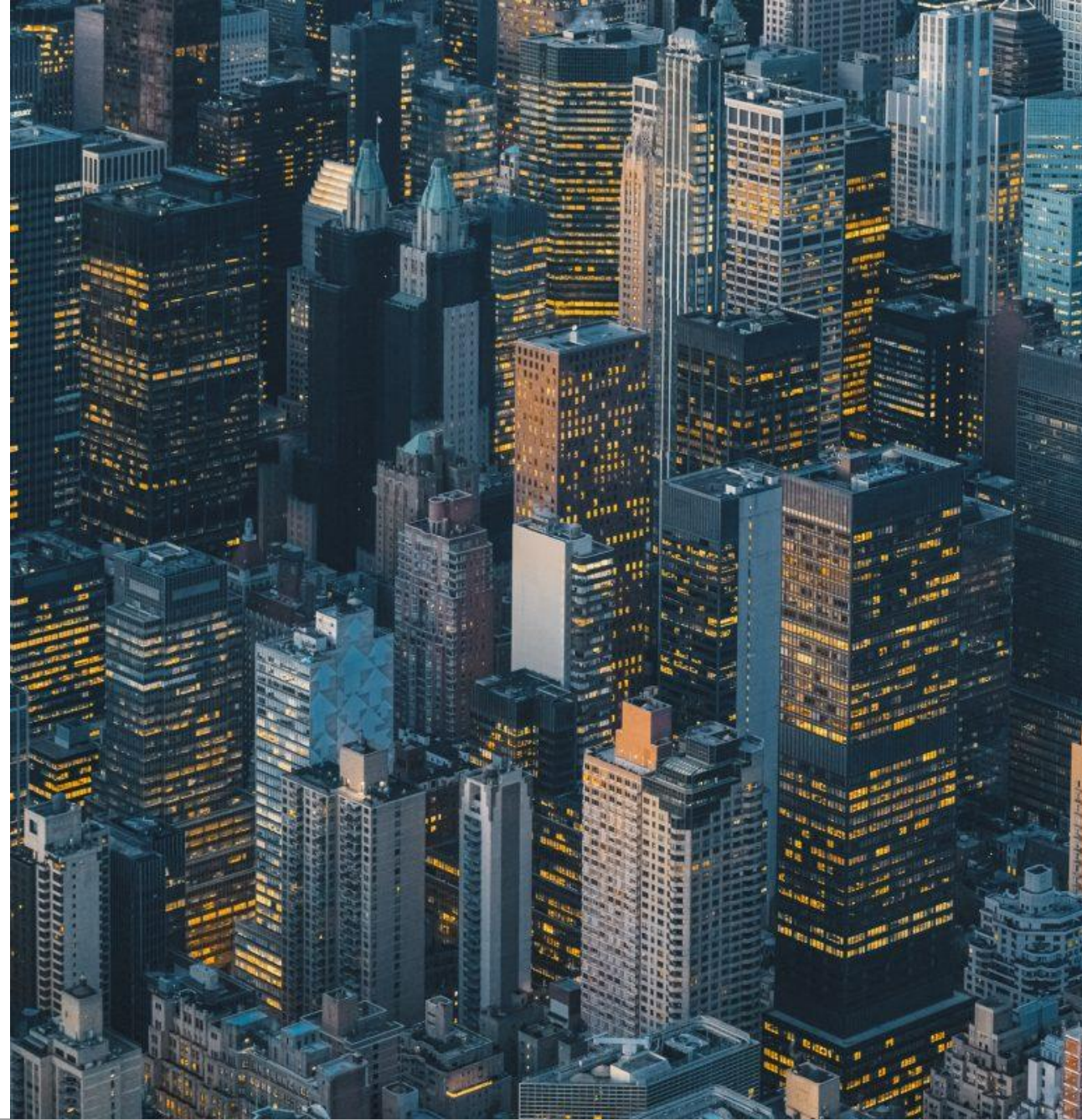
03

Section 03:

Commentary on VFM arrangements

3. Commentary on VFM arrangements

Overall summary



3. VFM arrangements – Overall summary

Approach to Value for Money arrangements work

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

Our work is carried out in three main phases.

