



**Auditor's Annual Report  
North East Lincolnshire Council – year ended 31 March 2025**

22 December 2025

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Our reports are prepared in the context of the 'PSAA Statement of Responsibilities of Auditors and of Audited Bodies' and the 'Appointing Person Terms of Appointment' issued by Public Sector Audit Appointments Limited. This document is to be regarded as confidential to North East Lincolnshire Council. It has been prepared for the sole use of the Audit and Governance Committee as the appropriate sub-committee charged with governance. We do not accept any liability or responsibility to any other person in respect of the whole or part of its contents.

# 01

## Introduction

# Introduction

## Purpose of the Auditor's Annual Report

Our Auditor's Annual Report (AAR) summarises the work we have undertaken as the auditor for North East Lincolnshire Council ('the Council') for the year ended 31 March 2025. Although this report is addressed to the Council, it is designed to be read by a wider audience including members of the public and other external stakeholders.

Our responsibilities are defined by the Local Audit and Accountability Act 2014 and the Code of Audit Practice ('the Code') issued by the National Audit Office ('the NAO'). The remaining sections of the AAR outline how we have discharged these responsibilities and the findings from our work. These are summarised below.



### Opinion on the financial statements

We issued our audit report on 22 December 2025. Our opinion on the financial statements was unqualified.



### Reporting to the group auditor

We have not yet received group instructions from the National Audit Office in respect of our work on the Council's WGA submission. We will be unable to issue an audit certificate formally closing the audit until the position is clarified.



### Value for Money arrangements

We did not identify any significant weaknesses in arrangements to secure economy, efficiency and effectiveness in the use of resources. Section 3 provides our commentary on the Council's arrangements.

In recent years a significant weakness has been reported in relation to OFSTED's judgement of Inadequate reported in 2021 on children's services. We are pleased to report that OFSTED's recent reassessment of children's services as Good overall has resulted in the removal of the significant weakness that has been previously reported. Further details have been provided in the 'Value for Money' section of this report.

# 02

## Audit of the financial statements

# Audit of the financial statements

## Our audit of the financial statements

Our audit was conducted in accordance with the requirements of the Code, and International Standards on Auditing (UK) (ISAs). The purpose of our audit is to provide reasonable assurance to users that the financial statements are free from material error. We do this by expressing an opinion on whether the statements are prepared, in all material respects, in line with the financial reporting framework applicable to the Council and whether they give a true and fair view of the Council's financial position as at 31 March 2025 and of its financial performance for the year then ended. Our audit report, issued on 22 December 2025 gave an unqualified opinion on the financial statements for the year ended 31 March 2025.

A summary of the significant risks we identified when undertaking our audit of the financial statements and the conclusions we reached on each of these is outlined in Appendix A. In this appendix we also outline the uncorrected misstatements we identified and any internal control recommendations we made

## Qualitative aspects of the Council's accounting practices

We have reviewed the Council's accounting policies and disclosures and conclude that they comply with the 2024/25 Code of Practice on Local Authority Accounting, appropriately tailored to the Council's circumstances.

Draft accounts were received from the Council on 30 June 2025 and were of a good quality. The working papers supporting the financial statements were also of good quality and were comprehensive.

## Significant difficulties during the audit

We have not encountered any significant difficulties and we have had the full co-operation of management.

## Other reporting responsibilities

Reporting responsibility	Outcome
<b>Narrative Report</b>	We did not identify any significant inconsistencies between the content of the narrative report and our knowledge of the Council.
<b>Annual Governance Statement</b>	We did not identify any matters where, in our opinion, the governance statement did not comply with the guidance issued by CIPFA/LASAAC Code of Practice on Local Authority Accounting.

# 03

## Our work on Value for Money arrangements

# VFM arrangements

## Overall Summary



# VFM arrangements – Overall summary

## Approach to Value for Money arrangements work

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



**Financial sustainability** - How the Council plans and manages its resources to ensure it can continue to deliver its services.



**Governance** - How the Council ensures that it makes informed decisions and properly manages its risks.



**Improving economy, efficiency and effectiveness** - How the Council uses information about its costs and performance to improve the way it manages and delivers its services.

Our work is carried out in three main phases.

### Phase 1 - Planning and risk assessment

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

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

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

Although we describe this work as planning work, we keep our understanding of arrangements under review and update our risk assessment throughout the audit to reflect emerging issues that may suggest there are further risks of significant weaknesses.

### Phase 2 - Additional risk-based procedures and evaluation

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

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

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

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

- **Recommendations arising from significant weaknesses in arrangements** - we make these recommendations for improvement where we have identified a significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. Where such significant weaknesses in arrangements are identified, we report these (and our associated recommendations) at any point during the course of the audit.
- **Other recommendations** - we make other recommendations when we identify areas for potential improvement or weaknesses in arrangements which we do not consider to be significant, but which still require action to be taken.

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

# VFM arrangements – Overall summary

## Overall summary by reporting criteria

Reporting criteria	Commentary page reference	Identified risks of significant weakness?	Actual significant weaknesses identified?	Other recommendations made?
 Financial sustainability	11		No	No
 Governance	15	Yes – significant weakness and recommendation brought forward from previous years relating to OFSTED's 2021 inspection of children's services	No – prior year significant weakness removed in light of OFSTED's reassessment of children's services as GOOD in July 2025	No
 Improving economy, efficiency and effectiveness	19	Yes – significant weakness and recommendation brought forward from previous years relating to OFSTED's 2021 inspection of children's services	No – prior year significant weakness removed in light of OFSTED's reassessment of children's services as GOOD in July 2025	No

# VFM arrangements

## Financial Sustainability

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



# VFM arrangements – Financial Sustainability

## Overall commentary on Financial Sustainability

### Arrangements for identification of financial pressures and bridging gaps and planning finances to support the sustainable delivery of services

#### Overall responsibilities for financial governance

We have reviewed the Council's overall governance framework, including Council and committee reports, the Annual Governance Statement, and Statement of Accounts for 2024/25. These confirm the Council undertook its responsibility to define the strategic aims and objectives, monitor financial performance against budgets and plans to best meet the needs of the Council's service users. From the work performed there is no indication that the Council's Medium Term Financial Strategy and budget setting process is not aligned to supporting plans.

