

**To: All Persons on the Distribution List of the Audit and Governance Committee**

7<sup>th</sup> November 2022

Dear Councillor,

Please find attached the following reports that were marked as 'copy to follow' on the agenda for the meeting of the Audit and Governance Committee on 10<sup>th</sup> November 2022 (agenda item 5).

- Statement of Accounts 2021/22 – External Auditor's Report, 21/22 Audit Completion - Progress Report.

Paper copies will be tabled at the meeting.

Yours sincerely,



Beverly O'Brien  
for Rob Walsh, Chief Executive



# Audit Completion Report

North East Lincolnshire Council – Year  
ended 31 March 2022

November 2022



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Our reports are prepared in the context of the 'Statement of Responsibilities of auditors and audited bodies' and the 'Appointing Person Terms of Appointment' issued by Public Sector Audit Appointments Limited. Reports and letters prepared by appointed auditors and addressed to the Council are prepared for the sole use of the Council and we take no responsibility to any member or officer in their individual capacity or to any third party. Mazars LLP is the UK firm of Mazars, an international advisory and accountancy group. Mazars LLP is registered by the Institute of Chartered Accountants in England and Wales.



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Grimsby  
North East Lincolnshire  
DN31 1HU

Mazars LLP

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7 November 2022

Dear Committee Members

## Audit Completion Report – Year ended 31 March 2022

We are pleased to present our Audit Completion Report for the year ended 31 March 2022 for the Committee's 10 November 2022 meeting. The purpose of this document is to summarise our audit findings and conclusions from the audit work to date.

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 earlier in the year. We have reviewed our Audit Strategy Memorandum and concluded that the original significant audit risks and other areas of management judgement remain appropriate.

We have identified in Section 2 of the Report the important elements of the remaining work which need to be finalised before we are able to issue our audit opinion. This includes a national issue regarding the reporting of infrastructure assets where consultations by CIPFA and DLUHC regarding proposed solutions are ongoing. We will update the Committee at its 10 November 2022 meeting on progress made and advise on any expected changes to our conclusions, timeline for completion and proposed audit opinion.

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

Yours faithfully

Mark Surridge

Mazars LLP

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We are registered to carry on audit work in the UK by the Institute of Chartered Accountants in England and Wales. Details about our audit registration can be viewed at [www.auditregister.org.uk](http://www.auditregister.org.uk) under reference number C001139861. VAT number: 839 8356 73

# 01

## Section 01: **Executive summary**

# 1. Executive summary

## Principal conclusions and significant findings

The detailed scope of our work as your appointed auditor for 2021/22 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;
- Net Defined Benefit Liability valuation;
- Valuation of Land and Buildings and Investment Properties; and
- National non-domestic rates impairment

## Misstatements and internal control recommendations

Section 5 sets out internal control recommendations and section 6 sets out audit misstatements..

## Status and audit opinion

We have substantially completed our audit in respect of the financial statements for the year ended 31 March 2022. At the time of writing this report there are some significant areas where work is still in progress, and these are summarised at Section 2.

We will provide updates to you in relation to any significant matters identified at Section 2 as outstanding as part of our presentation to the Committee at its 10 November 2022 meeting and through our normal follow up letter.

Subject to the satisfactory conclusion of the remaining audit work, we have the following conclusions:



### 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 in section 2 of this report.



### Value for money arrangements

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 not yet received group instructions from the National Audit Office in respect of our work on the Council's WGA submission. We are unable to commence our work in this area until such instructions have been received.



### 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. There have been no matters arising for the 2020/21 audit.











# 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
Land, buildings and Investment Property valuations		We are awaiting residual evidence and explanations from management to support valuation inputs and judgements by the Council's valuation expert on our samples selected for testing.
Infrastructure Assets		A consultation is on-going in respect of the accounting treatment of infrastructure assets included on the Council's balance sheet. As infrastructure assets are material, this could create additional work and consideration, and in turn causes a delay with issuing our audit report. Further information has been provided in section 4 of this report.
Net Pension Liability valuation		We are waiting for the final assurances from the East Riding Pension Fund auditor before we can complete this audit work.
Income, expenditure, debtors and creditors sample testing		We are finalising our transaction testing and clearing the remaining queries with management,
Cash and Borrowings		There are a small number of 3 <sup>rd</sup> party confirmations that we are outstanding and being chased up.
Whole of Government Accounts (WGA)		We have not yet received group instructions from the National Audit Office in respect of our work on the Council's WGA submission. We are unable to commence our work in this area until such instructions have been received. This covers both 2020/21 and 2021/22.
Audit Quality Control		Our audit work in progress is subject to the normal review by the Engagement Lead and further quality checks.
Completion Procedures		Procedures such as ensuring that all appropriate and relevant changes are reflected in the final financial statements to be published, review for post balance sheet events, and management representations are ongoing and will remain as such through to the date of issuing the auditor's report.