Phase 1 - Planning and risk assessment

At the planning stage of the audit, we undertake work so we can understand the arrangements that the Council has in place under each of the reporting criteria; as part of this work we may identify risks of significant weaknesses in those arrangements.

We obtain our understanding of arrangements for each of the specified reporting criteria using a variety of information sources which may include:

- NAO guidance and supporting information
- Information from internal and external sources including regulators
- Knowledge from previous audits and other audit work undertaken in the year
- Interviews and discussions with staff and directors

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 there are further risks of significant weaknesses.

Phase 2 - Additional risk-based procedures and evaluation

Where we identify risks of significant weaknesses in arrangements, we design a programme of work to enable us to decide whether there are actual significant weaknesses in arrangements. We use our professional judgement and have regard to guidance issued by the NAO in determining the extent to which an identified weakness is significant.

Phase 3 - Reporting the outcomes of our work and our recommendations

We are required to provide a summary of the work we have undertaken and the judgments we have reached against each of the specified reporting criteria in this Auditor's Annual Report. We do this as part of our Commentary on VFM arrangements which we set out for each criteria later in this section.

We also make recommendations where we identify weaknesses in arrangements or other matters that require attention from the Council. We refer to two distinct types of recommendation through the remainder of this report:

- **Recommendations arising from significant weaknesses in arrangements**

We make these recommendations for improvement where we have identified a significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. Where such significant weaknesses in arrangements are identified, we report these (and our associated recommendations) at any point during the audit.


- **Other recommendations**

We make other recommendations when we identify areas for potential improvement or weaknesses in arrangements which we do not consider to be significant but still require action to be taken

The table on the following page summarises the outcomes of our work against each reporting criteria, including whether we have identified any significant weaknesses in arrangements or made other recommendations.

3. VFM arrangements – Overall summary

Overall summary by reporting criteria

Reporting criteria	Commentary page reference	Identified risks of significant weakness?	Actual significant weaknesses identified?	Other recommendations made?
 Financial sustainability	11	No	No	Yes
 Governance	15	Children’s Services: brought forward from 2020/21, and still relevant for 2021/22 and 2022/23	Children’s Services: brought forward from 2020/21, and still relevant for 2021/22 and 2022/23	No
 Improving economy, efficiency and effectiveness	17	Children’s Services: brought forward from 2020/21, and still relevant for 2021/22 and 2022/23	Children’s Services: brought forward from 2020/21, and still relevant for 2021/22 and 2022/23	No

3. Commentary on VFM arrangements

Financial Sustainability

How the body plans and manages its resources to ensure it can continue to deliver its services



3. VFM arrangements – Financial Sustainability

Overall commentary on the Financial Sustainability reporting criteria

Significant weakness in 2020/21	No
Significant weaknesses identified in 2021/22	No
Significant weaknesses identified in 2022/23	No

Position brought forward from 2021/22

As set out in the table above, there are no indications of a significant weakness in the Council’s arrangements for financial sustainability brought forward from 2020/21. The Council’s underlying arrangements in relation to financial sustainability are not significantly different in 2021/22 or 2022/23.

Overall responsibilities for financial governance

We have reviewed the Council’s overall governance framework, including Council and committee reports, the Annual Governance Statement, and Statement of Accounts for 2021/22 and 2022/23. These confirm the Council undertook its responsibility to define the strategic aims and objectives, approve budgets and monitor financial performance against budgets and plan to best meet the needs of the Council’s service users.

2021/22 and 2022/23 Statement of Financial Position

The purpose of the Council’s general fund reserve is to meet costs arising from any unplanned or emergency events. It also acts as a financial buffer to help mitigate against the financial risks the Council faces and can be used to a limited degree to ‘smooth’ expenditure on a one-off basis across years. Whereas earmarked reserves are set aside for specific purposes.