#### 2024/25 Budget Setting and the Medium-Term Financial Plan

The Council set a balanced budget in February 2024. We reviewed the budget setting reports and the assumptions underpinning the Medium-Term Financial Plan (MTFP). These include an adequate level of detail over the assumptions and cost pressures facing the Council, which are consistent with our experience at similar sized authorities.

In considering arrangements, we examined the budget gap reported as part of the Medium-Term Financial Strategy as presented to Council in February 2024 (for 2024/25) and Council in February 2025 (for 2025/26). In addition, we have undertaken further review of the budget gaps identified and the options the Council has in place to breakeven. We have noted that the Council have been cautious with some assumptions such as assuming only a 2% increase in Council tax when it is likely that a higher rise can be achieved. In addition, the Council are expecting a positive outcome from the fair funding review and additionally referendum limits are expected to be set at 5% giving the Council further options. Next steps are also being developed in order to ensure that necessary savings can be developed and achieved including:

- Continued development of transformation initiatives under each pillar;
- Engagement with service leads to refine budget envelope proposals;
- Monitoring of funding announcements and economic indicators; and
- Preparation of updated MTFP for Cabinet consideration in early 2026.

The Council also has a history of underspends and strong financial management.

We also examined the Council's usable reserves as presented in the financial statements, which shows that the general fund balance reserve has remained constant over the last few years at a level deemed prudent by the Council.

Cabinet February 2024 (£'000)	2024/25	2025/26	2026/27
Net budget requirements	188,594	197,307	202,840
Total resources available	188,594	188,699	200,390
<b>Budget gap</b>	0	-8,608	-2,450

Cabinet February 2025 (£'000)	2025/26	2026/27	2027/28
Net budget requirements	207,414	216,677	224,322
Total resources available	207,414	212,287	217,912
<b>Budget gap</b>	0	-4,390	-6,410

#### NELC usable reserves



# VFM arrangements – Financial Sustainability

## Overall commentary on the Financial Sustainability reporting criteria – continued

### Financial pressures: Minimum Revenue Provision and Dedicated Schools Grant

#### Minimum Revenue Provision (MRP)

The Minimum Revenue Provision is a charge that the Council makes in its financial statements for the repayment of debt (as measured by the underlying need to borrow, rather than actual debt i.e. the Capital Financing Requirement).

For 2024/25, the Council's general fund MRP is 3% of the closing Capital Financing Requirement, which is a decrease from the prior year. The lower this percentage, the greater the risk of over-reliance on accounting measures to support the general fund budget, although it does not currently present a risk of significant weakness in arrangements, it is an area for continued scrutiny for the Council. We have reviewed the MRP policy and the calculation as part of our audit work and have not identified any issues.

#### Dedicated Schools Grant (DSG)

It is a statutory requirement under the DSG conditions of grant that local authorities maintain a plan to manage any overspend on the DSG. To support local authorities in addressing DSG deficits, the DfE introduced the Safety Valve and Delivering Better Value initiatives, which have now been superseded by SEND reform proposals deferred until 2026.

In June 2025, the Schools Forum reviewed the DSG allocation for 2025/26, which totals £196.6 million, distributed across four blocks:

- Schools Block: £141m
- High Needs Block: £34m
- Early Years Block: £21m
- Central School Services Block: £1.4m

The DSG outturn position for 2024/25 is an overspend of £7.95m, driven primarily by pressures within the High Needs Block. The Government's statutory override for DSG deficits, originally due to expire in March 2026, has been extended for a further two years to March 2028. On expiry of the override, the Council would need to incorporate the cumulative deficit in its useable reserves, which would have a significantly detrimental impact to the Council's financial sustainability.

Whilst the Council has arrangements in place through a DSG management plan, the increasing DSG deficit and projected end to the statutory override requires attention following the fair funding review and SEND reform proposals.

We acknowledge that this is a major national issue, impacting on local authorities across the country, and is probably the biggest single financial challenge facing local authorities and Government in relation to the local government sector. Although the statutory override provides an element of protection, the Council is still funding the deficit at an increasingly significant cost as the cumulative deficit increases.

The Council needs to work with partners to manage and implement a comprehensive DSG deficit mitigation plan to address current and projected budgetary pressures and evaluate the impact on general fund balances, while reflecting on the implications of forthcoming SEND reforms.

#### How the Council plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities

The Council have a "Council plan" which sets out the key actions for North East Lincolnshire Council that will contribute towards the priorities of 'Stronger Economy, Stronger Communities'. It covers the period 2022-2025 with an annual review and update taking place and being approved by Council in February 2024 for the 2024/25 financial year. To ensure the Council's budgetary processes are aligned with corporate priorities, the Council updates the plan and refreshed it to reflect progress and emerging priorities. A new Council Plan for 2025-2028 has been approved by Council in December 2024. With quarterly reporting against the plan being taken to Cabinet.

The MTFP recognises the ongoing pressure the Council faces and the potential impact on service delivery. An in-year monitoring report to the Council details the pressures faced, whether savings are being achieved, and if resources need to be redirected to areas of need. Our review of the MTFP did not identify a reliance on 'one off' measures to balance the budget.

