

Audit Completion Report

North East Lincolnshire Council

31 March 2026

November 2026

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

12 November 2026

I am pleased to present our Audit Completion Report ("ACR") for North East Lincolnshire Council ("the Council") for the year ended 31 March 2026. The purpose of this report is to summarise our audit findings and conclusions.

This report is intended solely for Audit and Governance Committee for the purpose of communicating certain matters that, in our professional judgement, are relevant to your oversight of the financial reporting process.

We appreciate the courtesy and co-operation extended to us by North East Lincolnshire Council throughout our audit. We would be happy to discuss the contents of this report, or any other matters regarding our audit, with you in more detail.

Yours faithfully,

Nicola Hallas

Forvis Mazars LLP

Leeds

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01

Executive Summary

Executive summary

Scope

We have been engaged to audit the financial statements of North East Lincolnshire Council for the year ended 31 March 2026 which are prepared in accordance with the 2025/26 Code of Practice on Local Authority Accounting.

We have conducted our audit in accordance with International Standards on Auditing (UK) ('ISAs'), relevant ethical and professional standards, our own audit methodology and an accordance with the Code of Audit Practice.

Audit status

Our audit is progressing in line with our plan.

Please refer to the *'Status of our audit'* section for a list of audit matters outstanding at the date of this report. We will provide an update to you on completion of those outstanding matters by way of a follow up letter.

Areas of focus and audit approach, and significant findings

We have not made any changes to our initial risk assessment and planned audit approach that was communicated to you in our Audit Strategy Memorandum.

Our significant risks and other areas of focus are set out in the *'Audit approach and risk summary'* section, with a summary of our audit approach over those areas. Significant findings from our audit are set out in the *'Significant findings'* section.

Audit misstatements

We have identified no adjusted or unadjusted misstatements above our reporting threshold to date.

Significant control deficiencies

We did not identify any significant deficiencies in internal control to date.

We have not identified any non-significant control observations to date.

Audit opinion

At the time of issuing this report and subject to the satisfactory conclusion of our remaining audit work, we anticipate issuing an unqualified opinion, without modification, as set out in Appendix C.

Value for Money

We have identified a significant weakness in arrangements to report in relation to the arrangements that the Council has in place to secure economy, efficiency and effectiveness in its use of resources. Further details have been provided in the *'Value for Money'* section of this report.

Wider reporting powers

Local Audit and Accountability Act 2014 ('the 2014 Act') requires us to give an elector, or any representative of the elector, the opportunity to question us about the accounting records of the Council and to consider any objection made to the accounts. No such questions or objections have been received.

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 are unable to commence our work in this area until such instructions have been received.

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 2025/26 Code of Practice on Local Authority Accounting, appropriately tailored to the Council's circumstances.

Draft accounts were received from the Council on 1st June 2026 and supporting working papers were received in advance of the audit commencing, both of which were of a good quality.

Significant matters discussed with management

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

- Valuation of land, buildings and surplus assets – With effect from 1 April 2025, the CIPFA Code requires local authorities to perform quinquennial valuations or a five-year rolling programme, with indexation applied to assets during the four intervening years. The Council chose to adopt a rolling programme. We have reviewed the Council's valuations for 2025-26, including their application of indexation.

Executive summary

Significant difficulties during the audit

We encountered no significant difficulties during our audit and had no significant disagreements with management. There was effective co-operation and communication between Forvis Mazars, management, and you during our audit. All requested information and explanations were provided to us.

Other matters we are required by ISA (UK) 260 *Communication with Those Charged with Governance* to communicate to you have been set out in Appendix F.

02

Status of the audit

Status of our audit

Our audit work is in progress and there are currently no matters of which we are aware that would require modification of our audit opinion, subject to the satisfactory resolution of the outstanding matters set out below.

Item outstanding	Action to resolve	Forvis Mazars	Audit Committee	Management	Urgent
Property, Plant and Equipment	Existing use value- We have completed testing of the 7 items selected for testing and are waiting responses to the queries raised on 6 of the items. Indexation- We have completed testing of the 4 items selected for testing and are awaiting responses to queries raised on 2 of the items.			🟡	
Pensions	Completion of this area is subject to receipt of assurance from the Pension Fund auditor and completion of the remaining audit procedures.	🟡			
ITGC	We are awaiting evidence for 2 items and for a response to 1 query.			🟢	
Related Parties	We are resolving queries with officers.	🟢		🟢	
Loans and Borrowings	We are awaiting receipt of 1 external confirmation.	🟢		🟢	
Grant Income	We are awaiting additional evidence for 3 items selected for Grants received in advance.	🟡		🟡	
Capital Commitments	We are awaiting evidence to 2 items selected for testing.			🟡	
Income	We are resolving queries with officers for 2 items.	🟡		🟡	
Income and Exp Cut-off samples	Income cut off- the audit team are reviewing the 17 selected items for which evidence has been received. Expenditure cut off- We have completed testing of 13 of the 26 items selected for testing and yet to review the rest of the items selected for testing. Unrecorded liabilities - we have completed testing of 15 of the 18 items selected for testing and are awaiting follow up evidence for 3 follow up samples.	🟡		🟡	

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Status of our audit

Our audit work is substantially complete and there are currently no matters of which we are aware that would require modification of our audit opinion, subject to the satisfactory resolution of the outstanding matters set out below.

Item outstanding	Action to resolve	Forvis Mazars	Audit Committee	Management	Urgent
Creditor Testing	Audit team is reviewing the evidence for the 6 items selected for testing	●			
Investment Properties	We have completed testing of the 23 selected items and are awaiting responses to follow up queries on 16 items.			●	
Payroll	We are resolving queries with officers for 6 items.			●	
Leases	We are reviewing the evidence provided.	●			
Senior officers remuneration	We are reviewing a response to 1 query.	●			
Accumulated Absences Account	We awaiting a response to 1 query.			●	
Debtors	We are resolving queries with officers for 1 item.	●		●	
Assets held for sale	We are awaiting evidence to 2 queries.			●	
Exit packages	We are reviewing the additional evidence provided in response to 3 queries raised.	●			
Journals	We are awaiting evidence on follow up queries in relation to 6 samples.			●	

Status of our audit

Item outstanding	Action to resolve	Forvis Mazars	Audit Committee	Management	Urgent
Whole of Government Accounts (WGA)	The NAO are yet to publish their group audit instructions for the Whole of Government Accounts (WGA) return. Until we receive these, we are unable to complete our work in this area.	●			
Audit quality control and completion procedures	Our audit work is undergoing final stages of review from the Manager and Engagement Lead. In addition, there are completion procedures to finalise.	●			
Subsequent events review	Completion of subsequent events review up to the date of signing the Audit Report.	●		●	
Final Signed Financial Statements and Annual Governance Statement	Receipt of the approved and signed documents.		●	●	
Management Representation Letter	Receipt of the approved and signed letter.		●	●	
Audit Report	To be issued on receipt of the signed financial statements.	●			

Likelihood to result in a material adjustment or significant change to disclosures			Value For Money
Likely	Potentially	Not considered likely	Work on VFM arrangements
●	●	●	●

03

Audit approach and risk summary

Audit approach and risk summary

Changes to our audit approach

There have been no changes to the audit approach we communicated in our Audit Strategy Memorandum, issued on 30 April 2026.

Materiality

Our provisional materiality at the planning stage of our audit was set at 2% of gross revenue expenditure at surplus/deficit on provision of services based on the 2025-26 financial statements. There have been no changes to the materiality levels we communicated in the Audit Strategy Memorandum.

Use of experts

As set out in our Audit Strategy Memorandum, 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.

