Audit Strategy Memorandum

North East Lincolnshire Council – Year ending 31 March 2025

29 April 2025

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

Forvis Mazars
Bank Chambers
26 Mosley Street
Newcastle upon Tyne
NE1 1DF

29 April 2025

Dear Audit and Governance Committee Members

Audit Strategy Memorandum – Year ending 31 March 2025

We are pleased to present our Audit Strategy Memorandum for North East Lincolnshire Council for the year ending 31 March 2025.

This report summarises our audit approach, including the significant audit risks and areas of key judgement we have identified, and provides details of our audit team. In addition, as it is a fundamental requirement that an auditor is, and is seen to be, independent of an audited entity, the section of the report titled *'Confirmation of our independence'* summarises our considerations and conclusions on our independence as auditors.

Two-way communication with you is key to a successful audit and is important in:

- Reaching a mutual understanding of the scope of the audit and our respective responsibilities;
- Sharing information to assist each of us to fulfil our respective responsibilities;
- Providing you with constructive observations arising during the audit process; and
- Ensuring that we, as external auditors, gain an understanding of your attitude and views in respect of the internal and external operational, financial, compliance, and other risks facing North East Lincolnshire Council which may affect the audit, including the likelihood of those risks materialising and how they are monitored and managed.

With that in mind, this report, which has been prepared following our initial planning discussions with management, facilitates a discussion with you on our audit approach. We welcome any questions, concerns, or input you may have on our approach or role as auditor.

This report also contains appendices that outline our key communications with you during the audit, and forthcoming accounting issues and other issues that may be of interest to you.

Providing a high-quality service is extremely important to us and we strive to provide technical excellence with the highest level of service quality, together with continuous improvement to exceed your expectations. If you have any concerns or comments about this report or our audit approach, please contact me on 07896 684771.

This report was prepared solely for the use and benefit of the Audit and Governance Committee Members and to the fullest extent permitted by law Forvis Mazars LLP accepts no responsibility and disclaims all liability to any third party who purports to use or rely for any reason whatsoever on the report, its contents, conclusions, any extract, reinterpretation, amendment and/or modification. Accordingly, any reliance placed on the report, its contents, conclusions, any extract, reinterpretation, amendment and/or modification by any third party is entirely at their own risk.

Yours faithfully

Gavin Barker

Forvis Mazars

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Engagement and responsibilities summary

Engagement and responsibilities summary

We are appointed to perform the external audit of North East Lincolnshire Council for the year to 31 March 2025. The scope of our engagement is set out in the Statement of Responsibilities of Auditors and Audited Bodies, issued by Public Sector Audit Appointments Ltd (PSAA) available from the PSAA website: [Statement of responsibilities of auditors and audited bodies from 2023/24](). Our responsibilities are principally derived from the Local Audit and Accountability Act 2014 (the 2014 Act) and the Code of Audit Practice issued by the National Audit Office (NAO), as outlined below.

Audit opinion

We are responsible for forming and expressing an opinion on whether the financial statements are prepared, in all material respects, in accordance with the Code of Practice on Local Authority Accounting.

Our audit does not relieve management or the Audit and Governance Committee, as those charged with governance, of their responsibilities.

The Executive Director of Place and Resources is responsible for the assessment of North East Lincolnshire Council's ability to continue as a going concern. As auditors, we are required to obtain sufficient, appropriate audit evidence regarding, and conclude on:

a) whether a material uncertainty related to going concern exists, and
b) the appropriateness of the Executive Director of Place and Resources's use of the going concern basis of accounting in the preparation of the financial statements.

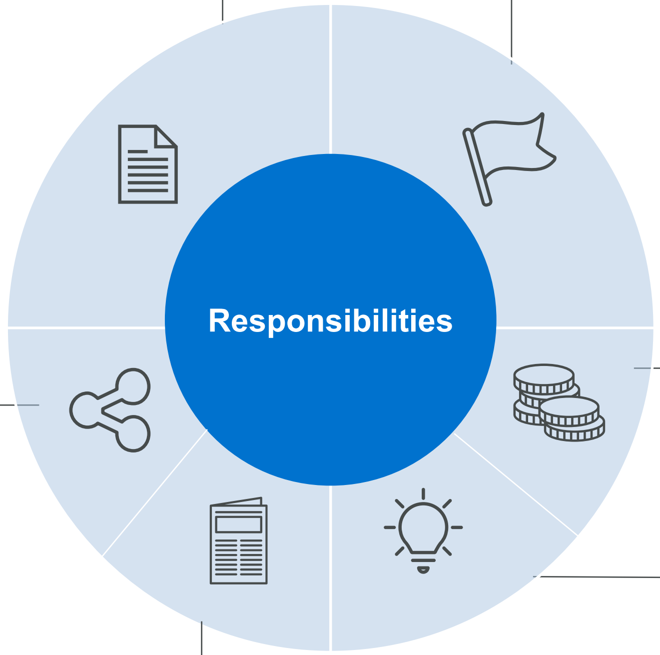
Internal control

Management is responsible for such internal control as they determine necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

We are responsible for obtaining an understanding of internal control relevant to our audit and the preparation of the financial statements to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of North East Lincolnshire Council's internal control.