We carried out a high-level analysis of the financial statements subject to our audit, including the Movement in Reserves Statement and our work to date has not highlighted any risks of significant weakness in arrangements or indicators of a risk to the Council’s financial sustainability.

£'000	2020/21	2021/22	2022/23
General Fund	8,300	8,300	8,300
Earmarked Revenue Reserves	38,390	37,699	17,791
Total Revenue reserves	46,690	45,999	26,091
Capital Reserves	5,398	4,747	5,941
Total usable reserves	52,088	50,746	32,032

The Council’s capital expenditure and financing

The Council’s arrangements for setting and monitoring capital expenditure are consistent with the previous year, which we deem to be adequate. We considered the Council’s capital financing requirement as set out in Note 36 of the financial statements, which has risen from £183m in 2020/21 to £190m in 2021/22 and £203m in 2022/23, each increase representing the underlying need to borrow to finance capital expenditure.

In 2021/22, the Council spent £32m on capital additions, including and £8m of REFCUS (Revenue Expenditure Funded from Capital Under Statute). In 2022/23, this rose to £51m (including £8m REFCUS). Our testing of these balances did not identify any material issues.

As part of paying down the capital financing requirement, the Council charged £5m in 2021/22 to the general fund as a “Minimum Revenue Provision/Voluntary Revenue Provision”, and £6m in 2022/23. The duty to make Minimum Revenue Provision (MRP) is an important component of the Prudential Framework to ensure capital expenditure and borrowing can be repaid. We reviewed the Council’s Policy for 2022/23 and its supporting calculations as part of our work on the financial statements audit and have benchmarked the Council’s charge against our database of other unitary councils:

Minimum Revenue Provision as a % of the Capital Financing Requirement	2021/22	2022/23
Unitary councils: average	3.00%	2.80%
North East Lincolnshire Council	2.70%	3.00%

We are satisfied the Council’s capital expenditure and capital financing does not give rise to a risk of significant weakness in arrangements, however, the importance and impact of the MRP is often poorly understood outside of finance teams and can lead to significant issues affecting the financial sustainability of a local authority.

VFM arrangements – Financial Sustainability

The Council's financial planning and monitoring arrangements

Through our review of Council and committee reports, meetings with management and relevant work performed on the financial statements (2021/22 and 2022/23), we are satisfied that the Council's arrangements for budget monitoring remain appropriate, including reporting to Members.

Budget Setting and the Medium-Term Financial Strategy

We have read committee reports covering budget setting for 2021/22 and 2022/23, including the Medium-Term Financial Strategy (MTFS). We also met regularly with Officers throughout the year. There is no indication that the Council's MTFS and budget setting process is not aligned to supporting plans and the Council has a track record of delivering against budget.

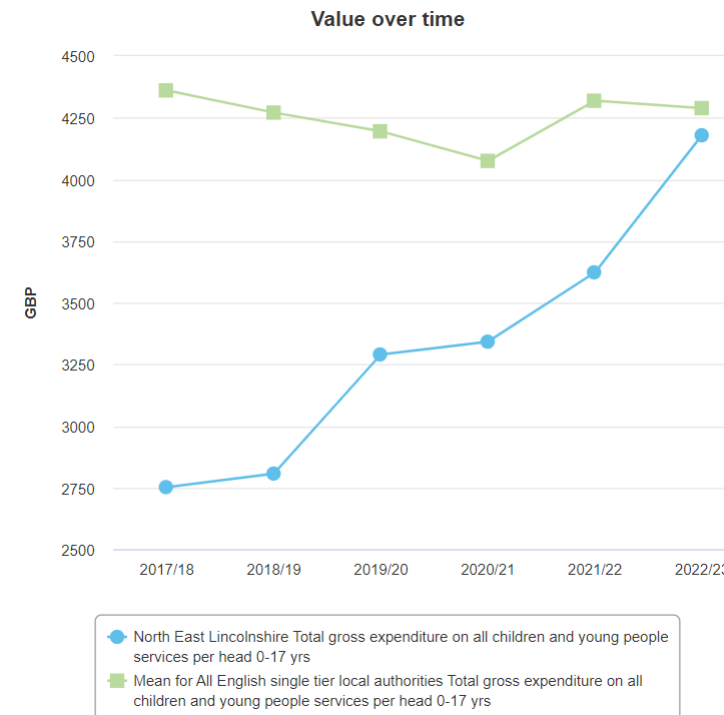
Bridging funding gaps and cost pressures of children's services