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

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

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

We will provide the Audit and Governance Committee with a verbal update on 10 November 2022 in relation to these outstanding matters and any additional matters.

We will also provide the Committee with a further follow-up letter, prior to signing the auditor's report.

# 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 presented our Audit Strategy Memorandum

## Materiality

Our provisional materiality at the planning stage of the audit was set at £5.9m using a benchmark of 2% of gross operating expenditure. Our final assessment of materiality, based on the final financial statements and qualitative factors was the same at £6.6m 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 were no changes to the planned approach or matters arising to report.

Item of account	Management’s expert	Our expert
Pensions - Defined benefit liability	Hymans Robertson – Actuary for the East Riding Pension Fund	Pw C actuarial experts, appointed by the National Audit Office, provided a review of the key assumptions used by Hymans Robertson.
Property, plant and equipment valuation	Equans	We used available third party information to challenge the key valuation assumptions.
Financial instrument disclosures	Link Asset Services (formerly Capita)	No expert required



# 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. 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; 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.

We addressed this risk through performing audit workover:

- 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

Our audit procedures have not identified any material errors or uncertainties in the financial statements, or other matters that we wish to bring to Members' attention in relation to management override of controls.

# 4. Significant findings

## Significant risks (continued)

<b>Valuation of property, plant and equipment (PPE): land &amp; buildings and investment properties</b>	<p><b>Description of the risk</b></p> <p>The Council's accounts contain material balances and disclosures relating to its holding of property, plant and equipment, investment properties and assets held for sale, with the majority required to be carried at valuation. The valuation of these assets is complex and is subject to a number of management assumptions and judgements. Due to the high degree of estimation uncertainty associated, we have determined there is a significant risk in this area.</p> <p><b>How we addressed this risk</b></p> <p>We addressed this risk by:</p> <ul style="list-style-type: none"><li>• Critically assessing the Council's valuer's 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 valuer's are in line with industry practice, the CIPFA Code of Practice and the Council's accounting policies;</li><li>• Assessing whether valuation movements are in line with market expectations by using information available from other sources;</li><li>• Critically assessing the treatment of the upward and downward revaluations in the Council's financial statements with regards to the requirements of the CIPFA Code of Practice; and</li><li>• Critically assessing the approach that the Council adopts to ensure that assets 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 valuer.</li></ul> <p><b>Audit conclusion</b></p> <p>Subject to the completion of our outstanding work we have not identified any material errors or uncertainties in the financial statements, or other matters that we wish to bring to Members' attention in relation to the valuation of land and buildings or investment properties.</p>
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<b>Valuation of Net Defined Benefit Pension Liability</b>	<p><b>Description of the risk</b></p> <p>The defined benefit liability relating to the Local Government pension scheme represents a significant balance on the Council's balance sheet.</p> <p>The Council uses an actuary to provide an annual valuation of these liabilities in line with the requirements of IAS 19 Employee Benefits. Due to the high degree of estimation uncertainty associated with this valuation, we have determined there is a significant risk in this area.</p> <p><b>How we addressed this risk</b></p> <p>We addressed this risk by:</p> <ul style="list-style-type: none"><li>• Critically assessing the competency, objectivity and independence of the East Riding Pension Fund's Actuary, Hymans Robertson;</li><li>• Liaising with the auditors of the East Riding Pension Fund to gain assurance that the controls in place at the Pension Fund are operating effectively. This included the processes and controls in place to ensure data provided to the Actuary by the Pension Fund for the purposes of the IAS 19 valuation was complete and accurate;</li><li>• Reviewed the appropriateness of the Pension Asset and Liability valuation methodologies applied by the Pension Fund Actuary, and the key assumptions included within the valuation. This included comparing them to expected ranges, utilising information provided by PWC, the consulting actuary engaged by the National Audit Office; and</li><li>• Agreeing the data in the IAS 19 valuation report provided by the Fund Actuary for accounting purposes to the pension accounting entries and disclosures in the Council's financial statements.</li></ul> <p><b>Audit conclusion</b></p> <p>Our work has not to date identified any material errors or uncertainties in the financial statements, or other matters that we wish to bring to Members' attention in relation to the valuation of the net Defined Benefit Liability. As mentioned at page 7 we are waiting for the final assurances from the Pension Fund auditor before we can complete this audit work.</p>
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# 4. Significant findings