Whole of Government Accounts

We report to the NAO on the consistency of North East Lincolnshire Council's financial statements with its Whole of Government Accounts (WGA) submission.



Fraud

The responsibility for safeguarding assets and for the prevention and detection of fraud, error, and non-compliance with law or regulations rests with both you and management. This includes establishing and maintaining internal controls over asset protection, compliance with relevant laws and regulations, and the reliability of financial reporting.

As part of our audit procedures in relation to fraud, we are required to inquire of you and key management personnel including internal audit and other key individuals, where relevant, on their knowledge of instances of fraud, and their views on the risks of fraud and on internal controls that mitigate those risks. In accordance with International Standards on Auditing (UK), we plan and perform our audit to obtain reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether due to fraud or error. However, our audit should not be relied upon to identify all such misstatements.

Value for money

We are also responsible for forming a view on the arrangements that the Council has in place to secure economy, efficiency and effectiveness in its use of resources. We discuss our approach to Value for Money work further in the '*Value for Money*' section of this report.

Wider reporting and electors' rights

The 2014 Act requires us to give an elector, or any representative of the elector, the opportunity to question us about the accounts of North East Lincolnshire Council and consider objections made to the accounts. We also have a broad range of reporting responsibilities and powers that are unique to the audit of local authorities in the United Kingdom.

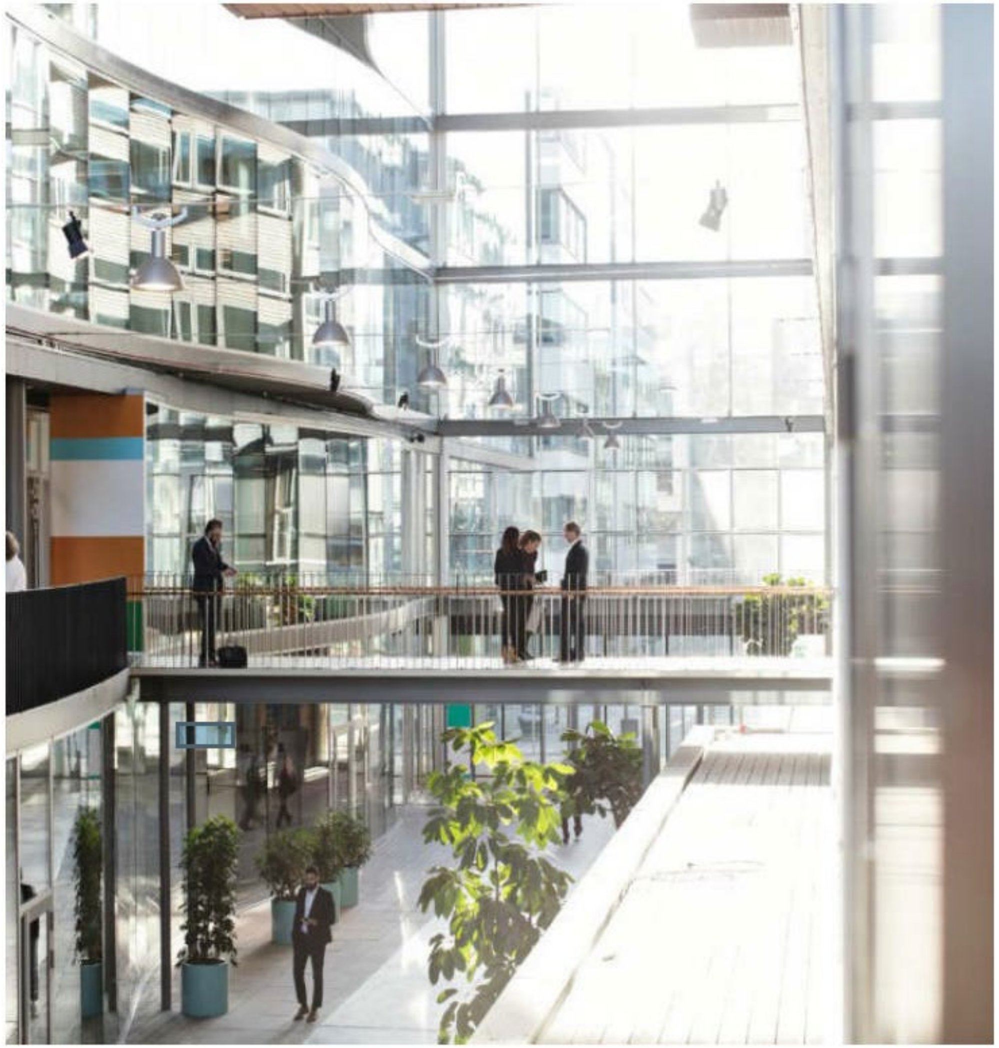
02

Your audit team

Your audit team

Your external audit service will be led by Gavin Barker

Who	Role	Contact
Gavin Barker	Engagement Lead	Gavin.Barker@mazars.co.uk 07896 684 771
Leah Parsons	Engagement Senior Manager	Leah.parsons@mazars.co.uk 07387 242 114
Joel Jossy	Engagement Assistant Manager	Joel.jossy@mazars.co.uk 07815 455 076



03

Audit scope, approach, and timeline

Audit scope, approach, and timeline

Risk-based Approach

Understand the entity its business, and the environment in which it operates (including IT environment)

Plan our audit, including determining materiality and identifying key components

Perform our risk assessment to identify risks of material misstatement, including significant risks and other key areas of management judgement and enhanced risk

Respond to our identified risks by designing appropriate and sufficient audit procedures

Perform planned procedures and evaluate findings and, where necessary, review the appropriateness and sufficiency of the scope of our audit

Form our audit conclusion based on our findings and determine key audit matters

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Audit scope, approach, and timeline

Audit scope

Our audit approach is designed to provide an audit that complies with all professional requirements.