A summary of the experts used as part of the 2025-26 audit is set out below.

Item of account	Management's expert	Our expert
Defined benefit asset/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	No expert required. We will use available third-party information to challenge the key valuation assumptions.
Financial Instrument disclosures	MUFC Pension & Market Services (Previously Link Asset Services)	No expert required.

Audit approach and risk summary

	Audit risk/ key area of judgement	Fraud risk	Judgement	Error	Substantive audit procedures	Tests of controls	Misstatement identified	Control recommendations	Conclusion	Page ref to finding
Significant risks	Management override of controls	●	○	○	●	○	○	○	Subject to satisfactory completion of the outstanding work noted in the 'Status of our audit' section of this report, there are no matters to report in respect of the risk of management override of controls.	9
	Valuation of investment property	○	●	●	●	○	○	○	Subject to satisfactory completion of the outstanding work noted in the 'Status of our audit' section of this report, there are no matters to report in respect of the risk of valuation of investment property.	9
	Valuation of land, buildings and surplus assets	○	●	●	●	○	○	○	Subject to satisfactory completion of the outstanding work noted in the 'Status of our audit' section of this report, there are no matters to report in respect of the risk of valuation of land, buildings and surplus assets.	8
	Valuation of the net defined benefit asset/liability	○	●	●	●	○	○	○	Subject to satisfactory completion of the outstanding work noted in the 'Status of our audit' section of this report, there are no matters to report in respect of the valuation of the net defined benefit asset/liability.	8

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Significant findings

Significant findings

The significant findings from our audit include our conclusions regarding the significant risks we identified and other key areas of judgement, which are set out in this section.

Significant risks

Management override of controls	**Description of the risk** 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, we are required by auditing standards to identify a significant risk of management override of controls on our audit.
	How we addressed this risk In line with our methodology, we addressed 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.
	Audit conclusion Subject to satisfactory completion of the outstanding work noted in the 'Status of our audit' section of this report, there are no matters to report in respect of this risk.

Significant findings

Significant risks (continued)

Valuation of land, Investment properties	**Description of the risk** The balance sheet includes investment properties totalling £74.8 million (£72.5 million in 2024/25).Management engages its own Valuer as an expert to assist in determining the fair value of investment property to be included in the financial statements but there remains a high degree of estimation uncertainty associated with the valuation of land and buildings due to the significant judgements and number of variables involved.
	How we addressed this risk We evaluated the design and implementation of any controls which mitigate the risk. This includes liaising with management to update our understanding on the approach taken by the Council in its valuation of investment properties. We: • assessed the scope and terms of engagement with the Valuer; • assessed the competence, skills and objectivity of the Valuer; • substantively tested the source data provided to and used by the Council valuer; in particular, we will evaluate the appropriateness of data provided to the valuer by management by agreeing it to supporting evidence; • for a sample of assets, reviewed valuation methodology used, including the appropriateness of the valuation basis; and • considered the reasonableness of the valuation by comparing the valuation output with market intelligence.
	Audit conclusion Subject to satisfactory completion of the outstanding work noted in the 'Status of our audit' section of this report, there are no matters to report in respect of this risk.

Significant findings

Significant risks (continued)

Valuation of land, buildings and surplus assets	**Description of the risk** Land, buildings and surplus assets recognised within Other Property, Plant and Equipment (PPE) represent significant balances on the Council's balance sheet. As at 31 March 2026, total PPE was £142.6 million, of which land and buildings accounted for £89 million and surplus assets £2.2 million. The valuation of these assets is complex and involves significant management judgement and estimation uncertainty. The Council applies a five-year rolling valuation programme, under which land and buildings are subject to a full professional valuation at least once every five years, with remaining assets carried forward from prior valuations. From 2025–26, the Code requires that land and buildings not subject to a full valuation in-year are updated using appropriate indexation, with management judgement required in selecting suitable indices. Given the scale of the balances involved, errors in the valuation or indexation of land and buildings, surplus assets or investment properties could result in a material misstatement of the financial statements.
	How we addressed this risk We : Liaised with management to update our understanding on the approach taken by the Council in its valuation of other land and buildings and surplus assets. For assets that have been revalued in the year we : • Assessed the scope of terms of engagement of the valuer; • Assessed the competence, skills and objectivity of the valuer; For a sample of valuations, we : • tested the accuracy of the data used in the valuations; • challenged the assumptions applied by the valuer and the Council; and • reviewed the appropriateness of the valuation methodology used. For assets that have been indexed in year we : • gained an understanding of the approach taken by the Council; • assessed the relevance of the indices used; and • Considered the reasonableness of the indices used by comparing them to market intelligence.
	Audit conclusion Subject to satisfactory completion of the outstanding work noted in the 'Status of our audit' section of this report, there are no matters to report in respect of this risk.

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Significant findings

Significant risks (continued)

Valuation of the net defined benefit asset/liability	**Description of the risk** The Council is an employer in the Local Government Pension Scheme, which is administered at a local level by the East Riding Pension Fund. The net defined benefit pension liability is a significant item on the Council's balance sheet, with a closing liability of £11.334 million as at 31 March 2026. The Council engages an independent actuary to perform an annual valuation of pension assets and liabilities in accordance with the requirements of IAS 19 Employee Benefits. The net pension asset/liability represents a material value within the Council's balance sheet. The Council is an admitted body of the East Riding of Yorkshire Pension Fund, with the latest triennial valuation being conducted as at 31st March 2026. The valuation of the Local Government Pension Scheme relies on a number of assumptions, most notably around the actuarial assumptions and actuarial methodology which results in the Council's overall valuation. There are financial and demographic assumptions used in the calculation, such as the discount rate, inflation rates and mortality rates. The assumptions should also reflect the profile of the Council's employees and should be based on appropriate data. The basis of the assumptions is derived on a consistent basis year to year, updated to reflect any changes. There is a risk that the assumptions and methodology used in valuing the pension obligation are not reasonable or appropriate to the Council's circumstances. This could have a material impact on the net pension asset/liability in 2025/26.
	How we addressed this risk We addressed this risk by carrying out the following procedures: • Evaluating the competency, objectivity and independence of the scheme actuary, Hymans Robertsons; • liaising with the auditor of the East Riding Pension Fund to gain assurance over the design and implementation of controls in place to ensure data provided to the actuary by the pension fund for the purposes of the IAS 19 valuation is complete and accurate; • reviewing a summary of the work performed by the East Riding Pension Fund auditor on the Pension Fund investment assets, and evaluating whether the outcome of their work would affect our consideration of the Council's share of Pension Fund assets; • obtaining assurance from the Pension Fund auditor in relation to the data used for the triennial valuation; • reviewing the appropriateness of the pension asset/liability valuation methodologies applied by the actuary and the key assumptions included within the valuation. This will include comparing them to expected ranges, utilising information from the consulting actuary engaged by the National Audit Office; and • agreeing the data in the IAS 19 valuation report provided by the actuary for accounting purposes to the pension accounting entries and disclosures in the Council's financial statements.
	Audit conclusion Subject to satisfactory completion of the outstanding work noted in the 'Status of our audit' section of this report, there are no further matters to report in respect of this risk.

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Significant findings

Wider responsibilities

Our powers and responsibilities under the 2014 Act are broad and include the ability to:

- issue a report in the public interest;
- make statutory recommendations that must be considered and responded to publicly;
- apply to the court for a declaration that an item of account is contrary to law; and
- issue an advisory notice under schedule 8 of the 2014 Act.

We have not exercised any of these powers as part of our 2025/26 audit.