# VFM arrangements – Financial Sustainability

## Overall commentary on the Financial Sustainability reporting criteria – continued

### How the Council ensures that its financial plan is consistent with other plans

The Treasury Management Strategy and Capital Strategy are updated on a regular basis and set out how the Council manages risks and benefits associated with cash-flow, treasury management and borrowing. These plans and strategies are considered and approved by the Council alongside MTFP and budget decisions each year. We have confirmed update reports were presented to the Audit and Governance Committee at regular intervals during the year.

### How the Council identifies and manages risks to financial resilience

The MTFP recognises the risks and uncertainties facing the Council in terms of cost pressures, future funding arrangements, volatile income levels and potential variations in the costs of the delivery of demand led services. Our review of the MTFP shows that there is no evidence that assumptions are unrealistic or that there is unplanned or heavy reliance of reserves to cover unplanned spend. The Council models its income and expenditure over the MTFP and builds in known pressures.

### 2024/25 Outturn

We reviewed the provisional outturn reported to Cabinet in June 2025 and read the narrative report of the 2024/25 financial statements. For 2024/25, the Council were able to report a balanced position, and whilst an overspend remained in Children's Services, the restorative actions are now impacting on the numbers of children looked after.

Through our work on the financial statements, we have tested expenditure applied under the flexible capital receipts policy to ensure it meets relevant definitions and is recorded accurately.

The Council's outturn position in 2024/25 and reserves position does not highlight a risk of significant weakness in arrangements for financial sustainability. Our work on testing of relevant expenditure was completed as part of our work on the financial statements, with no material issues arising.

### Bridging funding gaps and cost pressures of children's services

We reviewed the Council Papers supporting the 2024/25 Budget and Medium-Term Financial Plan (MTFP) from February 2024. We have also considered the 2025/26 Budget and MTFP approved in February 2025. We are satisfied there is no evidence of a significant weakness in arrangements to develop and approve the Budget and MTFP. We specifically considered how the cost pressures associated with addressing the issues in Children's Services are being reflected in the MTFP, drawing out the information in the table below:

	£m	2024/25	2025/26	2026/27	2027/28
2024/25 MTFS	Use of flexible capital receipts	12.0	2.0	2.0	
	Contributions to earmarked reserves	6.9	2.5	2.5	
	Savings required	0.0	8.6	8.6	
2025/26 MTFS	Use of flexible capital receipts		2.0	2.0	0.0
	Contributions to earmarked reserves		5.3	3.2	3.2
	Savings required		0.0	4.4	6.4

This shows, a significant increase in the use of flexible capital receipts to fund the transformation required to improve Children's Services alongside an increasing savings gap. A challenge for the Council is maintaining a level of reserves that does not threaten financial sustainability, although it is pleasing to note through OFSTED's recent reporting on children's services that the investment undertaken has clearly led to the improved performance of children's services.

**Based on the above considerations we are satisfied there is not a significant weakness in the Council's arrangements in relation to financial sustainability for the year ended 31 March 2025.**

# VFM arrangements

## Governance

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



# VFM arrangements – Governance

## Overall commentary on the Governance reporting criteria

### Arrangements for monitoring and assessing risk

The Annual Governance Statement is a critical component of the Council's governance arrangements. It is an evidenced self-assessment by the Council on the Council's governance, assurance and internal control frameworks for the financial year. We have reviewed the Council's 2024/25 Annual Governance Statement and not identified any risks of a significant weakness in arrangements.

### Risk management

We reviewed the Risk Management Annual Report, presented to the Audit & Governance Committee in July 2025 and the Head of Internal Audit Annual Report and Opinion 2024/25 also presented to the same committee meeting. This confirms there are arrangements in place to support risk management including an in-depth review of the strategic risk register on an annual basis by the Strategic Lead of Risk and Governance in conjunction with the Head of Audit and Assurance.

In light of ongoing challenges and uncertainty in the local government sector, including fair funding review, local government reorganisation, alongside ongoing demand-led pressures in social care and special educational needs, there is an increase in the need for vigilance and continued assurance over risk management.

### Budget setting

The Council's budget setting and medium-term financial planning follows a similar process and format to previous years and our review is supported by discussions with officers during the year and experience from prior year audits. Those arrangements are as expected and include: consultation, scrutiny, evaluation of financial risk, alignment to business plans and sources of funding. We read the assumptions underpinning the Medium-Term Financial Plan (MTFP) as included in reports to the Cabinet. In our view, these include an adequate level of detail over the assumptions and cost pressures facing the council, which are consistent with our experience at similar sized authorities and not unreasonable.

We have not identified a risk of significant weakness in arrangements.

### Budgetary control

Our review of arrangements is supported by discussions with officers during the year and review of reports. Quarterly reports are taking to Cabinet monitoring the financial outturn against budget. Where variances have occurred, reasoning is provided and mitigation actions are identified to prevent further negative impacts against budget.

From our review of the outturn report in June 2025 we identified that the Council had implemented measures to address overspends mainly caused by demand-led pressures on children's services. To help manage budget pressures, the Council put in place measures such as reconfiguring staffing structures, the introduction of a renewed sufficiency strategy to reduce reliance on high-cost external placements and a new case management system which is anticipated to create further efficiencies. Through action taken by the Council this reduced the expected outturn variance of £0.9m as at Q3 to a breakeven position; there has also been development of further recurrent savings that can be achieved going forwards.

The 2025/26 Quarter 1 forecast revenue position, presented to Cabinet in August 2025 has the Council forecasting an overspend of £1.5m against budget, it does not currently indicate a significant weakness in the Council's arrangements.