Our audit of the financial statements will be conducted in accordance with International Standards on Auditing (UK), relevant ethical and professional standards, our own audit methodology, and in accordance with Code of Audit Practice. Our work is focused on those aspects of your business which we consider to have a higher risk of material misstatement, such as those impacted by management judgement and estimation, application of new accounting standards, changes of accounting policy, changes to operations, or areas found to contain material errors in the past.

Audit approach

Our audit approach is risk-based, and the nature, extent, and timing of our audit procedures are primarily driven by the areas of the financial statements we consider to be more susceptible to material misstatement. Following our risk assessment where we assess inherent risk factors (subjectivity, complexity, uncertainty, change and susceptibility to misstatement due to management bias or fraud), we develop our audit strategy and design audit procedures to respond to the risks we have identified.

If we conclude that appropriately-designed controls are in place, we may plan to test and rely on those controls. If we decide controls are not appropriately designed, or we decide that it would be more efficient to do so, we may take a wholly substantive approach to our audit testing where, in our professional judgement, substantive procedures alone will provide sufficient appropriate audit evidence. Substantive procedures are audit procedures designed to detect material misstatements at the assertion level and comprise tests of detail (of classes of transaction, account balances, and disclosures), and substantive analytical procedures. Irrespective of our assessed risks of material misstatement, which takes account of our evaluation of the operating effectiveness of controls, we are required to design and perform substantive procedures for each material class of transaction, account balance, and disclosure.

Our audit has been planned and will be performed to provide reasonable assurance that the financial statements are free from material misstatement and give a true and fair view. The concept of materiality and how we define a misstatement is explained in the *'Materiality and misstatements'* section of this report.

The diagram on the next page outlines the procedures we perform at the different stages of our audit.

Management's and our experts

Management makes use of experts in specific areas when preparing the Council's financial statements. We also use experts to assist us to obtain sufficient appropriate audit evidence on specific items of account.

Item of account	Management's expert	Our expert
Defined Benefit Liability	Hymans Robertson Actuary for East Riding Pension Fund	PWC Consulting actuary appointed by the NAO
Property, Plant and Equipment, Investment Properties and Asset held for sale valuations	Internal Valuation Team	Not planned
Financial Instruments Disclosure	Link asset services Treasury management advisors	Not applicable

Service organisations

International Auditing Standards (UK) (ISAs) define service organisations as third party organisations that provide services to the Council that are part of its information systems relevant to financial reporting. We are required to obtain an understanding of the services provided by service organisations as well as evaluating the design and implementation of controls over those services.

We have not identified any service organisations which are relevant to the Council.

Audit scope, approach, and timeline

Audit timeline

Planning and risk assessment
March - April 2025

- Planning our visit and developing our understanding of the Council
- Initial opinion and value for money risk assessments
- Risk identification and assessment
- Considering proposed accounting treatments and accounting policies
- Developing the audit strategy and planning the audit work to be performed
- Agreeing timetable and deadlines
- Risk assessment analytical procedures
- Determination of materiality

Interim March - April 2025

- Documenting systems and controls
- Performing walkthroughs
- Interim controls testing including tests of IT general controls
- Early substantive testing of transactions
- Reassessment of audit plan and revision if necessary

Fieldwork
July – September 2025

- Receiving and reviewing draft financial statements
- Delivering our audit strategy starting with significant risks and high risk areas including detailed testing of transactions, account balances and disclosures
- Updating our work to examine and assess arrangements in relation to any significant risks relating to the value for money conclusion
- Communicating progress and issues
- Clearance meeting

Completion October - November 2025

- Final review and disclosure checklist of financial statements
- Final partner review
- Agreeing content of letter of representation
- Reporting to the Those Charged With Governance
- Reviewing subsequent events
- Signing the independent auditor's report
- Issuing the Auditor's Annual Report
- Finalisation of our VFM (Value for Money) Commentary

04

Materiality and misstatements

Materiality and misstatements

Definitions

Materiality is an expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole.

Misstatements in the financial statements are considered to be material if they could, individually or in aggregate, reasonably be expected to influence the economic decisions of users based on the financial statements.

Materiality

We determine materiality for the financial statements as a whole (overall materiality) using a benchmark that, in our professional judgement, is most appropriate to entity. We also determine an amount less than materiality (performance materiality), which is applied when we carry out our audit procedures and is designed to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Further, we set a threshold above which all misstatements we identify during our audit (adjusted and unadjusted) will be reported to the Audit and Governance Committee..

Judgements on materiality are made in light of surrounding circumstances and are affected by the size and nature of a misstatement, or a combination of both. Judgements about materiality are based on a consideration of the common financial information needs of users as a group and not on specific individual users.