We reviewed the Council Papers supporting the 2023/24 Budget and MTFS from February 2023. We have also considered the 2024/25 Budget and MTFS approved in February 2024. We are satisfied there is no evidence of a significant weakness in arrangements to develop and approve the Budget and MTFS. We specifically considered how the cost pressures associated with addressing the issues in Children's Services are being reflected in the MTFS, drawing out the following information:

		£'m	2023/24	2024/25	2025/26	
2023/24 MTFS	Use of flexible capital receipts		5.0	4.0		
	Contribution to earmarked reserves		1.3	2.5	2.5	
	Savings required		-	7.9	6.2	
			2023/24	2024/25	2025/26	2026/27
2024/25 MTFS	Use of flexible capital receipts		9.0	12.0	2.0	2.0
	Contribution to earmarked reserves			6.9	2.5	2.5
	Savings required			-	8.6	8.6

This shows, a significant increase in the use of flexible capital receipts to fund the transformation required to improve Children's Services alongside an increasing savings gap.

We also used VFM spending profiles produced by LG Inform (vfm.lginform.local.gov.uk) to provide context on the Council's spending.



A challenge for the Council is maintaining a level of reserves that does not threaten financial suitability, whilst addressing the inadequate performance of children's services, an area where spending has been below the mean for all English single tier local authorities until recently.

3. VFM arrangements – Financial Sustainability

Overall commentary on the Financial Sustainability reporting criteria

Overall, we are satisfied the Council's arrangements to secure financial sustainability for the year ended 31 March 2022 and 31 March 2023 Financial sustainability in how the body plans and manages its resources to ensure it can continue to deliver its services are adequate.

Our assessment does show the financial sustainability of the Council is under increasing threat, for example, the 2023/24 MTFS needed £14.1m of savings, which rose to £17.2m in the 2024/25 MTFS.

The financial position is linked to the issues in Children's services, where the Council is seeking to make use of capital receipts to enact the transformation required to improve performance and manage rising costs. In our view, the significant weakness in arrangements we have reported in relation to Children's services (see pages 18 and 20) already reflects the challenges and improvement required for Council for the year ended 31 March 2022 and 31 March 2023. As a result, we do not believe the position, in 2022/23, leads to a further significant weakness in arrangements, this time under the theme of financial sustainability.

However, whilst the Council's intention to use capital receipts to fund transformation is a valid option, the financial position requires oversight through 2024/25 and we make the following 'other' recommendations (see definition on page 9):

1. The Council needs to ensure appropriate arrangements are in place to apply and monitor the use of flexible capital receipts in line with relevant guidance and ensure only valid expenditure is funded via this mechanism.
2. The Council needs to ensure transformation expenditure translates into realised savings, which ought to be reflected in the regular updates provided to Scrutiny.

Overall, we are satisfied there is not a significant weakness in the Council's arrangements in relation to financial sustainability for the year ended 31 March 2022 and 31 March 2023.

3. Commentary on VFM arrangements

Governance

How the body ensures that it makes informed decisions and properly manages its risks



3. VFM arrangements – Governance

Overall commentary on the Governance reporting criteria

Significant weakness in 2020/21	Yes – Children’s Services (Page 20)
Significant weaknesses identified in 2021/22	No new matters. Ongoing weakness in relation to Children’s Services.
Significant weaknesses identified in 2022/23	No new matters. Ongoing weakness in relation to Children’s Services.

Position brought forward from 2020/21

As set out in the table above, there are no indications of a significant weakness in the Council’s arrangements for financial sustainability brought forward from the previous year.