### Arrangements for decision making and assurance

The Council has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of effectiveness, economy and efficiency. In doing this it is responsible for putting in place proper arrangements for the governance of its affairs, effective exercise of its functions and arrangements for the management of risk.

Our review of Council papers confirms that a template covering report is used for all reports, ensuring the purpose, implications, and recommendations are clear. Minutes are published and reviewed by Committees to evidence the matters discussed, challenge and decisions made.

Based on our work, we are satisfied the Council has established governance arrangements, consistent with previous years, in place. These are detailed in the Statement of Accounts and Annual Governance Statement. We have considered both documents against our understanding of the Council as part of our audit.

# VFM arrangements – Governance

## Overall commentary on the Governance reporting criteria - continued

### Internal Audit

Internal Audit progress reports are regularly presented to the Audit & Governance Committee meetings and from our attendance at meetings and review of minutes, we are satisfied this allows the Council to effectively hold management to account.

At the end of each financial year the Head of Internal Audit provides an Annual Report including an opinion, based on the work completed during the year, on the overall adequacy and effectiveness of the Council's control environment. We reviewed the Internal Audit Annual Report 2024-25 presented to the July 2025 meeting of the Audit & Governance Committee, which provided a summary of Internal Audit work undertaken during 2024/25 and provided an opinion "Overall we can provide "Satisfactory" assurance on the Council's framework of governance, risk management and control, (where satisfactory assurance is defined as Controls support the business objectives, but some improvements should be made") subject to the following observations:

- Homelessness: The Council has capacity challenges to meet its obligations, and demands upon it, in relation to Homelessness and Temporary Accommodation - furthermore, whilst there are strong controls in place in many areas, the absence of an up-to-date Homelessness Strategy and the identified gaps in information held in respect of cases need to be addressed to improve the overall control environment;
- Council/ Health Partnership (Section 75 Agreement): Whilst the establishment of the Joint Committee provides a platform for developing integrated commissioning arrangements, we identified improvements that could be made to the effectiveness of governance arrangements such as having more regular meetings, developing a programme of work, introducing a more systematic approach to risk management, and improving the audit trail in place to support decision making for joint governance arrangements;
- Procurement and Contract Management: Although we were generally satisfied in relation to the design of procurement and contract management arrangements, for 4 out of the 5 contracts we sample tested we found that there were areas of non-compliance with them; and
- External placements/ High Needs Block: Although good and improving controls are in place in relation to Children's Service's external placements and High Needs Block, they remain high risk areas due to inherent cost and demand pressures relating to both."

Our review has not highlighted a risk of significant weakness in arrangements relating to Internal Audit's conclusions on 2024/25.

### Audit & Governance Committee

For North East Lincolnshire Council, the Audit & Governance Committee is a critical component of good governance. We have attended numerous meetings of the Audit & Governance Committee during the year. We have considered minutes of meetings and supporting reports and based on this evidence, we are satisfied that the Audit & Governance Committee, performs in line with expectations, is adequately serviced and attended by officers as required.

### Children's services

In October 2021, OFSTED commenced an inspection into children's services at the Council, the published report stated that the overall effectiveness of children's services has been graded "Inadequate", citing weaknesses in assessment, planning and decision-making. Since 2021 there have been monitoring visits of children's services the most recent being in February and October 2024 which have noted improvements have been made by the Council.

We have reported a significant weakness in the Council's arrangements since the issue of the OFSTED report.

Last year we reported the improvements that the Council had made in relation to children's services, but that we could not remove the significant weakness until the service had been reassessed by OFSTED.

In July 2025 OFSTED completed an Inspection of North East Lincolnshire's local authority children's services, and has now reported its findings.

The overall assessment was Good in all areas, except for the impact of leaders on social work practice with children and families, which was rated as Outstanding. This is a considerable achievement for the Council and reflects the diligent work that has been done to improve this important service.

We considered whether the improvement applied to 2024/25 which we are reporting on, given that the inspection took place after the financial year end. Our view was that this level of improvement could only have been achieved if those improvements had also been evident throughout 2024/25, and there was evidence of such improvement in OFSTED's interim reporting.

## VFM arrangements – Governance

### Overall commentary on the Governance reporting criteria - continued

#### **Children's services (continued)**

A full inspection was undertaken in July 2025 and rated the overall effectiveness of children's services as "good" showing the good practice and improvements that have been implemented by the Council over the last few years. Refer to page 21 for further information and assessment of the significant weakness raised in relation to the previous years issues with children's services.

We are satisfied that the previously reported significant weakness can now be lifted due to the significant improvements achieved by the Council.