An assessment of what is material is a matter of professional judgement and is affected by our perception of the financial information needs of the users of the financial statements. In making our assessment we assume that users:

- Have a reasonable knowledge of business, economic activities, and accounts;
- Have a willingness to study the information in the financial statements with reasonable diligence;
- Understand that financial statements are prepared, presented, and audited to levels of materiality;
- Recognise the uncertainties inherent in the measurement of amounts based on the use of estimates, judgement, and consideration of future events; and
- Will make reasonable economic decisions based on the information in the financial statements.

We consider overall materiality and performance materiality while planning and performing our audit based on quantitative and qualitative factors.

When planning our audit, we make judgements about the size of misstatements we consider to be material. This provide a basis for our risk assessment procedures, including identifying and assessing the risks of material misstatement, and determining the nature, timing and extent of our responses to those risks.

The overall materiality and performance materiality that we determine does not necessarily mean that uncorrected misstatements that are below materiality, individually or in aggregate, will be considered immaterial.

We revise materiality as our audit progresses should we become aware of information that would have caused us to determine a different amount had we been aware of that information at the planning stage.

Materiality and misstatements

Materiality (continued)

We consider that Gross Revenue Expenditure at Surplus/deficit on Provision of Services level is the key focus of users of the financial statements and, as such, we base our materiality levels around this benchmark.

We expect to set a materiality threshold of 2% of Gross Revenue Expenditure at Surplus/deficit on Provision of Services.

Due to the timing of this Audit Strategy Memorandum the materiality figures as set out in the table is based on currently available information. As set out in the table below, based on currently available information (the audited financial statements for year ending 31 March 2024) we anticipate overall materiality for the year ended 31 March 2025 to be in the region of £7,375k, and performance materiality to be in the region of £5,900k.

We will continue to monitor materiality throughout our audit to ensure it is set at an appropriate level and this figure will be updated once we have the Draft version of Accounts for 24-25.

	2024-25 Planning £'000s
Overall materiality	£7,375
Performance materiality	£5,900
Clearly trivial	£221
Officer's Remuneration materiality	£5

Misstatements

We will accumulate misstatements identified during our audit that are above our determined clearly trivial threshold.

We have set a clearly trivial threshold for individual misstatements we identify (a reporting threshold) for reporting to you and management that is consistent with a threshold where misstatements below that amount would not need to be accumulated because we expect that the accumulation of such amounts would not have a material effect on the financial statements.

Based on our preliminary assessment of overall materiality, our proposed clearly trivial threshold is £221k, based on 3% of overall materiality. If you have any queries about this, please raise these with me.

Each misstatement above the reporting threshold that we identify will be classified as:

- **Adjusted:** Those misstatements that we identify and are corrected by management.
- **Unadjusted:** Those misstatements that we identify that are not corrected by management.

We will report all misstatements above the reporting threshold to management and request that they are corrected. If they are not corrected, we will report each misstatement to you as unadjusted misstatements and, if they remain uncorrected, we will communicate the effect that they may have individually, or in aggregate, on our audit opinion.

Misstatements also cover qualitative misstatements and include quantitative and qualitative misstatements and omissions relating to the notes of the financial statements.

Reporting

In summary, we will categorise and report misstatements above the reporting threshold to you as follows:

- Adjusted misstatements;
- Unadjusted misstatements; and
- Disclosure misstatements (adjusted and unadjusted).

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Significant risks and other key judgement areas

Significant risks and other key judgement areas

Following the risk assessment approach set out in the *'Audit scope, approach, and timeline'* section, we have identified the risks of material misstatement in the financial statements. These risks are categorised as significant, enhanced, or standard. The definitions of these risk ratings are set out below.

Significant risk

A risk that is assessed as being at or close to the upper end of the spectrum of inherent risk, based on a combination of the likelihood of a misstatement occurring and the magnitude of any potential misstatement. As required by auditing standards, a fraud risk is always assessed as a significant risk.

Enhanced risk

An area with an elevated risk of material misstatement at the assertion level, other than a significant risk, based on factors/ information inherent to that area. Enhanced risks require additional consideration but do not rise to the level of a significant risk. These include but are not limited to:

- Key areas of management judgement and estimation uncertainty, including accounting estimates related to material classes of transaction, account balances, and disclosures but which are not considered to give rise to a significant risk of material misstatement; and
- Risks relating to other assertions and arising from significant events or transactions that occurred during the period.

Standard risk

A risk related to assertions over classes of transaction, account balances, and disclosures that are relatively routine, non-complex, tend to be subject to systematic processing, and require little or no management judgement/ estimation. Although it is considered that there is a risk of material misstatement, there are no elevated or special factors related to the nature of the financial statement area, the likely magnitude of potential misstatements, or the likelihood of a risk occurring.

Significant risks and other key judgement areas

Specific identified audit risks and planned testing strategy

We have presented below in more detail the reasons for the risk assessment highlighted above, and also our testing approach with respect to significant risks. An audit is a dynamic process, should we change our view of risk or approach to address the identified risks during the course of our audit, we will report this to Those Charged With Governance.

Significant risks

	Description	Fraud	Error	Judgement	Planned response
1	**Management override of controls** 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 plan to address the management override of controls risk through performing audit work over accounting estimates, journal entries and significant transactions outside the normal course of business or otherwise unusual.