The 2014 Act also gives rights to local electors and other parties, such as the right to ask questions of the auditor and the right to make an objection to an item of account. No such objections have been raised.

Summary of misstatements

Disclosure misstatements

We identified the following disclosure misstatements during our audit that have been corrected by management:

- **Note 39 – Defined Benefit Pension Schemes:** the financial statements did not include an asset ceiling reconciliation, as required by the CIPFA Code. Management has amended the disclosure to include the required reconciliation and ensure compliance with the Code.

The audit process also identified a small number of presentational and clarity amendments (including cross-referencing and narrative enhancements) in the financial statements and Annual Governance Statement , which management have agreed to correct. We do not consider any of these amendments to be significant in nature.

We will obtain written representations confirming that, after considering the unadjusted disclosure misstatements, both individually and in aggregate, in the context of the annual report and financial statements taken as a whole, no adjustments are required.

06

Fraud considerations

Fraud considerations

We have a responsibility to plan and perform our audit to obtain reasonable assurance that the financial statements are free from material misstatement, whether due to fraud or error.

Your responsibilities

Management has primary responsibility for the prevention and detection of fraud. It is important that management, with your oversight, place a strong emphasis on fraud prevention, which may reduce opportunities for fraud to take place, and fraud deterrence, which could persuade individuals not to commit fraud because of the likelihood of detection and punishment. This involves a commitment to creating a culture of honesty and ethical behaviour which is reinforced by your active oversight.

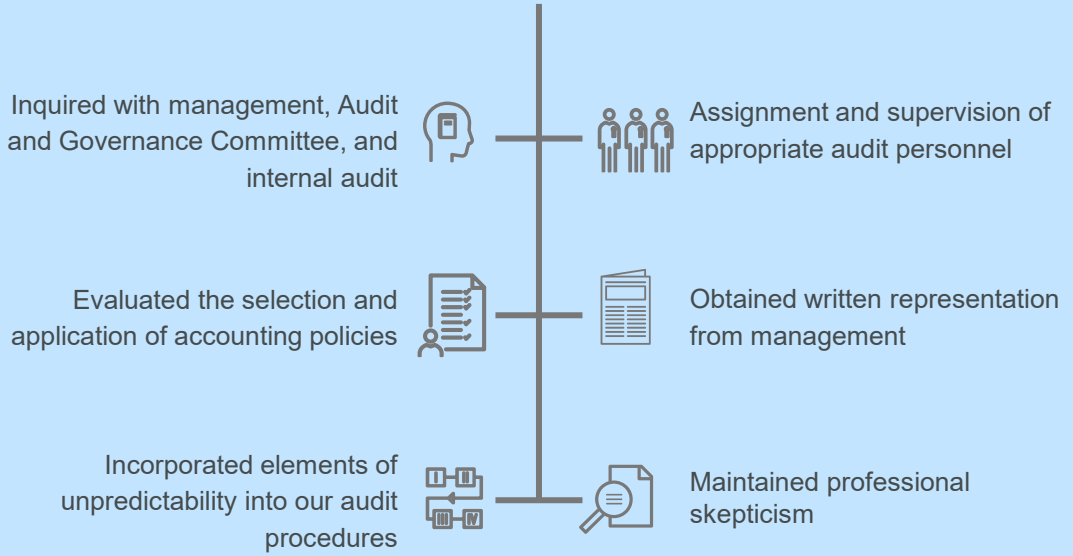
Our responsibilities

We have a responsibility for obtaining reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether due to fraud or error. The distinguishing factor between fraud and error is whether the underlying action that results in a misstatement is intentional or unintentional. Two types of intentional misstatements are relevant to us – misstatements resulting from fraudulent financial reporting, and misstatements resulting from the misappropriation of assets.

ISA presumed fraud risks

As set out in the *'Audit approach and risk summary'* section, the risks of fraud in management override of controls were identified as significant risks

Our overall approach to fraud



Our overall conclusion

We did not identify any actual or suspected fraud involving management, employees with significant roles in internal control or others, where the fraud resulted in a material misstatement in the financial statements.

07

Value for Money

Value for Money

Approach to Value for Money

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.

We have undertaken our value for money (VFM) work under the 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 Council 's arrangements in the Auditor's Annual Report.

The Code requires us to issue our Auditor's Annual Report for the year ending 31st March 2026 to you in draft by the 30th November 2026. 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).

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

- **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; and
- **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.

work, we keep our understanding of arrangements under review and update our risk assessment throughout the audit to reflect emerging issues that may suggest significant weaknesses in arrangements exist.

The table overleaf outlines the risks of significant weaknesses in arrangements that we have identified, the risk-based procedures we have undertaken, and the results of our work.

Where our risk-based procedures identify actual significant weaknesses in arrangements we are required to report these and make recommendations for improvement. Where such significant weaknesses are identified, we report these in the audit report by exception. We will also highlight emerging issues or other matters that do not represent significant weaknesses but still require attention from the Council.

The primary output of our work on the Council arrangements is the commentary on those arrangements that forms part of the Auditor's Annual Report. We have included our commentary within Appendix F. This commentary will provide a summary of the work we have undertaken and our judgements against each of the specified reporting criteria. We intend to issue the draft Auditor's Annual Report in November 2026.

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Value for Money

Status of our work

We have completed our work in respect of the Council's arrangements for the year ended 31 March 2026 and have identified one significant weakness in arrangements and have made associated recommendations. We provide further details on the identified significant weaknesses and our recommendations later in this section of our report.

Our draft audit report at Appendix C confirms that we have matters to report in respect of significant weaknesses. As noted above, our commentary on the Council's arrangements will be provided in the Auditor's Annual Report by 30 November 2026.

Value for Money

Risks of significant weaknesses in arrangements

As part of our audit response, we identified a risk of significant weakness in arrangements. Our response to the identified risk is outlined in the table below.

	Risk of Significant Weakness in Arrangements	Financial Sustainability	Governance	Improving the 3Es	Work Undertaken and Conclusions Reached
1	**Dedicated schools Grant** The Council's cumulative DSG deficit increased from £12.0m at 31 March 2025 to £27.5m at 31 March 2026 and is forecast to increase further to approximately £51.8m by 31 March 2028. Whilst Government funding is expected to reduce the historic deficit, there remains uncertainty regarding the Council's ability to sustainably manage the DSG position following the expiry of the statutory override arrangements. There is therefore a risk that the Council's arrangements are not sufficient to manage the long-term financial sustainability risks arising from the DSG deficit.	●			**Work undertaken** We: • reviewed the Council's SEND Reform Plan to understand the projected DSG deficit position, underlying assumptions and planned mitigating actions • reviewed the Department for Education's approval of the SEND Reform Plan and associated High Needs funding support • reviewed the Medium Term Financial Plan and reserve forecasts to assess the Council's ability to manage the residual DSG deficit following the expiry of the statutory override arrangements • held discussions with senior management the forecast DSG position, planned mitigating actions and the financial implications of the statutory override ending on 31 March 2028 • assessed whether the Council's arrangements are sufficient to identify, monitor and manage the financial sustainability risks arising from the DSG deficit • considered whether the forecast DSG position and associated risks indicate a significant weakness in the Council's arrangements for securing financial sustainability. **Results of our work** Based on the work completed, we have concluded that there is a significant weakness in the council's arrangements.

Value for Money

Identified significant weaknesses in arrangements and recommendations for improvement

As a result of our work we have identified a significant weakness in the Council's arrangements to secure economy, efficiency and effectiveness it its use of resources. This identified weakness has been outlined in the table below.

The below wording is subject to final review and may change.