## Enhanced Risk

<b>National non-domestic rates (NNDR) impairment</b>	<div><div><b>Description of the risk</b></div><p>In 2020/21 the Council has set aside £14m from its Collection Fund (of which £6.9m related to the Council) against the cost of the future settlement of current appeals outstanding against NNDR rateable values.</p><p>We expected similar entries in the financial statements in 2021/22, and the impact of appeals is highly uncertain and out of the control of the Council</p></div> <div><div><b>How we addressed this risk</b></div><p>We addressed this risk by:</p><ul style="list-style-type: none"><li>• Reviewing the Council's approach to calculating the impairment;</li><li>• Testing the basis and calculation of the impairment; and</li><li>• Reviewing the actual position on business rate appeals before sign-off to assess whether the impairment reflects the most up to date information on the success of the appeals..</li></ul></div> <div><div><b>Audit conclusion</b></div><p>Our work has not to date identified any material errors or uncertainties in the financial statements, or other matters that we wish to bring to Members' attention in relation to the NNDR appeal provision.</p></div>
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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 2021/22 Code of Practice on Local Council Accounting, appropriately tailored to the Council's circumstances.

Draft accounts were received from the Council in July and were completed to a very good standard.

## Going Concern

The Council's financial statements are prepared on the assumptions that it is a going concern and will continue its operations for the foreseeable future. International Auditing Standard ISA (UK) 570, requires auditors to 'obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern'.

Following the issue of Supplementary Guidance Note 1 (SGN1) by the National Audit Office, we have adopted a sector-specific approach to our work on going concern, which follows the principles of Practice Note 10 (PN10) and the guidance provided in SGN1. The SGN1 and PN10 make it clear that the auditor's focus for non-trading public sector bodies should be on the extent to which there are any indications that the services provided by an entity will cease or transfer outside of the public sector (termed the Continued Provision of Service approach ('CPoS')).

## Significant matters discussed with management

Significant matters discussed with management during the year included:

- The on-going impact of Covid-19 on the Council's business, including any potential impact on risks of material misstatement;
- Earlier this year, the Government became aware of an issue relating to the reporting of infrastructure assets, which has led to delays in local authority audits. In response, CIPFA LASAAC Code Board agreed to try to assist in the resolution of the issue through changes to the Code of Practice on Local Authority Accounting (the Code). An accounting solution has not been found and a proposal has been made for an accounting statutory override under the Local Government Act 2003. Consultation via the Department for Levelling Up, Housing and Communities website closes on 7 November 2022. This means that our audit report will remain open until the issue has been rectified and the Council forms its own conclusion on the appropriateness of its accounting treatment.

## 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 but there were no significant 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

We have not identified any matters from the audit work to date which require modifications to our audit report. Our draft audit report, in full, is set out in Appendix B.





# 4. Significant findings

## 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 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.

## Audit fees

As set out in our Audit Strategy Memorandum, we identified the need for a variation to the published scale fee to take account of several matters. Our current estimate is set out below :

- Additional testing as a result of changes arising from increased audit quality expectations involving the work on the valuation of land and buildings and on the local government pension scheme - £9,000
- Additional testing as a result of the implementation of new auditing standards - £5,000
- Additional work, not reflected in the published scale fee, as a result of the 2020 Code of Audit Practice and VFM reporting – £10,000.
- Additional work in relation to Infrastructure assets - TBC

We will agree the final fee, and any further variations, with management prior to reporting to the Audit and Governance Committee.

## 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 2020/21 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 issued its auditor instructions for the 2021/22 return.

We expect to issue the 2021/22 audit report but delay the issue of the 2021/22 Audit Certificate until:

- the 2020/21 WGA auditor procedures are completed and that year's Audit Certificate has been issued;
- the 2021/22 WGA auditor procedures have been completed; and
- the 2021/22 Auditor's Annual Report has been issued.

We will update the Audit and Governance Committee when more information is known.