Significant risks and other key judgement areas

Significant risks

	Description	Fraud	Error	Judgement	Planned response
2	**Valuation of net defined liability (2023/24 £44.187m)** The Council is an employer in the Local Government Pension Scheme, administered on a local level by the East Riding Pension Fund. The defined benefit assets and liabilities are significant items in the Council's balance sheet and the Council engages an actuary to perform an annual valuation in accordance with the requirements of IAS 19 Employee Benefits. Due to the high degree of estimation uncertainty associated with this valuation, we have identified a significant risk in this area.	-	●	●	We plan to address this risk by: • Critically assessing the competency, objectivity and independence of the East Riding Pension Fund's Actuary; • Liaising with the auditors of the East Riding Pension Fund to gain assurance over the design and implementation of the controls in place at the Pension Fund. This will include the processes and controls in place to ensure data provided to the Actuary by the Pension Fund for the purposes of the IAS19 valuation is complete and accurate; • Reviewing the appropriateness of the pension asset and liability valuation methodologies applied by the Pension Fund Actuary, and the key assumptions included within the valuation. This will include comparing them to expected ranges, utilising information by PwC the consulting actuary engaged by the National Audit Office; and • Agreeing the data in the IAS 19 valuation report provided by the Fund Actuary for accounting purposes to the pension accounting entries disclosures in the Council's financial statements. In the event of a pension surplus arising in 24/25, its accounting treatment will require specific consideration under IFRIC 14.
3	**Valuation of land and buildings, surplus assets and investment properties (2023/24 other land and buildings £90.701m; surplus assets £2.789m and investment properties £70.130m)** If Land and buildings within Property, Plant and Equipment (PPE) surplus assets and investment properties are significant items on the Council's balance sheet. The valuation of land and buildings, surplus assets and investment properties is complex and involves a number of management assumptions and judgements. Due to the high degree of estimation uncertainty involved, we have identified a significant risk in this area.	-	●	●	We plan to address this risk by: • Critically assessing the Council's valuer'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 that assets not subject to revaluation in 2024/25 are materially correct, including considering the robustness of that approach in light of the valuation information reported by the Council's valuers

Significant risks and other key judgement areas

Enhanced risks

Key areas of management judgement include accounting estimates which are material but are not considered to give rise to a significant risk of material misstatement. These areas of management judgement represent other areas of audit emphasis.

	Description	Fraud	Error	Judgement	Planned response
4	**Revenue Expenditure Funded from Capital Under Statute (REFCUS)** NELC, as with all English councils, are facing spending pressures in social services. The situation is heightened at NELC because of a recent poor inspection and subsequent intervention into children's services. The Council recognises the need to make transformative change in order to address the underlying issues in the service and as a result are considering how and whether to flexibly use capital receipts. This has led to an enhanced risk to ensure that regulations are followed and REFCUS is accounted for appropriately.	-	●	●	We will review the Council's arrangements to comply with relevant guidance on the use of flexible capital receipts, including governance and reporting. We will also test expenditure applied under the flexible capital receipts policy to ensure they meet relevant definitions and are recoded accurately.

Significant risks and other key judgement areas

Other considerations

In consideration of ISA (UK) 260 *Communication with Those Charged with Governance,* we would like to seek your views/ knowledge of the following matters:

- Did you identify any other risks (business, laws & regulation, fraud, going concern etc.) that may result in material misstatements?
- Are you aware of any significant communications between North East Lincolnshire Council and regulators?
- Are there any matters that you consider warrant particular attention during the course of our audit, and any areas where you would like additional procedures to be undertaken?

We plan to do this by formal letter to Those Charged With Governance which we will obtain prior to completing our audit.

Significant difficulties encountered during the course of audit

In accordance with ISA (UK) 260 Communication with Those Charged with Governance, we are required to communicate certain matters to you which include, but are not limited to, significant difficulties, if any, that are encountered during our audit. Such difficulties may include matters such as:

- Significant delays in management providing information that we require to perform our audit.
- An unnecessarily brief time within which to complete our audit.
- Extensive and unexpected effort to obtain sufficient appropriate audit evidence.
- Unavailability of expected information.
- Restrictions imposed on us by management.
- Unwillingness by management to make or extend their assessment of an entity's ability to continue as a going concern when requested.

We will highlight to you on a timely basis should we encounter any such difficulties (if our audit process is unduly impeded, this could require us to issue a modified auditor's report).

Internal audit function

We assess the extent to which the internal audit function's organisational status and relevant policies and procedures support the objectivity of the internal auditors, the level of competence of the internal audit function, and whether the internal audit function applies a systematic and disciplined approach, including quality control.

At the planning stage we do not expect to specifically rely on the work of the internal audit function for the purpose of our audit.

Nonetheless, we will obtain a copy of the reports issued by internal audit relating to the financial period under audit determine whether any findings will have an impact on our risk assessment and planned audit procedures.

06

Value for Money

Value for money

The framework for value for money work

We are required to form a view as to whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The NAO issues guidance to auditors that underpins the work we are required to carry out in order to form our view and sets out the overall criterion and sub-criteria that we are required to consider.