	Identified significant weakness in arrangements	Financial Sustainability	Governance	Improving the 3Es	Recommendation for improvement	Council's response
1	**Dedicated Schools Grant** During 2025/26, the Council's cumulative Dedicated Schools Grant (DSG) deficit increased from £12.0m to £27.5m, reflecting continued expenditure pressures within the High Needs Block arising from increasing demand for Special Educational Needs and Disabilities (SEND) services, growth in Education, Health and Care Plans (EHCPs), and the cost of reliance on independent and out-of-area placements. The cumulative deficit continues to be held in an unusable reserve that prevents it from impacting upon the General Fund through the period of the statutory override, which currently remains in place until 31 March 2028. In February 2026, the Department for Education announced that it would fund 90% of cumulative DSG deficits as at 31st March 2026, conditional on the Council submitting and having approved, a Local SEND Reform Plan. On the basis of the submitted plan, in October 2026 the Council was notified that £24.7 of its cumulative deficit as at 31st March 2026 would be received as grant funding in the 2026/27 financial year. Whilst this significantly reduces the historic deficit position, a residual deficit of £2.8m as of 31st March 2026 remains and the underlying cost pressures continue. *Continued overleaf*	●			The Council should: • deliver its approved Local SEND Reform Plan, ensuring it addresses the potential risk to the overall financial sustainability of the Council ; • implement and monitor the efficacy of the initiatives put in place to improve prevention and early intervention; and • transform provision and reduce costs while maintaining standards.	Management accepts the scale of the financial risk associated with the High Needs Block, while noting that this reflects a national SEND funding and demand challenge. The Council has an approved Local SEND Reform Plan, has secured £24.7m High Needs Stability Grant and has established governance arrangements to oversee delivery. The Council will continue to report progress against the reform plan, emerging DSG forecasts and the implications of the expiry of the statutory override through its established financial governance arrangements.

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Value for Money

Identified significant weaknesses in arrangements and recommendations for improvement

Identified significant weakness in arrangements	Financial Sustainability	Governance	Improving the 3Es	Recommendation for improvement	Council's response
The Council's Local SEND Reform Plan forecasts further in-year DSG deficits of £20.8m in 2026/27 and £28.2m in 2027/28. Based on the council's own forecasts, the cumulative DSG deficit could reach approximately £51.8m by the end of the statutory override period of 31st March 2028. DfE has not confirmed any funding for the financial years 2026/27 or 2027/28.The Council's Medium-Term Financial Plan indicates that its prudent General Fund balance will be maintained at £8.3m, which is not sufficient to absorb the forecast DSG deficit at the end of the statutory override period. Consequently, if the statutory override were removed without further Government intervention, and the forecast deficits materialise, the Council would not have sufficient reserves to absorb the accumulated DSG deficit without a significant impact on its financial sustainability In our view, this represents evidence of a significant weakness in the Council's financial sustainability arrangements, specifically in relation to: • how the body ensures that it identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds these into them					

Appendices

A: Internal control conclusions

B: Draft management representation letter

C: Draft audit report

D: Confirmation of our independence

E: Other communications

Appendix A: Internal control conclusions

Other deficiencies in internal control

A deficiency in internal control exists if:

- A control is designed, implemented, or operated in such a way that it is unable to prevent, detect, and/ or correct potential misstatements in the financial statements; or
- A control that is necessary to prevent, detect, and/ or correct misstatements in the financial statements on a timely basis is missing.

The purpose of our audit was to express an opinion on the financial statements. As part of our audit, we have considered North East Lincolnshire Council's internal controls relevant to the preparation of the financial statements to design audit procedures to allow us to express an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of North East Lincolnshire Council's internal controls or to identify any significant deficiencies in their design or operation.

The matters reported in Appendix A are limited to those deficiencies and other control recommendations that we have identified during our normal audit procedures and which we consider to be of sufficient importance to merit being reported. If we had performed more extensive procedures on internal control, we might have identified more deficiencies to report or concluded that some of the reported deficiencies need not in fact have been reported. Our comments in Appendix A should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.

This Appendix sets out the internal control observations that we have identified as at the date of this report. These control observations are not, in our view, significant control deficiencies have been reported to management directly and are included in this report for your information. In our view, there is a need to address the deficiencies in internal control set out in this section to strengthen internal control or enhance business efficiency. Our recommendations should be actioned by management in the near future.

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Appendix A: Internal control conclusions

Other recommendations on internal control

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

ITGC General Controls (ITGC)
Description of deficiency We identified gaps in the documentation of key IT general controls. Specifically, the Council's Security Policy does not currently include requirements relating to the use and monitoring of non-nominative accounts. In addition, while <Unit 4> is administered on behalf of the Council by North East Lincolnshire Council and North Lincolnshire Council, we found no documented Change Management procedure covering: • The process for managing normal, emergency and major system changes; • Defined roles and responsibilities for initiating, approving and implementing changes; • Central recording and tracking of system changes; • Approval, testing and migration of changes to the live environment, including segregation between testing and production environments; • Requirements for unit, regression and user acceptance testing; and • Periodic reviews of user access to confirm accounts remain valid and access rights remain appropriate. This was also raised as
Potential effects The absence of documented IT control procedures increases the risk of inconsistent application of controls, unauthorised or inappropriate system changes, excessive user access, and errors in system processing.
Recommendation The Council should update its Security Policy to include controls over non-nominative accounts and ensure that formal Change Management procedures for Unit 4 are documented, approved and communicated. These procedures should cover change approval, testing, segregation of duties, access reviews and the maintenance of a complete audit trail of system changes.
Management response Awaiting management response.

Appendix B: Draft management representation letter

Forvis Mazars
5th Floor
3 Wellington Place
Leeds
LS1 4AP

Dear Nicola,

North East Lincolnshire Council - Audit for Year Ended 31 March 2026
This representation letter is provided in connection with your audit of the financial statements of North East Lincolnshire Council ('the Council') for the year ended 31 March 2026 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2025/26 (the Code), and applicable law.
I confirm that the following representations are made on the basis of enquiries of management and staff with relevant knowledge and experience (and, where appropriate, inspection of supporting documentation) sufficient to satisfy myself that I can properly make each of the following representations to you.

My responsibility for the financial statements and accounting information
I believe that I have fulfilled my responsibilities for the true and fair presentation and preparation of the financial statements in accordance with the Code, as amended by applicable law.

My responsibility to provide and disclose relevant information
I have provided you with:
- access to all information of which I am aware that is relevant to the preparation of the financial statements such as records, documentation and other material;
- additional information that you have requested from us for the purpose of the audit; and
- unrestricted access to individuals within the Council you determined it was necessary to contact in order to obtain audit evidence.

I confirm as Section 151 Officer that I have taken all the necessary steps to make me aware of any relevant audit information and to establish that you, as auditors, are aware of this information.
As far as I am aware there is no relevant audit information of which you, as auditors, are unaware.
I confirm that there is no information provided to you as part of the audit that I consider legally privileged.

Accounting records
I confirm that all transactions that have a material effect on the financial statements have been recorded in the accounting records and are reflected in the financial statements. All other records and related information, including minutes of all Council and committee meetings, have been made available to you.

Appendix B: Draft management representation letter

Contingencies

There are no material contingent losses including pending or potential litigation that should be accrued where:

- information presently available indicates that it is probable that an asset has been impaired or a liability had been incurred at the balance sheet date; and
- the amount of the loss can be reasonably estimated.

There are no material contingent losses that should be disclosed where, although either or both the conditions specified above are not met, there is a reasonable possibility that a loss, or a loss greater than that accrued, may have been incurred at the balance sheet date.