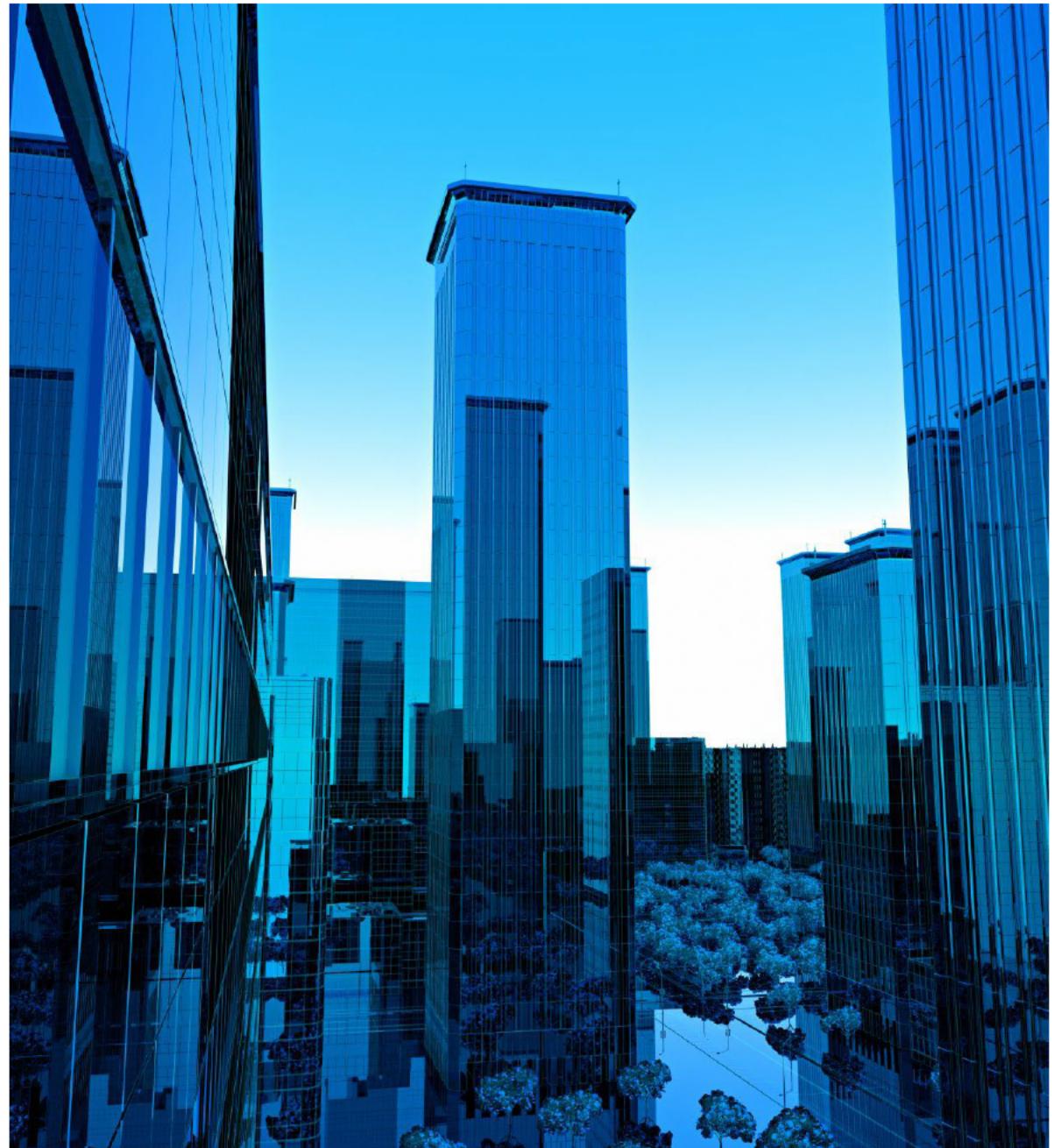
The previously reported significant weakness does not apply to the 2024/25 financial year.

**Based on the above considerations we are satisfied there is not a significant weakness in the Council's arrangements in relation to governance for the year ended 31 March 2025.**

# VFM arrangements

## Improving Economy, Efficiency and Effectiveness

How the body uses information about its costs and performance to improve the way it manages and delivers its services



# VFM arrangements – Improving Economy, Efficiency and Effectiveness

## Overall commentary on Improving Economy, Efficiency and Effectiveness

### How financial and performance information has been used to assess performance to identify areas for improvement

The Council has well established and effective processes for reviewing financial and performance information and using this to inform areas for improvement. Key performance indicators (KPIs) are monitored. Cabinet receive a Council Plan performance report on a quarterly basis that analyses the key performance and finance areas based on a RAG (Red, Amber, Green) rating. There is additional information provided in the report detailing key challenges to achieving targets and assessment of risks that could cause non-delivery. We confirmed that the yearly outturn performance against the Council Plan targets for the year 2024/25 was reviewed by Cabinet in June 2025.

The Council publishes the outcomes from external reviews and monitors the implementation of any recommended actions through its performance management framework.

The Council has undertaken a review against the CIPFA Financial Management Code, to assess the arrangements it has in place. Corporate performance against key performance indicators is also reported. Our review of those reports identified no evidence of a significant weakness in arrangements.

The Council's financial performance is reported on a regular basis including details of the financial position along with rationale for any changes and factors to be taken into account. We did not identify any evidence of a significant weakness in arrangements.

### Partnerships

The Council has a long history of working with health partners, including formal partnership arrangements dating back to 2004 around Mental Health Services. The arrangements in place have been amended over time to reflect the changes in legislation relating to health and care. The most recent update to the partnership arrangement was through the development of an updated Section 75 agreement during 2024/25. The section 75 agreement will bring together ICB and Council funding to promote and enable integration and joint decision making.

We have confirmed that through this change there has also been development of a Joint Committee which provides a platform for developing integrated commissioning arrangements. Internal audit have undertaken a review of the section 75 arrangement which was a "limited assurance" opinion. This is in part due to the Joint Committee only meeting once throughout the 2024/25 financial year, and that there are certain improvements that could be made to the effectiveness of governance arrangements such as introducing a more systematic approach to risk management and improving the audit trail in place to support decision making for joint governance.

Whilst we do not believe that this is a significant weakness in arrangements we would encourage the Council to work towards best practice in terms of regular meetings and more detailed documentation of decisions of the Joint Committee.

### Annual Complaints Report 2024/25

We reviewed the Local Government and Social Care Ombudsman (LGSCO) complaints annual review letter for 2024/25. LGSCO investigated 7 complaints and upheld 6, where the Council had not been found to have provided a satisfactory remedy before the complaint reached the Ombudsman. The rate of complaints upheld was slightly higher than average (86% for the Council vs. 80% for similar authorities) and the LGSCO confirmed that the Council had complied with all recommendations made.