This will be the first audit year where we are undertaking our value for money (VFM) work under the full 2024 Code of Audit Practice (the Code). Our responsibility remains to be satisfied that the Council has proper arrangements in place, and to report in the auditor's report where we are not satisfied that arrangements are in place. Where we have issued a recommendation in relation to a significant weaknesses this indicates we are not satisfied that arrangements are in place. Separately we provide a commentary on the Councill's arrangements in the Auditor's Annual Report.

A key change in the 2024 Code of Audit Practice is the requirement for us to issue our Auditor's Annual Report for the year ending 31 March 2025 to you in draft by the 30 November 2025. This is required whether our audit is complete or not. Should our work not be complete, we will report the status of our work and any findings to up to that point (and since the issue of our previous Auditor's Annual Report). Further information will be provided in Appendix A.

Specified reporting criteria

The Code requires us to structure our commentary to report under three specified criteria:

1. **Financial sustainability** – how the Council plans and manages its resources to ensure it can continue to deliver its services;
2. **Governance** – how the Council ensures that it makes informed decisions and properly manages its risks; and
3. **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 approach

Our work falls into three primary phases as outlined opposite. We gather sufficient evidence to support our commentary on the Council's arrangements and to identify and report on any significant weaknesses in arrangements. Where significant weaknesses are identified, we are required to report these to the Council and make recommendations for improvement. Such recommendations can be made at any point during the audit cycle, and we are not expected to wait until issuing our overall commentary to do so.

Planning	Obtaining an understanding of the Council's arrangements for each specified reporting criteria. Relevant information sources will 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: and • Interviews and discussions with staff and members
Additional risk based procedures and evaluation	Where our planning work identifies risks of significant weaknesses, we will undertake additional procedures to determine whether there is a significant weakness.
Reporting	We will provide a summary of the work we have undertaken and our judgements against each of the specified reporting criteria as part of our commentary on arrangements which forms part of the Auditor's Annual Report. Our commentary will also highlight: • Significant weaknesses identified and our recommendations for improvement; and • Emerging issues or other matters that do not represent significant weaknesses but still require attention from the Council.

Value for money arrangements

Identified risks of significant weaknesses in arrangements

The NAO's guidance requires us to carry out work at the planning stage to understand the Council's arrangements and to identify risks that significant weaknesses in arrangements may exist.

Although we have not fully completed our planning and risk assessment work, the table below outlines the risks of significant weaknesses in arrangements that we have identified to date. We will report any further identified risks to the Audit and Governance Committee on completion of our planning and risk identification work.

Our work to follow-up on previous recommendations

As part of our 2023/24 audit, we identified significant weaknesses in the Council's arrangements. The table below sets out the significant weaknesses identified, our previous recommendations and the work we intend to carry out as part of our 2024/25 audit.

Previously identified significant weakness in arrangements	Relevant reporting criteria	Our 2023/24 recommendations	Planned procedures for 2024/25
Children's Services 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. 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.	Governance Improving the 3 Es	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. 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. 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.	We will continue to critically evaluate the steps taken to respond to Ofsted and take into account further assessments of progress by the regulator. In 2023/24 we met with officers, reviewed committee reports and minutes, and reviewed monitoring reports from Ofsted. We considered the Head of Internal Audit Opinion, presented in July 2024 that "we are not yet able to provide satisfactory assurance on the control environment within Children's Services". As reported by Ofsted Inspectors in October 2024, the Council has made progress across a range of areas however as at 31 March 2024, the services retained a formal rating of "inadequate". We have concluded that the significant weaknesses in arrangements as previous reported remains in place for 2023/24, with no escalation of our recommendation required. We will follow up progress during our 2024/25 audit.

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Audit fees and other services

Audit fees and other services

Fees for work as the Council's appointed auditor

Public Sector Audit Appointments (PSAA) set the fee scale each year based on the income it needs from audit fees to meet the costs of the audit contracts for opted in bodies and its own costs. PSAA has published the scale fee for 2024/25 on its website, where it also explains the basis of its calculations in coming to this value. PSAA propose using the fee variations process for certain areas where it felt there was insufficient information at the time to include in the 2024/25 scale fee.

Periodically, PSAA returns any surplus to opted-in bodies by means of a distribution, once it is clear the surplus is no longer needed.

Our fees (exclusive of VAT) for the audit of North East Lincolnshire Council for the year ended 31 March 2025, are outlined below. Fee variations for 2024/25 are yet to be confirmed.

Area of work	2024/25 Proposed Fee	2023/24 Actual Fee
PSAA scale fee	**£329,497**	**£302,972**
Additional fees in respect of additional work from the introduction of new auditing standards (ISA 315)	-	£15,000
Additional work in respect of IFRS16	TBC	-
Additional testing - extrapolation of errors per the ACR	-	£2,372
Additional fees in respect of VFM commentary - Significant Risks	-	£2,568
Sub total: variations	**TBC**	**£19,940**
Total fees	**TBC**	**£322,912**

Audit fees and other services

Fees for non-PSAA work

In addition to the fees outlined above in relation to our appointment by PSAA, we have been separately engaged by the Council to carry out additional work as set out in the table below. Before agreeing to undertake any additional work we consider whether there are any actual, potential or perceived threats to our independence. Further information about our responsibilities in relation to independence is provided in section '*Confirmation of our independence*'.