# 05

## Section 05: **Internal control recommendations**

# 5. Internal control recommendations

The purpose of our audit is to express an opinion on the financial statements. As part of our audit we have considered the internal controls in place relevant to the preparation of the financial statements. We do this in order to design audit procedures to allow us to express an opinion on the financial statement and not for the purpose of expressing an opinion on the effectiveness of internal control, nor to identify any significant deficiencies in their design or operation.

The matters we report 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.

Based the audit work carried out this year, we have not identified any significant control deficiencies in 2021/22 that we are required to report to you and there were none reported in 2020/21 which we were required to follow up. We will update the Committee through out normal follow-up letter if any control deficiencies are identified through the remaining procedures identified at Section 2.



# 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 £197k, 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 arrangements

## Audit approach

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

## Status of our work

We have completed our risk assessment in respect of the Council's arrangements for the year ended 31 March 2022 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 2021/22 Audit Strategy Memorandum that the Ofsted rating was unchanged and although there was a programme of planned improvements underway the weaknesses identified represented risks for the 2021/22 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, including the on-going national issue in relation to Infrastructure assets, have been concluded.



# 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 2021/22 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
<div>1</div> <div><b>Children's Services</b></div> <div><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></div>	<div>Improving Economy, Efficiency and Effectiveness</div>	<div><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></div>	<div><b>Work carried out</b></div> <div><p>We have considered the regulator's reporting on this matter, including the DfE appointed Commissioner's May 2022 report on the Council's strategic options for delivering children's services. 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></div> <div><b>Progress against the recommendation</b></div> <div><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.</p></div> <div><b>Conclusions</b></div> <div><p>The significant weakness reported in 2020/21 still exists in 2021/22.</p></div>



# Appendices

A: Draft management representation letter

B: Draft audit report

C: Independence

D: Other communications

# Appendix A: Draft management representation letter

North East Lincolnshire Council  
Municipal Offices  
Town Hall Square  
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North East Lincolnshire  
DN31 1HU

Date: January 2023

## North East Lincolnshire Council - audit for year ended 31 March 2022

This representation letter is provided in connection with your audit of the financial statements of North East Lincolnshire Council for the year ended 31 March 2022 for the purpose of expressing an opinion as to whether the statement of accounts give a true and fair view in accordance with the CIPFA/LASAAC Code of Practice on Local Council Accounting in the United Kingdom 2021/22 (the Code).

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 myself that I can properly make each of the following representations to you.

### My responsibility for the statement of accounts and accounting information

I believe that I have fulfilled my responsibilities for the true and fair presentation and preparation of the statement of accounts in accordance with the Code.

### My responsibility to provide and disclose relevant information

I have provided you with:

- access to all information of which I am aware that is relevant to the preparation of the statement of accounts such as records, documentation and other material;
- additional information that you have requested from me for the purpose of the audit; and
- unrestricted access to individuals within the Council you determined it was necessary to contact in order to obtain audit evidence.

I confirm as Chief finance officer that I have taken all the necessary steps to make me aware of any relevant audit information and to establish that you, as auditors, are aware of this information. As far as I am aware there is no relevant audit information of which you, as auditors, are unaware.

# Appendix A: Draft management representation letter

## Accounting records

I confirm that all transactions 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 them appropriate for the year.

## Accounting estimates, including those measured at fair value

I confirm that any significant assumptions used in making accounting estimates, including those measured at 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 Code.

## 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.



# Appendix A: Draft management representation letter

## Fraud and error

I acknowledge my responsibility as Chief Finance Officer 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 statement of accounts 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 (including sales, purchases, loans, transfers, leasing arrangements and guarantees) have been appropriately accounted for and disclosed in accordance with the requirements of the Code. I have disclosed to you 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 below their carrying value at the balance sheet date. An impairment review is therefore not considered necessary.

## Charges on assets

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

## Future commitments

We have no 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 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.



# Appendix A: Draft management representation letter

## War in Ukraine

We confirm that we have carried out an assessment of the on-going impact of the war in the Ukraine on the Council, including the impact of mitigation measures and uncertainties, and that the disclosures in the Statement of Accounts fairly reflects that assessment.

## Going concern

I confirm that I have carried out an assessment of the potential impact of the COVID-19 Virus pandemic on the Council, including the impact of mitigation measures and uncertainties and I am satisfied that the going concern assumption remains appropriate and that no material uncertainty has been identified.