The Authority’s governance structure

Based on our work, we are satisfied that the Council has established governance arrangements, consistent with previous years, in place. These are detailed in the Statement of Accounts and Annual Governance Statement. We have considered both documents against our understanding of the Council as part of our audit. Our review of Council and Committee papers confirms that a template covering report is used for all reports, ensuring the purpose, strategic context, governance issues, and recommendations are clear. Minutes are published and reviewed by Committees to evidence the matters discussed, challenge and decisions made.

2023/24 Budget Setting and the Medium-Term Financial Strategy (MTFS)

The Council’s budget setting and medium-term financial planning follows a similar process and format to previous years and our review is supported by discussions with officers during the year and experience from prior year audits. We read the report to Cabinet and Council in February 2023 where a balanced budget was set. We are satisfied that the reports contain an adequate amount of detail regarding assumptions and that these are not unreasonable.

We considered reasonableness of the 2023/24 budget by reviewing the most Quarter 2 financial report to Cabinet (November 2023). This sets out a potential £6.2m overspend, largely due to the ongoing challenges in Children’s service. The Council recognised that further action is required to deliver recurrent financial balance. The position, as explained on pages 13 and 14 is reflected into the 2024/25 MTFS.

Risk management

The Annual Governance Statement is a critical component of the Council’s governance arrangements. It is an evidenced self-assessment by the Council on the Council’s governance, assurance and internal control

frameworks for the financial year. No significant weaknesses in internal control have been identified from our work to date and Internal Audit have not identified or raised any significant concerns. We reviewed the Annual Governance Statements as part of our work on the financial statements with no significant issues arising.

Audit & Governance Committee

The Council has an established Audit & Governance Committee. We have reviewed supporting documents and confirmed the Audit & Governance Committee meets regularly. Our attendance at meetings has confirmed there is an appropriate level of effective challenge.

Internal Audit

We have reviewed Internal Audit’s reports to the Audit Committee and attended Audit Committee to observe the performance of Internal Audit. We have read the head of internal audit’s report for 2021/22 and 2022/23 and are satisfied it does not highlight any unidentified significant weaknesses in arrangements. We also confirmed that the Head of Internal Audit Opinion has been adequately reflected in the Annual Governance Statement. No issues arose from our review to indicate there is a significant weakness in the Council’s arrangements for governance.

Notwithstanding the issue regarding Children’s Services (page 20), we have not identified any indicators of a significant weakness in the Council’s arrangements relating to the Governance criteria for the year ended 31 March 2022 and 31 March 2023.

3. Commentary on VFM arrangements

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



3. VFM arrangements – Improving Economy, Efficiency and Effectiveness

Overall commentary on the Improving Economy, Efficiency and Effectiveness reporting criteria

Significant weakness in 2020/21	Yes – Children’s Services (Page 20)
Significant weaknesses identified in 2021/22	No new matters. Ongoing weakness in relation to Children’s Services.
Significant weaknesses identified in 2022/23	No new matters. Ongoing weakness in relation to Children’s Services.

Position brought forward from 2020/21

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.

In response the Council had an improvement plan in place approved by Ofsted and support has been accessed via the DfE for the ‘Partners in Practice’ programme – which supports development of practice. The Council also invested in children’s services however 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 was graded “Inadequate”, citing weaknesses in assessment, planning and decision-making.

We considered this to be a significant weakness in arrangements and, as set out on page 20, believe that it continues to be indicative of a significant weakness in arrangements for 2021/22 and 2022/23. In coming to this conclusion, we:

- Met regularly with officers to stay informed of developments;
- Reviewed Monitoring report from Ofsted issued between November 2022 and February 2024;
- Reviewed Scrutiny Reports and Minutes.

Through our work, we also noted that the joint inspection carried out by Ofsted and the Care Quality Commission in March 2022 of SEND services reported back that “The area has made sufficient progress in addressing all three of the significant weaknesses identified at the initial inspection.”