### Commissioning and procurement

We confirmed that the Council approved a procurement strategy in November 2023 which covers the period 2023-2027. We also identified that during 2024/25, Internal Audit carried out a review of procurement and contract management at both the central level and individual contract level. Satisfactory assurance was awarded at the central level and limited assurance at the individual level. It is important that the Council responds to the Internal Audit findings and addresses the non-compliance with procedures that were identified as part of the contracts that they reviewed.

### Partnerships: Local Government Reorganisation

Local government reorganisation (LGR) is a complex undertaking that requires strategic foresight, collaborative leadership, and robust planning. It presents both opportunities and challenges for councils seeking to improve service delivery, financial sustainability, and democratic accountability. Effective planning is essential to ensure a smooth transition and long-term success.

North East Lincolnshire Council worked with districts and boroughs in Lincolnshire to prepare an interim plan, All the 10 councils with Lincolnshire must submit their preferred options for LGR to Government by Tuesday 28 November 2025.

Crucially, the Council will need ensure it puts in place robust arrangements to oversee the agreement and implementation of an agreed plan. This includes effective governance and committed leadership, such that there are clear arrangements for decision-making and manage relationships between partners, especially in joint or competing proposals.

# VFM arrangements – Improving Economy, Efficiency and Effectiveness

## Overall commentary on Improving Economy, Efficiency and Effectiveness

### Partnerships: Local Government Reorganisation (continued)

During the transition period, each council will retain full sovereignty over its assets and liabilities. However, MHCLG expects local leaders to collaborate in establishing voluntary agreements that ensure prudent, coordinated, and value-for-money decisions on expenditure as proposals are developed.

There are a range of other factors to incorporate into future planning, including but not limited to:

- Robust financial planning, managing transition costs, but also addressing existing deficits and future funding uncertainties;
- Supporting the workforce, including engagement, morale and more detailed determination of employee contracts, redundancies and retention. This includes ensuring there are sufficient resources available to implement programme management on the delivery of the finally agreed case;
- Maintaining continuity in services, but identifying opportunities/threats on duplication, gaps and service delivery models. This would also include effective consultation and engagement with residents, service users and other stakeholders; and
- Considering the impact of technology as a barrier and enabler, including data protection, cyber resilience and ability to integrate systems.

### Greater Lincolnshire Combined County Authority

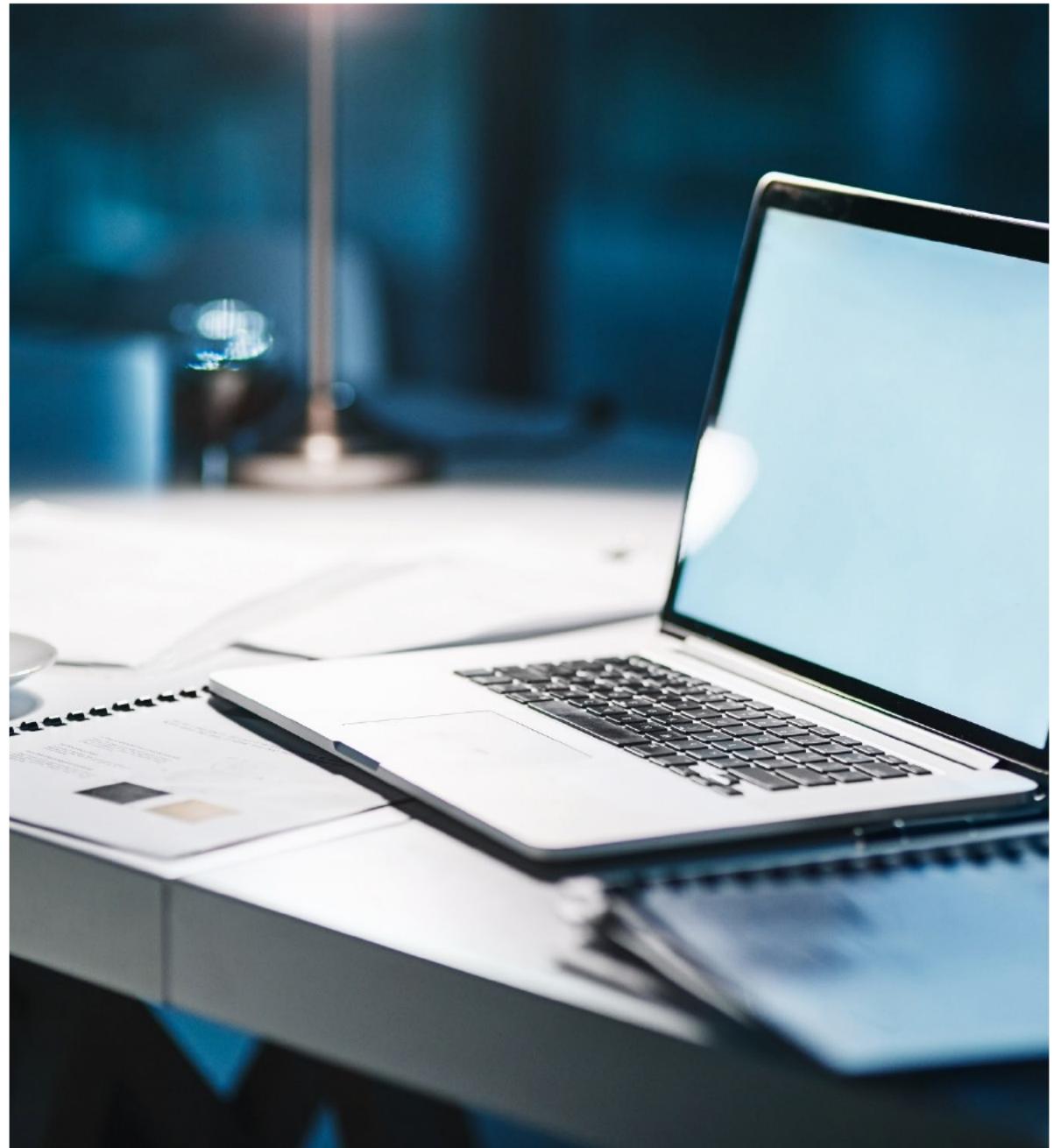
The Council, along Lincolnshire County Council and North Lincolnshire Council, secured a Lincolnshire Devolution Deal which will provide a total investment fund of £720m over the next 30 years. Greater Lincolnshire Combined County Authority (GLCCA) was formed in March 2025, is led by an elected mayor, and will focus on transport, housing, skills and adult education, net zero, economic development, and visitor economy across both cities and counties.