There are no contingent gains which should be disclosed.

All material matters, including unasserted claims, that may result in litigation against the Council have been brought to your attention. All known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to you and accounted for and disclosed in accordance with the Code, as amended by applicable law.

Laws and regulations

I confirm that I have disclosed to you all those events of which I am aware which involve known or suspected non-compliance with laws and regulations, together with the actual or contingent consequences which may arise therefrom.

The Council has complied with all aspects of contractual agreements that would have a material effect on the accounts in the event of non-compliance.

Fraud and error

I acknowledge my responsibility as Section 151 Officer for the design, implementation and maintenance of internal control to prevent and detect fraud and error and I believe I have appropriately fulfilled those responsibilities.

I have disclosed to you:

- all the results of my assessment of the risk that the financial statements may be materially misstated as a result of fraud;

Accounting policies

I confirm that I have reviewed the accounting policies applied during the year in accordance with International Accounting Standard 8 and consider these policies to faithfully represent the effects of transactions, other events or conditions on the Council's financial position, financial performance and cash flows.

Accounting estimates, including those measured at current and/or fair value

I confirm that the methods, significant assumptions and the data used by the Council in making the accounting estimates, including those measured at current and/or fair value, are appropriate to achieve recognition, measurement or disclosure that is in accordance with the applicable financial reporting framework.

Appendix B: Draft management representation letter

- all knowledge of fraud or suspected fraud affecting the Council involving:
  - management and those charged with governance;
  - employees who have significant roles in internal control; and
  - others where fraud could have a material effect on the financial statements.

I have disclosed to you all information in relation to any allegations of fraud, or suspected fraud, affecting the Council's financial statements communicated by employees, former employees, analysts, regulators or others.

Related party transactions

I confirm that all related party relationships, transactions and balances, have been appropriately accounted for and disclosed in accordance with the requirements of the Code, as amended applicable law.

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

Impairment review

To the best of my knowledge, there is nothing to indicate that there is a permanent reduction in the recoverable amount of the property, plant and equipment and intangible assets below their carrying value at the balance sheet date. An impairment review is therefore not considered necessary.

Charges on assets

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

Future commitments

The Council has no plans, intentions or commitments that may materially affect the carrying value or classification of assets and liabilities or give rise to additional liabilities.

Subsequent events

I confirm all events subsequent to the date of the financial statements and for which the Code, as amended by applicable law, require adjustment or disclosure have been adjusted or disclosed.

Should further material events occur after the date of this letter which may necessitate revision of the figures included in the financial statements or inclusion of a note thereto, I will advise you accordingly.

Going concern

To the best of my knowledge there is nothing to indicate that the Council will not continue as a going concern in the foreseeable future. The period to which I have paid particular attention in assessing the appropriateness of the going concern basis is not less than twelve months from the date of approval of the accounts.

Appendix B: Draft management representation letter

Annual Governance Statement

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

Narrative Report

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

Arrangements to achieve economy, effectiveness and efficiency in Use of Resources (Value for Money arrangements)

I confirm that I have disclosed to you all findings and correspondence from regulators for previous and ongoing inspections of which I am aware. In addition, I have disclosed to you any other information that would be considered relevant to your work on value for money arrangements.

Yours faithfully,

Section 151 Officer: Guy Lonsdale

Date:

Appendix C: Draft audit report

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

Report on the audit of the financial statements

Opinion on the financial statements

We have audited the financial statements of North East Lincolnshire Council (“the Council”) for the year ended 31 March 2026, which comprise the Comprehensive Income and Expenditure Statement, Movement in Reserves Statement, Balance Sheet, Cash Flow Statement, Collection Fund and notes to the financial statements, including material accounting policy information.

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2025/26.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Council as at 31st March 2026 and of its expenditure and income for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2025/26.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the “Auditor’s responsibilities for the audit of the financial statements” section of our report. We are independent of the Council in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC’s Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Chief Finance Officer’s use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, and taking into account the requirements of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2025/26, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Council's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.
Our responsibilities and the responsibilities of the Chief Finance Officer with respect to going concern are described in the relevant sections of this report.

Other information

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

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Appendix C: Draft audit report

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements, or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.
We have nothing to report in this regard.

Responsibilities of the Chief Finance Officer for the financial statements

As explained more fully in the Statement of the Chief Finance Officer's Responsibilities, the Chief Finance Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2025/26, and for being satisfied that they give a true and fair view. The Chief Finance Officer is also responsible for such internal control as the Chief Finance Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Chief Finance Officer is required to comply with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2025/26 and prepare the financial statements on a going concern basis on the assumption that the functions of the Council will continue in operational existence for the foreseeable future. The Chief Finance Officer is responsible for assessing each year whether or not it is appropriate for the Council to prepare its accounts on the going concern basis and disclosing, as applicable, matters related to going concern.

Auditor's responsibilities for the audit of the financial statements

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

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

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud.

Based on our understanding of the Council we considered those laws and regulations that have a direct effect on the preparation of the financial statements, such as the Local Government Act 2003 (and associated regulations made under section 21), the Local Government Finance Acts of 1988, 1992 and 2012, and the Accounts and Audit Regulations 2015.

Based on our understanding, we did not identify any laws and regulations that have an indirect effect on the preparation of the financial statements, where non-compliance might have a material effect on the financial statements.

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Appendix C: Draft audit report

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

- gaining an understanding of the legal and regulatory framework applicable to the Council, the environment in which it operates, and the structure of the Council, and considering the risk of acts by the Council which were contrary to the applicable laws and regulations, including fraud;
- inquiring with management and the Audit and Governance Committee, as to whether the Council is in compliance with laws and regulations, and discussing their policies and procedures regarding compliance with laws and regulations;
- inspecting correspondence, if any, with relevant licensing or regulatory authorities;
- reviewing relevant meeting minutes in the year;
- communicating identified laws and regulations throughout our engagement team and remaining alert to any indications of non-compliance throughout our audit; and
- considering the risk of acts by the Council which were contrary to applicable laws and regulations, including fraud.

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

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

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

There are inherent limitations in the audit procedures described above and the primary responsibility for the prevention and detection of irregularities including fraud, rests with both management and the Audit and Governance Committee.

As with any audit, there remained a risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

We are also required to conclude on whether the Chief Finance Officer's use of the going concern basis of accounting in the preparation of the financial statements is appropriate. We performed our work in accordance with Practice Note 10: Audit of financial statements and regularity of public sector bodies in the United Kingdom, (Revised 2024) and Supplementary Guidance Note 01, issued by the National Audit Office in November 2024.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Appendix C: Draft audit report

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

Matter on which we are required to report by exception

We are required to report to you if, in our opinion, we are not satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2026.

On the basis of our work, having regard to the guidance issued by the Comptroller and Auditor General in March 2026, we have identified the following significant weakness in the Council's arrangements for the year ended 31 March 2026:

Significant weakness in arrangements	Recommendation Will be updated after exception reporting.

Responsibilities of the Council

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

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

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources, and to report where we have not been able to satisfy ourselves that it has done so. We are not required to consider, nor have we considered, whether all aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We have undertaken our work in accordance with the Code of Audit Practice, having regard to the guidance issued by the Comptroller and Auditor General in March 2026.

Matters on which we are required to report by exception under the Code of Audit Practice

We are required by the Code of Audit Practice to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make a recommendation under section 24 of the Local Audit and Accountability Act 2014; or
- we exercise any other special powers of the auditor under sections 28, 29 or 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

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Appendix C: Draft audit report

Use of the audit report

This report is made solely to the members of North East Lincolnshire Council, as a body, in accordance with part 5 of the Local Audit and Accountability Act 2014 and the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the members of the Council those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the members of the Council, as a body, for our audit work, for this report, or for the opinions we have formed.

Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate until the National Audit Office has communicated the work we are required to undertake as component auditors for the Whole of Government Accounts.

[*Signature*]

Nicola Hallas, Key Audit Partner

For and on behalf of Forvis Mazars LLP (Local Auditor)

5th Floor
3 Wellington Place
Leeds
LS1 4AP

[*Date*]

Appendix D: Confirmation of our independence

We communicate any matters which we believe may have a bearing on the independence or the objectivity of Forvis Mazars LLP and the audit team. As part of our ongoing risk assessment, we monitor our relationships with you to identify any new actual or perceived threats to our independence within the regulatory or professional requirements governing us as your auditors.

We remain available to the Audit and Governance Committee to discuss any matters relating to our independence, should such a discussion be required.

Confirmation of independence

We confirm that the firm, Forvis Mazars LLP, and all covered persons remain independent of North East Lincolnshire Council in accordance with the requirements of the FRC Ethical Standard.

We consider that these services were permissible and sufficiently safeguarded, that an objective reasonable informed third party would view these as not bearing on the independence of the audit engagement. Where required pre-approval or pre-concurrence has been obtained from the Audit and Governance Committee or those charged with governance prior to the non-audit or additional service being provided.

Use of component auditors

We have not made arrangements for any of our activities as auditor to be conducted by another firm that is not a Forvis Mazars' member firm.

Use of experts

We will use the work of external experts in the following area(s) of our audit:

- Valuation of the net defined benefit asset/liability

We confirm that we have received a confirmation from the external expert regarding their independence.

Appendix E: Other communications

Other communication		Response
	**Compliance with Laws and Regulations**	We have not identified any significant matters involving actual or suspected non-compliance with laws and regulations. We will obtain written representations from management that all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements have been disclosed.
	**External confirmations**	We did not experience any issues with respect to obtaining external confirmations.
	**Related parties**	We did not identify any significant matters relating to the audit of related parties. We will obtain written representations from management confirming that: a. they have disclosed to us the identity of related parties and all the related party relationships and transactions of which they are aware; and b. they have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirements of the applicable financial reporting framework.
	**Going Concern**	We have not identified any evidence to cause us to disagree with the Chief Finance Officer that the Council will be a going concern, and therefore we have not identified any evidence to cause us to consider that the use of the going concern assumption in preparation of the financial statements is not appropriate. We will obtain written representations from management, confirming that all relevant information covering a period of at least 12 months from the date of approval of the financial statements has been taken into account in assessing the appropriateness of the going concern basis of preparation of the financial statements.

Appendix F: Other communications

Other communication		Response
	**Subsequent events**	We are required to obtain evidence about whether events occurring between the date of the financial statements and the date of the auditor's report that require adjustment of, or disclosure in, the financial statements are appropriately reflected in those financial statements in accordance with the applicable financial reporting framework. We will obtain written representations from management that all events occurring subsequent to the date of the financial statements and for which the applicable financial reporting framework requires adjustment or disclosure have been adjusted or disclosed.
	**Matters related to fraud**	Our audit was designed to obtain reasonable assurance whether the financial statements as a whole are free from material misstatement due to fraud. Please refer to the section titled 'Fraud considerations' for our fraud considerations and conclusion. We will obtain written representations from management and, where appropriate, Audit Committee, confirming that a. they acknowledge their responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud; b. they have disclosed to the auditor the results of management's assessment of the risk that the financial statements may be materially misstated as a result of fraud; c. they have disclosed to the auditor their knowledge of fraud or suspected fraud affecting the Council involving: i. management; ii. employees who have significant roles in internal control; or iii. others where the fraud could have a material effect on the financial statements; and d. they have disclosed to the auditor their knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.

Appendix F: Other communications

Other communication		Response
	**System of Quality Management**	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, including: • Ensuring there is an appropriate assignment of responsibilities under ISQM (UK) 1 and across Leadership • Establishing and reviewing quality objectives each year, ensuring ISQM (UK) 1 objectives align with our firm's strategies and priorities • Identifying, reviewing, and updating quality risks each quarter, taking into consideration a 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.) • Identifying, designing, and implementing responses as part of the process to strengthen our firm's internal control environment and overall quality • Evaluating responses and remediating control gaps or deficiencies We perform an evaluation of our system of quality management on an annual basis. We publish the details of our annual evaluation, and our conclusion, in our Transparency Report, which can be accessed on our website at: https://www.forvismazars.com/uk/en/who-we-are/corporate-publications/transparency-reports.

Contact

Forvis Mazars

Nicola Hallas
RI Director
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Nicola.Hallas@mazars.co.uk

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Auditor's Annual Report

North East Lincolnshire Council

Year ended 31 March 2026

November 2026

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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 2026. 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 expect to complete our work and issue our audit opinion on the 2025/26 financial statements in advance of the 31 January 2027 deadline. For 2025/26 we anticipate issuing an unqualified opinion.



Value for Money arrangements

In our audit report we reported that we were not satisfied arrangements were in place for the Council to secure economy, efficiency and effectiveness in its use of resources. This is because we issued a recommendation in relation to a significant weakness in those arrangements. Section 3 provides our commentary on the Council's arrangements and a summary of our recommendations and the weaknesses identified.



Reporting to the group auditor

The NAO are yet to publish their group audit instructions for the Whole of Government Accounts (WGA) return. Until we receive these, we are unable to complete our work in this area.



Wider reporting responsibilities

We do not have matters to report in relation to our wider reporting responsibilities.

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 2026 and of its financial performance for the year then ended. Based on the audit work completed to date, we expect to issue an unqualified opinion on the financial statements for the year ended 31 March 2026. The auditor's report is expected to be issued before 31 January 2027.

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.

Other reporting responsibilities

Reporting responsibility	Outcome
Narrative Report	We did not identify any significant inconsistencies between the content of the Narrative Report and our knowledge of the Council.
Annual Governance Statement	We did not identify any matters where, in our opinion, the Governance Statement did not comply with the Delivering Good Governance in Local Government: addendum guidance issued by CIPFA/Solace. We also did not identify any matters where, in our opinion, the Governance Statement is misleading or is not consistent with our knowledge of the Council and other information of which we are aware from our audit of the financial statements.

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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 staff and directors

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

Phase 2 - Additional risk-based procedures and evaluation

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

We outline the risks that we have identified and the work we have done to address those risks on page 13.

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VFM arrangements – Overall summary

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

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

We also make recommendations where we identify weaknesses in arrangements or other matters that require attention from the Council. We refer to two distinct types of recommendation throughout 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 outcomes of our work against each reporting criteria, including whether we have identified any significant weaknesses in arrangements or made other recommendations.

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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	12-17	Yes	Yes	No
Governance	18-21	No	No	No
Improving economy, efficiency and effectiveness	22-24	No	No	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

Risks of significant weaknesses in arrangements in relation to Financial Sustainability

We have outlined below the risks of significant weaknesses in arrangements that we have identified as part of our continuous planning procedures, and the work undertaken to respond to each of those risks.