Area of work	2024/25 Proposed Fee	2023/24 Actual Fee
Teachers pension return	TBC	£4,500

08

Confirmation of our independence

Confirmation of our independence

Requirements

We comply with the International Code of Ethics for Professional Accountants, including International Independence Standards issued by the International Ethics Standards Board for Accountants together with the ethical requirements that are relevant to our audit of the financial statements in the UK reflected in the ICAEW Code of Ethics and the FRC Revised Ethical Standard.

Compliance

We are not aware of any relationship between Forvis Mazars and North East Lincolnshire Council that, in our professional judgement, may reasonably be thought to impair our independence.

We are independent of North East Lincolnshire Council and have fulfilled our independence and ethical responsibilities in accordance with the requirements applicable to our audit.

Non-audit and Audit fees

We have set out a summary of the non-audit services provided by Forvis Mazars (with related fees) to North East Lincolnshire Council, together with our audit fees and independence assessment.

We are committed to independence and confirm that we comply with the FRC's Revised Ethical Standard. In addition, we have set out in this section any matters or relationships we believe may have a bearing on our independence or the objectivity of our audit team.

Based on the information provided by you and our own internal procedures to safeguard our independence as auditors, we confirm that in our professional judgement there are no relationships between us and any of our related or subsidiary entities, and you and your related entities, that create any unacceptable threats to our independence within the regulatory or professional requirements governing us as your auditors.

We have policies and procedures in place that are designed to ensure that we carry out our work with integrity, objectivity, and independence. These policies include:

- All partners and staff are required to complete an annual independence declaration.
- All new partners and staff are required to complete an independence confirmation and complete annual ethical training.
- Rotation policies covering audit engagement partners and other key members of the audit team.
- Use by managers and partners of our client and engagement acceptance system, which requires all non-audit services to be approved in advance by the audit engagement partner.

We confirm, as at the date of this report, that the engagement team and others in the firm as appropriate, Forvis Mazars LLP are independent and comply with relevant ethical requirements. However, if at any time you have concerns or questions about our integrity, objectivity or independence, please discuss these with me in the first instance. Prior to the provision of any non-audit services, I will undertake appropriate procedures to consider and fully assess the impact that providing the service may have on our independence as auditor.

Principal threats to our independence and and the associated safeguards we have identified and/ or put in place are set out in Terms of Appointment issued by PSAA available from the PSAA website: **Terms of Appointment from 1 July 2021 - PSAA**. Any emerging independence threats and associated identified safeguards will be communicated in our Audit Completion Report.

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Appendices

A: Key communication points

B: Current year updates, forthcoming accounting and other issues

C: Consultations on measures to tackle the local government financial reporting and audit backlog

Appendix A: Key communication points

We value communication with Those Charged With Governance, as a two-way feedback process is at the heart of our client service commitment. The Code of Audit Practice as well as ISA (UK) 260 Communication with Those Charged with Governance and ISA (UK) 265 *Communicating Deficiencies In Internal Control To Those Charged With Governance And Management* specifically require us to communicate a number of matters with you. We meet these requirements, principally, through presenting the following documents to you:

- Our Audit Strategy Memorandum;
- Our Audit Completion Report; and
- Our Auditor's Annual Report.

These documents will be discussed with management prior to being presented to you and their comments will be incorporated as appropriate.

Relevant points that need to be communicated with you at each stage of the audit are outlined below.

Key communication points at the planning stage as included in this Audit Strategy Memorandum

- Our responsibilities in relation to the audit of the financial statements;
- The planned scope and timing of the audit;
- Significant audit risks and areas of management judgement;
- Our commitment to independence;
- Responsibilities for preventing and detecting errors;
- Materiality and misstatements; and
- Fees for audit and other services.

Key communication points at the completion stage to be included in our Audit Completion Report

- Significant deficiencies in internal control;
- Significant findings from the audit;
- Significant matters discussed with management;
- Significant difficulties, if any, encountered during the audit;
- Qualitative aspects of the entity's accounting practices, including accounting policies, accounting estimates and financial statement disclosures;
- Our conclusions on the significant audit risks and areas of management judgement;
- Summary of misstatements;
- Management representation letter;
- Our proposed draft audit report; and
- Independence.

Changes introduced by the 2024 Code of Audit Practice

The 2024 Code now requires the auditor to issue the draft Auditor's Annual Report by 30 November following each year end. For the 2024/25 audit, this means that we must issue our draft Auditor's Annual Report by 30 November 2025, whether our audit is complete or not.

In instances where our audit work is not complete by 30 November for any given year, the 2024 Code requires us to provide a summary of the status of the audit at the time of issuance and should reflect the work completed to date since we issued our previous Auditor's Annual Report. In such instances, we will issue an Interim Auditor's Annual Report to meet the 30 November deadline. On completion of any outstanding financial statement audit work or Value for Money arrangements work, we will re-issue the Auditor's Annual Report which will include an updated commentary on Value for Money arrangements.