We did not identify any evidence of a significant weakness in arrangements.

**Based on the above considerations we are satisfied there is not a significant weakness in the Council's arrangements in relation to improving economy, efficiency and effectiveness for the year ended 31 March 2025.**

# VFM arrangements

Progress against significant  
weaknesses and recommendations  
made in a prior year



# VFM arrangements – Prior year significant weaknesses and recommendations

## Progress against significant weaknesses and recommendations made in a prior year

As part of our audit work in previous years, we identified the following significant weaknesses, and made recommendations for improvement in the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources. These identified weaknesses have been outlined in the table below, along with our view on the Council's progress against the recommendations made, including whether the significant weakness is still relevant in the 2024/25 year. We are pleased to report that this significant weakness does not apply to the 2024/25 financial year.

Previously identified significant weakness in arrangements	Reporting criteria	Recommendation for improvement	Our views on the actions taken to date	Overall conclusions
<p><b>Children's Services</b></p> <p>Ofsted is the Office for Standards in Education, Children's Services and Skills. It inspects and regulates services that care for children and young people. The Authority's children's services were last inspected in 2017, when it was rated "Good". Ofsted has carried out focused visits in the intervening period with the most recent letter being dated in June 2021, but without changing the overall rating.</p> <p>In October 2021, Ofsted commenced an inspection into children's services, publishing its report on 26 November 2021. The overall effectiveness of children's services has been graded "Inadequate", citing weaknesses in assessment, planning and decision-making.</p> <p>The matters identified by Ofsted are relevant to the financial year ending 31 March 2021 and, in our view, indicate a significant weakness in the Authority's arrangements for Governance (how the body ensures that it makes informed decisions and properly manages its risks) and for Improving Economy, Efficiency and Effectiveness (how the body uses information about its costs and performance to improve the way it manages and delivers its services) reporting.</p>	<p>Governance</p> <p>Improving the 3Es</p>	<p>In order to ensure systems, processes and training are in place to manage the risks relating to the safety and welfare of service users, the Authority must ensure it embeds and sustains the action plans that it has put in place to address the issues identified by Ofsted.</p> <p>In particular, it needs to ensure that robust monitoring and reporting processes are maintained, and that challenge, scrutiny and escalation arrangements drive the required improvements for service users and sustain the progress made to-date in implementing the actions to address the issues raised by Ofsted.</p> <p>Overall, based on the work performed, we believe there is evidence to suggest the Council is making progress in addressing the underlying issues, but still with further work to go to demonstrate the significant weakness has been sufficiently addressed.</p>	<p><b>Progress against the recommendation</b></p> <p>Last year we reported the improvements that the Council had made in relation to children's services, but that we could not remove the significant weakness until the service had been reassessed by OFSTED.</p> <p>In July 2025 OFSTED completed an Inspection of North East Lincolnshire's local authority children's services, and has now reported its findings.</p> <p>The overall assessment was Good in all areas, except for the impact of leaders on social work practice with children and families, which was rated as Outstanding. This is a considerable achievement for the Council and reflects the diligent work that has been done to improve this important service.</p> <p>We considered whether the improvement applied to 2024/25 which we are reporting on, given that the inspection took place after the financial year end. Our view was that this level of improvement could only have been achieved if those improvements had also been evident throughout 2024/25, and there was evidence of such improvement in OFSTED's interim reporting.</p>	<p>We are satisfied that this significant weakness can now be lifted due to the significant improvements achieved by the Council.</p> <p>This significant weakness does not apply to the 2024/25 financial year.</p>

# 04

## Other reporting responsibilities

# Other reporting responsibilities

## Wider reporting responsibilities

### Matters we report by exception

The Local Audit and Accountability Act 2014 provides auditors with specific powers where matters come to our attention that, in their judgement, require specific reporting action to be taken. Auditors have the power to:

- issue a report in the public interest;
- make statutory recommendations that must be considered and responded to publicly;
- apply to the court for a declaration that an item of account is contrary to the law; and
- issue an advisory notice.

We have not exercised any of these statutory reporting powers.

The 2014 Act also gives rights to local electors and other parties, such as the right to ask questions of the auditor and the right to make an objection to an item of account. We did not receive any such objections or questions.

## Reporting to the group auditor

### 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 will be unable to issue an audit certificate formally closing the audit until the position is clarified.