Risk of significant weakness in arrangements	Work undertaken and the results of our work
1 **Dedicated schools Grant** The Council's cumulative DSG deficit increased from £12.0m at 31 March 2025 to £27.5m at 31 March 2026 and is forecast to increase further to approximately £51.8m by 31 March 2028. Whilst Government funding is expected to reduce the historic deficit, there remains uncertainty regarding the Council's ability to sustainably manage the DSG position following the expiry of the statutory override arrangements. There is therefore a risk that the Council's arrangements are not sufficient to manage the long-term financial sustainability risks arising from the DSG deficit.	**Work undertaken** We: • reviewed the Council's SEND Reform Plan to understand the projected DSG deficit position, underlying assumptions and planned mitigating actions; • reviewed the Department for Education's approval of the SEND Reform Plan and associated High Needs funding support; • reviewed the Medium Term Financial Plan and reserve forecasts to assess the Council's ability to manage the residual DSG deficit following the expiry of the statutory override arrangements; • held discussions with senior management the forecast DSG position, planned mitigating actions and the financial implications of the statutory override ending on 31 March 2028; • assessed whether the Council's arrangements are sufficient to identify, monitor and manage the financial sustainability risks arising from the DSG deficit; and • considered whether the forecast DSG position and associated risks indicate a significant weakness in the Council's arrangements for securing financial sustainability. **Results of our work** Based on the work completed, we have concluded that there is a significant weakness in the Council’s arrangements.

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

The Council is responsible for establishing and maintaining an appropriate governance framework to support effective decision-making, stewardship of public resources and oversight of financial performance. This includes setting strategic objectives, approving budgets and policies, and monitoring delivery against plans and available resources.

We have reviewed the Council's overall governance framework, including Council and committee reports, the Annual Governance Statement, and Statement of Accounts for 2025/26. 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.

2025/26 Budget Setting and the Medium-Term Financial Plan

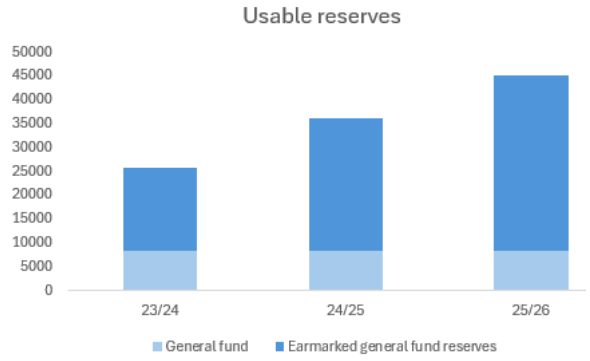
The Council set a balanced budget in February 2025. We reviewed the budget setting reports and the assumptions underpinning the Medium-Term Financial Plan (MTFP). These include an adequate level of detail over the assumptions and cost pressures facing the Council.

In considering the Council's arrangements for financial sustainability, we reviewed the Budget and MTFP approved by Full Council in February 2026. The Council approved a balanced budget for 2026/27 together with a balanced MTFP covering the period 2026/27 to 2028/29. The MTFP incorporates significant demand-led pressures, particularly within Children's Services, Adult Social Care and Special Educations Needs and Disabilities(SEND); however, these pressures are offset through identified savings, transformation initiatives and funding assumptions which support the achievement of a balanced position. The MTFP incorporates the outcomes of the Fair Funding Review and the introduction of a three-year local government funding settlement. Under the revised funding arrangements, the additional funding arising from the Fair Funding Review will be phased in over the settlement period, with full implementation expected by 2028/29.

We noted the Council continues to face significant financial pressures, particularly in relation to Adult Social Care, Children's Services and SEND demand. However, the Medium-Term Financial Plan includes a range of transformation initiatives, productivity improvements and savings opportunities designed to support the achievement of long-term financial sustainability.

The approved 2026/27 MTFP includes transformation and efficiency opportunities of £6.26m. We noted this represents a lower savings requirement than the £8.13m opportunity identified within the 2025/26 MTFP and therefore reflects a more realistic level of planned savings based on previous delivery experience and continuing demand pressures. Delivery of these opportunities is monitored through the Council's established financial management and performance reporting arrangements.

We also examined the Council's usable reserves as presented within the Medium-Term Financial Plan and draft Statement of Accounts. The chart below summarises the Council's usable reserves position over recent years and shows that the General Fund balance has remained broadly stable whilst earmarked reserves have increased.



VFM arrangements – Financial Sustainability

Overall commentary on the Financial Sustainability reporting criteria – continued

We reviewed the Council papers supporting the 2025/26 Budget and Medium-Term Financial Plan (MTFP) approved in February 2025 and the subsequent 2026/27 to 2028/29 Budget and MTFP approved in February 2026. We specifically considered how the significant demand and cost pressures within Children's Services and Adult Social Care have been reflected in the Council's financial planning.

The 2025/26 MTFP included a savings requirement of £8.6m, of which £2.1m (24%) was achieved during the year. We also noted that the savings requirement reduced from £8.6m in the 2025/26 MTFP to £4.4m for 2026/27 within the updated MTFP. At Quarter 1 of 2026/27, the Council reported that delivery of the transformation and efficiency programmes underpinning the savings requirement remained broadly in line with the assumptions set out in the MTFP, although a £1.8m year-end overspend was forecast, driven primarily by demand pressures within Children's Services and Adult Services.

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 (CFR)).

For 2025/26, the Council's general fund MRP charge represents 3.49% of the opening CFR, compared with 3.25% in 2024/25. The level of MRP remains an important indicator of the extent to which the Council is making provision for the repayment of its underlying borrowing requirement. Lower percentages may indicate an increased risk of over-reliance on accounting measures to support the General Fund budget by deferring the repayment of debt to future periods.

The Council's MRP percentage has increased slightly in the current year and therefore does not indicate a deterioration in the Council's approach to providing for the repayment of debt. We reviewed the Council's MRP Policy and the calculation of the annual charge as part of our audit work and confirmed that the methodology applied is consistent with prior years and statutory guidance. We have not identified any issues, value for money risks or significant weaknesses in arrangements relating to the calculation of MRP. However, given the significance of MRP to the Council's long-term financial sustainability, this remains an area that members should continue to monitor as part of the Council's treasury management and capital financing arrangements.

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 previously introduced the Safety Valve and Delivering Better Value programmes to support local authorities experiencing significant DSG deficits. These programmes have subsequently been incorporated into the Government's wider SEND reform agenda, with a transition to Local SEND Reform Plans and the High Needs Stability Grant arrangements.

In July 2026, the Schools Forum reviewed the DSG allocation for 2026/27, which totals £207 million, distributed across four blocks:

Schools Block: £144.6m

High Needs Block: £35.7m

Early Years Block: £25.4m

Central School Services Block: £1.3m

The Council's DSG position deteriorated significantly during 2025/26, with the in-year deficit increasing to £15.5m, compared to £7.5m in 2024/25, primarily driven by continued pressures within the High Needs Block. As a result, the cumulative DSG deficit increased from £12.0m at 31 March 2025 to £27.5m at 31 March 2026.

The Government has announced the High Needs Stability Grant, which is expected to fund up to 90% of eligible High Needs deficits outstanding at 31 March 2026, subject to approval of a Local SEND Reform Plan. The Council's Local SEND Reform Plan has been approved by the Department for Education and the Council expects to receive grant funding of £24.7 million. Whilst this would substantially reduce the accumulated DSG deficit, it does not address the underlying causes of the deficit and the Council's financial forecasts continue to show significant in-year deficits over the medium term.

Although the approval of the Local SEND Reform Plan and the award of £24.7 million of High Needs Stability Grant will significantly reduce the historic accumulated deficit, the Council's forecasts indicate that substantial in-year deficits are expected to continue over the medium term due to increasing demand for SEND services, growth in Education, Health and Care Plans and ongoing pressures within specialist provision.