To the best of my knowledge there is nothing to indicate that the Council will cease to 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

I confirm that there are no unadjusted misstatements above the reporting threshold of £197,000

Yours sincerely

Executive Director for Environment, Economy 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

#### Opinion on the financial statements

We have audited the financial statements of North East Lincolnshire Council (“the Council”) for the year ended 31 March 2021, which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Council Accounting in the United Kingdom 2020/21.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Council as at 31<sup>st</sup> March 2021 and of its expenditure and income for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Council Accounting in the United Kingdom 2020/21.

#### 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 for Environment, Economy 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, 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 Chief Finance Officer with respect to going concern are described in the relevant sections of this report.

#### Other information

The Chief Finance Officer is responsible for the other information. The other information comprises the other information included in the Statement of Accounts, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.



# Appendix B: Draft audit report (continued)

We have nothing to report in this regard.

## Responsibilities of the Executive Director for Environment, Economy and Resources for the financial statements

As explained more fully in the Statement of the Executive Director for Environment, Economy and Resources Responsibilities, the Executive Director for Environment, Economy 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 Council Accounting in the United Kingdom 2020/21, and for being satisfied that they give a true and fair view. The Executive Director for Environment, Economy and Resources is also responsible for such internal control as the Executive Director for Environment, Economy and Resources Executive Director for Environment, Economy 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 for Environment, Economy and Resources is required to comply with the CIPFA/LASAAC Code of Practice on Local Council Accounting in the United Kingdom 2020/21 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 for Environment, Economy 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.

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) and the Local Audit and Accountability Act 2014 (and associated regulations made under section 32), and we considered the extent to which non-compliance might have a material effect on the financial statements.

We evaluated Executive Director for Environment, Economy 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 were designed to respond to those identified risks, including non-compliance with laws and regulations (irregularities) and fraud that are material to the financial statements. Our audit procedures included but were not limited to :

- discussing with management and the Audit and Governance Committee the 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.

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;



# Appendix B: Draft audit report (continued)

- 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 Governance, Audit and Scrutiny 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 for Environment, Economy 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 April 2021.

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 (continued)

## 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 2021.

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 December 2021, we have identified the following significant weaknesses in the Council’s arrangements for the year ended 31 March 2022.

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 2022:

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>

We will report the outcome of our work on the Council’s arrangements in our commentary on those arrangements within the Auditor’s Annual Report. Our audit completion certificate will set out any matters which we are required to report by exception.

# Appendix B: Draft audit report (continued)

## 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 April 2021.

## 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.



# Appendix B: Draft audit report (continued)

## Delay in certification of completion of 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; and
- 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  
Mazars LLP  
Birmingham

[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
Assurance services: Housing Benefits Subsidy Assurance and Teachers Pensions	Self Review	No threat identified. None of the engagements result in the auditor providing accounting services to the Council.
	Self interest	The fees for each of the engagements is neither significant to Mazars LLP nor the Council. Safeguards include clear rules set by PSAA which limit additional services an external auditor can provide.
	Management	No threat identified as none of the engagements require the auditor to make decisions on behalf of the Council.
	Advocacy	No threat identified as none of the engagements require the auditor advocating a position on behalf of the Council.
	Familiarity	No threat identified. Safeguards include firm policies and procedures detailed on previous page.
	Intimidation	No threat identified.

# Appendix D: Other communications

Other communication	Response
Compliance with Laws and Regulations	<p>We have not identified any significant matters involving actual or suspected non-compliance with law s and regulations.</p> <p>We will obtain written representations from management that all known instances of non-compliance or suspected non-compliance with law s and regulations whose effects should be considered when preparing financial statements have been disclosed.</p>
External confirmations	<p>We did not experience any issues with respect to obtaining external confirmations.</p>
Related parties	<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>
Going Concern	<p>We have not identified any evidence to cause us to disagree with the Executive Director for Environment, Economy and Resources that the 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>.</p>

# Appendix D: Other communications

Other communication	Response
Subsequent events	<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>
Matters related to fraud	<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>they acknowledge their responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud;</li> <li>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>they have disclosed to the auditor their knowledge of fraud or suspected fraud affecting the entity involving: <ol style="list-style-type: none"> <li>management;</li> <li>employees who have significant roles in internal control; or</li> <li>others where the fraud could have a material effect on the financial statements; and</li> </ol> </li> <li>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>

# Contact

## Mazars

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