Appendix A: Key communication points

ISA (UK) 260 *Communication with Those Charged with Governance*, ISA (UK) 265 *Communicating Deficiencies In Internal Control To Those Charged With Governance And Management* and other ISAs (UK) specifically require us to communicate the following:

Required communication	Where addressed
Our responsibilities in relation to the financial statement audit and those of management and Those Charged with Governance.	Audit Strategy Memorandum
The planned scope and timing of the audit including any limitations, specifically including with respect to significant risks.	Audit Strategy Memorandum
With respect to misstatements: • Uncorrected misstatements and their effect on our audit opinion; • The effect of uncorrected misstatements related to prior periods; • A request that any uncorrected misstatement is corrected; and • In writing, corrected misstatements that are significant.	Audit Completion Report
With respect to fraud communications: • Inquiries with Those Charged With Governance to determine whether you have knowledge of any actual, suspected, or alleged fraud affecting the entity; • Any fraud that we have identified or information we have obtained that indicates that fraud may exist; and • A discussion of any other matters related to fraud.	Audit Completion Report and discussion at Audit and Governance Committee meeting(s), audit planning meeting(s), and audit clearance meeting(s)

Appendix A: Key communication points

Required communication	Where addressed
Significant matters arising during the audit in connection with the entity's related parties including, when applicable: • Non-disclosure by management; • Inappropriate authorisation and approval of transactions; • Disagreement over disclosures; • Non-compliance with laws and regulations; and • Difficulty in identifying the party that ultimately controls the entity.	Audit Completion Report
Significant findings from the audit including: • Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures; • Significant difficulties, if any, encountered during the audit; • Significant matters, if any, arising from the audit that were discussed with management or were the subject of correspondence with management; • Written representations that we are seeking; • Expected modifications to the audit report; and • Other matters, if any, significant to the oversight of the financial reporting process or otherwise identified in the course of the audit that we believe will be relevant to the Council or Those Charged With Governance in the context of fulfilling your responsibilities.	Audit Completion Report

Appendix A: Key communication points

Required communication	Where addressed
Significant deficiencies in internal controls identified during the audit.	Audit Completion Report
Where relevant, any issues identified with respect to the Council to obtain external confirmations or inability to obtain relevant and reliable audit evidence from other procedures.	Audit Completion Report
Audit findings regarding non-compliance with laws and regulations where the non-compliance is material and believed to be intentional (subject to compliance with legislation on tipping off)} and inquiry of Those Charged With Governance into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements that Those Charged With Governance may be aware of.	Audit Completion Report and Audit and Governance Committee meeting
With respect to going concern, events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: • Whether the events or conditions constitute a material uncertainty; • Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements; and • The adequacy of related disclosures in the financial statements.	Audit Completion Report
Communication regarding our system of quality management, compliant with ISQM (UK) 1, developed to support the consistent performance of quality audit engagements. To address the requirements of ISQM (UK) 1, our firm's System of Quality Management team completes, as part of an ongoing and iterative process, a number of key steps to assess and conclude on our firm's System of Quality Management: • Ensure there is an appropriate assignment of responsibilities under ISQM (UK) 1 and across Leadership • Establish and review quality objectives each year, ensuring ISQM (UK) 1 objectives align with the firm's strategies and priorities • Identify, review, and update quality risks each quarter, taking into consideration the number of input sources (such as FRC / ICAEW review findings, internal monitoring findings, findings from our firm's root cause analysis and remediation functions, etc.) • Identify, design, and implement responses as part of the process to strengthen our firm's internal control environment and overall quality • Evaluate responses and remediate control gaps or deficiencies We perform an evaluation of our system of quality management on an annual basis. Our first evaluation was performed as of 31 August 2023. Details of that assessment and our conclusion are set out in our 2022/2023 Transparency Report, which is available on our website here. The details of our evaluation of our system of quality management as of 31 August 2024, and our conclusion, set out in our 2023/24 Transparency Report, which is available on our website here.	Audit Strategy Memorandum

Appendix B: Current year updates, forthcoming accounting & other issues

Current and forthcoming accounting issues

New standards and amendments

Effective for accounting periods beginning on or after 1 January 2019

IFRS 16 Leases (Issued January 2016)

- IFRS 16 Leases (IFRS 16) will replace the existing leasing standard, IAS 17, and will introduce significant changes, particularly for lessees. The requirements for lessors will be largely unchanged from the position in IAS 17. Lessees will need to recognise right of use assets and associated lease liabilities for all leases (except short-life or low-value leases) as the distinction between operating leases and finance leases is removed. Subsequent to initial recognition, a service concession arrangement liability will subsequently measured following the principles set out in IFRS 16. The introduction of this standard is likely to lead to significant work being required in order to identify all leases and service concession arrangements to which the Council is party to. There will also be consequential impacts upon capital financing arrangements at many authorities which will need to be identified and addressed. IFRS 16 was adopted by the Code of Practice on Local Authority Accounting in 2024/25.

Effective for accounting periods beginning on or after 1 January 2023

IFRS 18 *Presentation and Disclosure in Financial Statements* (Issued April 2024)

- IFRS 18 Presentation and Disclosure in Financial Statements (IFRS 18) is a new standard that replaces IAS 1 Presentation of Financial Statements. The new standard aims to increase the comparability, transparency and usefulness of information about companies' financial performance. It introduces three key new requirements focusing on the presentation of information in the statement of profit or loss and enhancing certain guidance on disclosures within the financial statements. As IFRS 18 was only issued in April 2024 it has yet to be adopted by the Code of Practice on Local Authority Accounting in 2024/25 therefore the applicability to local government is to be determined.

Contact

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