# 05

## Audit fees and other services

# Audit fees and other services

## Fees for our work as the Council's auditor

We reported our proposed fees for the delivery of our work under the Code of Audit Practice in our Audit Strategy Memorandum presented to the Audit Committee in April 2025. Having completed our work for the 2024/25 financial year, we can confirm that our fees are as follows (excluding VAT). All additional fees are subject to approval by Public Sector Audit Appointments (PSAA) Limited:

Area of work	2024/25 fees	2023/24 fees
Planned fee in respect of our work under the Code of Audit Practice	£329,497	£302,972
Additional fees in respect of 2023/24 audit	-	£19,940
Additional fees in respect of 2024/25 audit: Assessment of removal of significant weakness in VFM conclusion	£3,000	-
Additional fees in respect of 2024/25 audit: Introduction of new accounting standard IFRS 16, leases	£7,503	-
<b>Total fees</b>	<b>£340,000</b>	<b>£322,912</b>

## Fees for other work

The firm also carries out the assurance work required on the teachers' pensions return. This work is undertaken by a separate team. The fee for this work in 2024/25 was £4,645 excluding VAT (£4,500 in 2023/24).

# Appendices

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

# Appendix A: Further information on our audit of the Council's financial statements

## Significant risks and audit findings

As part of our audit of the Council we identified significant risks to our opinion on the financial statements during our risk assessment. The table below summarises these risks, how we responded and our findings.

Risk	Our audit response and findings
<b>Management override of controls</b> - (Group and Council) 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.	Risk satisfactorily addressed. We have not identified any significant issues to report.
<b>Valuation of land and buildings, surplus assets and investment properties</b> 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.	Risk satisfactorily addressed. We have not identified any significant issues to report.
<b>Defined benefit pension valuation</b> 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.	Risk satisfactorily addressed. We have not identified any significant issues to report.
<b>Revenue Expenditure Funded from Capital Under Statute (REFCUS) (Other key areas of management judgement / enhanced risks)</b>  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.	Risk satisfactorily addressed. We have not identified any significant issues to report.

# Appendix A: Further information on our audit of the Council's financial statements

## Summary of uncorrected misstatements for the Council

The table below shows the misstatements identified during the course of our audit which management has assessed as not being material either individually or in aggregate to the financial statements and have not been adjusted in the final version of the financial statements for 2024/25.

Description	CIES	CIES	Balance Sheet	Balance Sheet
	DR £000s	CR £000s	DR £000s	CR £000s
<b>Dr. Pensions Reserve</b>			2,734	
<b>Cr. Pension Liabilities</b>				2,734
The Pension Fund auditor identified an unadjusted difference in asset values during their audit of the Pension Fund. The above is an estimation of the impact on the Council's asset valuations based on the Council's share of Pension Fund assets. This is an overstatement of asset values and is not material.				
<b>Dr. Capital Adjustment Account</b>			1,540	
<b>Cr. PPE – Infrastructure Assets</b>				1,540
<b>Dr. CIES – Depreciation</b>	1,540			
<b>Cr. MIRS – Reversal of Depreciation</b>		1,540		
In 2021/22, the Council adopted the statutory override in accounting for infrastructure assets and in reviewing its calculations a potential difference of £3m was identified. The effect of this diminishes over time as depreciation is applied. The updated estimate of this is a maximum difference of £1.54m in the 2024/25 accounts which is not material.				
<b>Dr. Income</b>	440			
<b>Cr. Receipts in Advance</b>				440
Income has been overstated as an invoice spanning 2024/25 and 2025/26 has been recorded in totality in 2024/25 due to an amount being below the Council's de minimis of £10k. This has resulted in £2.9k of income for 2025/26 being recorded in 2024/25 and has been extrapolated to an error of £440k, which is not material.				
<b>Aggregate effect of unadjusted misstatements</b>	1,980	1,540	4,274	4,714

# Appendix A: Further information on our audit of the Council's financial statements

## Internal control observations for the Council

### IT General Controls (ITGC)

#### Description of deficiency

We found no evidence to suggest that the following was documented in the Security Policy:

- Limited use of non-nominative accounts.

Regarding changes to Unit 4 we have found no evidence to suggest that the following is documented by North East Lincolnshire Council or North Lincolnshire Council who oversee Unit 4 in relation to Change Management:

- Description of process regarding changes to Unit 4 (normal or emergency changes or major updates);
- Roles and responsibilities of individuals regarding this;
- Recording centrally of changes made to the system;
- Approval of changes to Unit 4, testing of changes, approval of transfer to production and segregation between testing environment and actual environment;
- Requirement to carry out unitary/module testing, non-regression testing and user acceptance testing; and
- Requirement to check accounts on a periodic basis to ensure accounts are still valid and individuals only have the access required for their roles.

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#### Potential effects

An absence of written policies could result in inconsistent practices and / or errors in processing.

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#### Recommendation

The Council should consider updating its Security Policy to cover and minimise use of non-nominative accounts and ensure written policies and procedures are in place to ensure that Unit 4's Change Management processes are complete and fully documented.

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# Appendix A: Further information on our audit of the Council's financial statements

## Follow up on previous internal control points

We set out below an update on internal control points raised in prior periods.

### Asset disposals

#### Description of deficiency

In our testing of asset disposals, we identified that there were several items disposed of in 2022/23 but not identified until 2023/24.

#### Current year update:

*There has been no recurrence of this issue during 2024/25 audit testing.*

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#### Potential effects

Risk of material error in the financial statements.

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#### Recommendation from last year

The Council needs to improve procedures for the timely identification and recording of asset disposals.

#### Application of £10k de minimis for accruals

#### Description of deficiency

In our testing of income and expenditure, we identified some items over the Council's own £10,000 de-minimis policy that had been recoded in the incorrect period. These mainly involved items where the services covered more than one financial period.

#### Current year update:

*There has been no recurrence of this issue during 2024/25 audit testing.*

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#### Potential effects

Risk of recoding income and expenditure in the incorrect financial period.

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#### Recommendation from last year

The Council should reevaluate and update its considerations of de-minimis levels for recording income and expenditure by financial period and remind finance team members of the need to calculate accruals and prepayments where services span more than one financial year.

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