Corporate Plan and Performance Monitoring

The Council’s arrangements for 2021/22 and 2022/23 are consistent with 2020/21, which were deemed

adequate. There is an up-to-date Council plan in place and an agreed outcomes framework. Our review of committee reports confirms Cabinet receive periodic (Quarterly) reports on performance which summarises performance against target and includes a traffic light rating system to analyse performance and take corrective action as required..

Partnerships

The Council has a solid track record of working in partnership, in particular working closely with North East Lincolnshire Clinical Commissioning Group (The CCG), which closed down on July 1 2022 and became part of NHS Humber and North Yorkshire ICB.

Our work has not identified any examples of a significant financial loss or failure to deliver efficiency / performance improvements as expected when managing significant outsourced contracts / services.

Commissioning and procurement

Our work on the financial statements has not identified any significant concerns regarding commissioning or procurement.

Except for the matter reported on page 20, our work did not identify a significant weakness in the Council’s arrangements in relation to the economy, efficiency and effectiveness reporting Criteria for the year ending 31 March 2022 and 31 March 2023.

3. Commentary on VFM arrangements

Identified significant weaknesses in arrangements and our recommendations



3. VFM arrangements – Prior year significant weaknesses and recommendations

Progress against significant weaknesses and recommendations made in the prior year

As part of our 2020/21 audit work, we identified the following significant weaknesses, and made recommendations for improvement in the Council’s arrangements to secure economy, efficiency and effectiveness in its use of resources. These identified weaknesses have been outlined in the table below, along with our view on the Council’s progress against the recommendations made, including whether the significant weakness is still relevant in the 2021/22 year.

Previously identified significant weakness in arrangements	Reporting criteria	Recommendation for improvement	Our views on the actions taken to date	Overall conclusions
<p>Children’s Services</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. 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>Governance</p> <p>Improving the 3Es</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>We have met with officers during the year, reviewed committee reports and minutes, and reviewed monitoring reports from Ofsted.</p> <p>Our review showed that there were arrangements in place to oversee and address the issues identified by Ofsted. The services, however, continue to remain “inadequate” overall.</p> <p>From our review of the above, we noted that a particular challenge for the Council has been the stability of the workforce. To better understand the context of workforce challenges, we considered a research report issued by the Local Government Association in October 2023 “A maturing approach to children’s services improvement: updating the key enablers of progress”, which claims that, in September 2022, there were 7,900 children’s social worker vacancies and ongoing dependence on agency workers.</p>	<p>Overall, based on the work performed, we believe there is evidence to suggest the Council is making progress in addressing the underlying issues, but still with further work to go to demonstrate the significant weakness has been sufficiently addressed.</p>

04

Section 04:

**Other reporting responsibilities and
our fees**

4. Other reporting responsibilities and our fees

Matters we report by exception

The Local Audit and Accountability Act 2014 provides auditors with specific powers where matters come to our attention that, in their judgement, require specific reporting action to be taken. Auditors 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 the law; and
- issue an advisory notice.

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 in 2021/22 or 2022/23.

Reporting to the NAO in respect of Whole of Government Accounts consolidation data

The NAO, as group auditor, requires us to complete the WGA Assurance Statement in respect of its consolidation data. As at the date of writing, final instructions on sampled components have not yet been received for either 2021/22 or 2022/23.

4. Other reporting responsibilities and our fees

Fees for work as the Council's auditor

We reported our proposed fees for the delivery of our work under the Code of Audit Practice in our Audit Strategy Memorandum. Having completed our work for the 2022/23 financial year, we can confirm that our fees are as follows:

Area of work	2020/21 Actual fees	2021/22 Actual fees*	2022/23 fees*	2023/24
PSAA's scale fee in respect of our work under the Code of Audit Practice	91,866	91,866	100,537**	302,972
Additional fees in respect of additional testing undertaken to comply with increased regulatory requirements relating to: IAS19 pension liabilities; valuation of land, buildings and investment properties	8,670	8,670	N/A included in revised scale fee	-
Additional fees in respect of additional work from the introduction of new auditing standards (ISA 540 estimates)	4,644	4,700	4,700	-
Additional fees in respect of additional work from the introduction of new auditing standards (ISA 315 Risk Assessment)	-	-	9,500	-
Other additional testing – testing of covid-19 grants	1,188	-	-	-
Additional work in respect of IT ledger system	-	-	6,500	-
Additional work in respect of the pension triennial valuation	-	6,500	-	-
Other additional testing - implications of pension fund surpluses under IAS19 and IFRIC 14	-	-	4,000	-
Other additional testing – implications of infrastructure assets and changes to the Code	-	9,000	-	-
Additional fees in respect of the VFM Commentary	10,170	10,000	10,000	-
Additional fees in respect of the VFM Commentary – Significant Risks	3,502	1,200	800	-
Sub-total: variations	28,174	40,070	35,500	-
Total fees	120,040	131,936	136,037	302,972

These costs are subject to PSAA review and approval. The Council received **£47,357** of grant funding to meet rising audit costs.

*At the time of issuing this report, the additional fees have not been agreed with the Council.

**The 2022/23 fee is net of a £5,228 contribution from PSAA

Fees for other work

In 2021/22 and 2022/23, we were engaged to provide assurance related services on the Teachers' Pension Return (£3,500) and Housing Benefits Assurance (£9,100 estimate)



Appendix

Appendix A: Further information on our audit of the financial statements: 2021/22

Main financial statement audit risks and findings

Our audit approach is risk-based and primarily driven by the issues that we consider lead to a higher risk of material misstatement of the accounts. Once we have completed our risk assessment, we develop our audit strategy and design audit procedures in response to this assessment. Following the risk assessment, we identified risks relevant to the audit of financial statements and the significant audit risks and conclusions reached are set out below:

Audit Risk	Level of audit risk	How we addressed the risk	Audit conclusions
<p>Management override of controls</p> <p>This is a mandatory significant risk on all audits due to the unpredictable way in which such override could occur.</p>	<p>Significant risk: an area that, in our judgment, requires special audit consideration.</p>	<p>We addressed the risk through performing work over accounting estimates, journal entries and considering whether there were any significant transactions outside the normal course of business or otherwise unusual. In addition, we made enquiries of management and used our data analytics and interrogation software to test accounting journals.</p>	<p>There were no significant matters to report.</p>
<p>Valuation of the net pension liability</p> <p>The defined benefit liability/asset relating to the Local Government pension scheme represents a significant balance on the Council's balance sheet. The Council uses an actuary to provide an annual valuation 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>Significant risk</p>	<p>Our procedures to address this risk included, but was not limited to:</p> <ul style="list-style-type: none"> critically assessing the competency, objectivity and independence of the actuary; liaising with the auditors of the Local Government Pension Fund to gain assurance that the controls in place at the Pension Fund are designed and implemented correctly. This included the processes and controls in place to ensure data provided to the Actuary by the Pension Fund for the purposes of the 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 valuations, including comparing them to expected ranges using a consulting actuary; agreeing the data in the valuation report provided by the Fund Actuaries for accounting purposes to the financial statements; and considering whether the pension asset should be capped. 	<p>The 2022 Triennial Pension Fund valuations showed material movements in the estimated 31/3/2022 net liability valuation, largely due to updated membership details. The Council obtained updated IAS19 valuation reports and amended the draft financial statements for the new figures. This additional work was completed in August 2023 and the adjustments required to the draft financial statements agreed with Management. Pension Fund auditors needed to complete testing on the reliability and accuracy of the updated pension fund membership data used as part of the 2022 Triennial valuation.</p> <p>Following completion of the work, we were satisfied with the assurances obtained.</p>
<p>Valuation of land & buildings and investment properties</p> <p>Land, Building and Property assets and investment properties are significant balances on the council's balance sheet. The valuation of these properties is complex and is subject to a number of management assumptions and judgements.</p>	<p>Significant risk</p>	<p>Our procedures to address this risk included, but was not limited to:</p> <ul style="list-style-type: none"> critically assessing the Council's valuation expert's scope of work, qualifications, objectivity and independence to carry out the required programme of revaluations; considering whether the overall revaluation methodologies used by the Council's valuers are in line with industry practice, the CIPFA Code of Practice and the Council's accounting policies; assessing whether valuation movements are in line with market expectations by using third party information to provide information on regional valuation trends; critically assessing the approach that the Council adopts to ensure assets that are not subject to revaluation in 2021/22 are materially correct, including considering the robustness of that approach in light of the valuation information reported by the Council's valuers; and testing a sample of individual valuations, back to source records to ensure appropriateness and to gain assurance over whether the correct accounting treatment has been applied. 	<p>Our work to address this significant financial reporting risk was completed satisfactorily.</p> <p>A national issue relating to the accounting for infrastructure assets arose during the year, with guidance finally issued in January 2023 leading to some presentational changes to the financial statements.</p>

Appendix A: Further information on our audit of the financial statements: 2022/23

Main financial statement audit risks and findings

Following our risk assessment, we identified risks relevant to the audit of financial statements and the significant audit risks and conclusions reached are set out below:

Audit Risk	Level of audit risk	How we addressed the risk	Audit conclusions
<p>Management override of controls</p> <p>This is a mandatory significant risk on all audits due to the unpredictable way in which such override could occur.</p>	<p>Significant risk: an area that, in our judgment, requires special audit consideration.</p>	<p>We addressed the risk through performing work over accounting estimates, journal entries and considering whether there were any significant transactions outside the normal course of business or otherwise unusual. In addition, we made enquiries of management and used our data analytics and interrogation software to test accounting journals.</p>	<p>Based on the work completed, no significant issues were identified or reported to Members.</p>
<p>Valuation of the net pension liability</p> <p>The defined benefit liability/asset relating to the Local Government pension scheme represents a significant balance on the Council's balance sheet. The Council uses an actuary to provide an annual valuation in line with the requirements of IAS 19 Employee Benefits. Due to the high degree of estimation uncertainty associated with this valuation, we have determined there is a significant risk in this area.</p>	<p>Significant risk</p>	<p>Our procedures to address this risk included, but was not limited to:</p> <ul style="list-style-type: none"> critically assessing the competency, objectivity and independence of the actuary; liaising with the auditors of the East Riding Pension Fund to gain assurance that the controls in place at the Pension Fund are designed and implemented correctly. This included the processes and controls in place to ensure data provided to the Actuary by the Pension Fund for the purposes of the 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 valuations, including comparing them to expected ranges using a consulting actuary; agreeing the data in the valuation report provided by the Fund Actuaries for accounting purposes to the financial statements. 	<p>Our work to address this significant financial reporting risk was completed satisfactorily.</p>
<p>Valuation of land & buildings and investment properties</p> <p>Land, Building and Property assets and investment properties are significant balances on the council's balance sheet. The valuation of these properties is complex and is subject to a number of management assumptions and judgements.</p>	<p>Significant risk</p>	<p>Our procedures to address this risk included, but was not limited to:</p> <ul style="list-style-type: none"> critically assessing the Council's valuation expert's scope of work, qualifications, objectivity and independence to carry out the required programme of revaluations; considering whether the overall revaluation methodologies used by the Council's valuers are in line with industry practice, the CIPFA Code of Practice and the Council's accounting policies; assessing whether valuation movements are in line with market expectations by using third party information to provide information on regional valuation trends; critically assessing the approach that the Council adopts to ensure assets that are not subject to revaluation in 2022/23 are materially correct, including considering the robustness of that approach in light of the valuation information reported by the Council's valuers; and testing a sample of individual valuations, back to source records to ensure appropriateness and to gain assurance over whether the correct accounting treatment has been applied. 	<p>Our work to address this significant financial reporting risk was completed satisfactorily.</p>

In addition to the financial reporting risks above, we involved our IT auditors to perform additional work to review the steps taken by management to ensure the changeover to its new financial accounting systems was effective. No significant matters arose from this work.

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*where permitted under applicable country laws.