VFM arrangements – Financial Sustainability

Overall commentary on the Financial Sustainability reporting criteria – continued

The Council has established arrangements to manage these pressures, including a SEND Reform Plan, SENDAP Sufficiency Strategy, investment in local provision and ongoing monitoring through Schools Forum and corporate governance arrangements. These arrangements demonstrate the Council understands the financial challenge and has taken steps to address the underlying drivers of SEND expenditure.

However, despite these arrangements, the DSG position deteriorated significantly during 2025/26, with the cumulative deficit increasing from £12.0 million to £27.5 million. Whilst the High Needs Stability Grant is expected to substantially reduce the historic deficit balance, the Council's own forecasts indicate that significant annual deficits will continue and that the cumulative DSG deficit could increase to approximately £51.8 million by 31 March 2028, when the statutory override is currently due to end. This demonstrates that, whilst the Council has established arrangements to respond to the issue, those arrangements have not yet resulted in a sustainable financial trajectory and significant uncertainty remains regarding the Council's ability to manage the financial consequences of continued SEND demand pressures without further external intervention.

We have therefore concluded that a significant weakness exists in the Council's arrangements for ensuring financial sustainability, as the scale and trajectory of the projected DSG deficit indicate that the arrangements currently in place are not yet sufficient to mitigate the associated financial risk.

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

The Council has a Council Plan for 2025-2028 which sets out its strategic priorities and objectives under four key themes: Stronger Economy, Stronger Communities, Greener Future, and Engaging and Effective Council. The Plan was approved by Council in December 2024 and provides the framework for delivering the Council's ambitions over the medium term. To ensure resources remain aligned to corporate priorities, the Council's budget-setting and financial planning processes are linked to the delivery of the Plan's objectives. Progress against the Plan is monitored through quarterly performance reporting to Cabinet, providing members with oversight of delivery against the Council's strategic priorities.

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.

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.

2025/26 Outturn

We reviewed the draft 2025/26 Statement of Accounts and accompanying narrative statement. For 2025/26, the Council reported a balanced outturn position at year end, despite continuing demand-led pressures, particularly within Children's Services and Adult Social Care. Our review confirmed that these pressures were mitigated through favourable performance in other areas and additional in-year funding, enabling the Council to achieve a balanced financial position. The Council's MTFP remains balanced, although further transformation activity is required to support long-term financial sustainability.

The reduction in the savings requirement, together with progress reported against planned savings, indicates that the savings targets included within the updated MTFP are more closely aligned to recent delivery performance. Whilst delivery will continue to require effective monitoring and management action, the savings assumptions do not appear unreasonable based on the evidence available at the time of our review.

The Council's outturn position in 2025/26 and reserves position does not highlight a risk of Significant weakness in arrangements for financial sustainability.

VFM arrangements – Financial Sustainability

Overall commentary on the Financial Sustainability reporting criteria – continued

The Council also continues to plan contributions to earmarked reserves and there is no evidence of an increasing or unsustainable reliance on reserves to fund recurring budget gaps. This reflects the progress made through transformation activity, including reductions in the number of children in care and externally placed children, alongside ongoing programmes within Adult Social Care aimed at managing demand and complexity of need.

Based on the above considerations, we have identified a significant weakness in the Council's arrangements for ensuring financial sustainability in relation to the management of the Dedicated Schools Grant deficit for the year ended 31 March 2026.

VFM arrangements

Governance

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



VFM arrangements – Governance

Overall commentary on Governance

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 2025/26 Annual Governance Statement and we have not identified any risks of a significant weakness in arrangements.

Risk management

We have reviewed the Risk Management Annual Report, presented to the Audit and Governance Committee in July 2026 and the Head of Internal Audit Annual Report and Opinion 2025/26 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 Internal Audit and Assurance.

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, the underlying causes were reported, together with mitigating actions and management responses, enabling timely scrutiny and decision-making.

Our review of the 2025/26 outturn report identified the Council continued to experience significant demand-led pressures within Children's Services and Adult Social Care, resulting in overspends of £2.7m and £1.9 m respectively. However, management implemented measures to mitigate these pressures, including service transformation initiatives, productivity savings and efficiency reviews across services which was reported to the Council's governance structures. The Council achieved a balanced outturn position for the year. This demonstrates that arrangements are in place to monitor financial performance, identify emerging budget pressures and implement corrective action where required.

The Quarter 1 2026/27 forecast revenue position, presented to Cabinet in August 2026, identified a forecast overspend of £1.8m against budget, primarily driven by demand-led pressures within Children's Services and Adult Social Care. The forecast is supported by identified mitigating actions and is subject to ongoing monitoring through the Council's established budget reporting arrangements. Based on our review, we have not identified a significant weakness in the Council's financial governance and budgetary control 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.

Internal Audit

Internal Audit progress reports are regularly presented to the Audit and 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 and Assurance 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.

VFM arrangements – Governance

Overall commentary on the Governance reporting criteria - continued

We reviewed the Internal Audit Annual Report 2025/26 presented to the July 2026 meeting of the Audit and Governance Committee, which provided a summary of Internal Audit work undertaken during 2025/26 and concluded that **"Satisfactory" assurance** could be provided on the Council's framework of governance, risk management and control.

Internal Audit reported that governance arrangements were generally well established and effective, with clear structures, defined roles and formal decision-making processes operating across most services. In forming its opinion, Internal Audit highlighted the following observations:

- **Homelessness:** The Council continues to face significant challenges in meeting its statutory duties and service demand in relation to homelessness and temporary accommodation. Whilst actions are being taken to strengthen governance and performance arrangements, this remains a high-pressure area and the operating environment is expected to remain challenging.
- **Adult Social Care:** The Care Quality Commission assessment identified areas requiring improvement within Adult Social Care. Management has implemented actions to address these findings, and Internal Audit has included further review work within its 2026/27 audit plan to provide assurance over the implementation of these improvements.
- **Enforcement:** The Council has recognised the need to review enforcement arrangements following a period of organisational change. Capacity constraints and pending staffing reviews were identified as ongoing risks requiring continued management attention.
- **Risk Management:** Internal Audit concluded that risk management arrangements were generally operating effectively across the Council, although opportunities remain to improve the completeness and consistency of operational risk registers.

Our review of the Internal Audit follow-up work also demonstrated positive implementation of agreed recommendations, with only 6% of actions overdue and evidence of management acting upon previous audit findings. This provides further assurance regarding the effectiveness of the Council's governance and control arrangements.

Our review has not highlighted a risk of significant weakness in arrangements relating to Internal Audit's conclusions for 2025/26.

Audit and Governance Committee

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

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.

Adult Social Care

During 2025/26, we considered the Care Quality Commission's assessment of the Council's Adult Social Care services, published in December 2025, which concluded that the service "Requires Improvement". The assessment identified areas where further improvement was required and the Council subsequently established a formal improvement programme supported by an Improvement Board, external specialist support and regular monitoring arrangements.

We noted the Adult Social Care improvement programme is overseen by the Adult Social Care Improvement Board, with progress monitored through established governance arrangements, including reporting of the six-month progress update to the Department of Health and Social Care.

Whilst the assessment identified areas requiring improvement, these findings were limited to specific aspects of the Adult Social Care service and were not indicative of pervasive weaknesses across the Council's wider governance, financial management, or arrangements for securing economy, efficiency and effectiveness. We noted that the Council established a formal improvement programme and that progress was monitored through established governance arrangements, including the Audit and Governance Committee. Accordingly, we have not identified a significant weakness in the Council's arrangements during 2025/26.

VFM arrangements – Governance

Overall commentary on the Governance reporting criteria – continued

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 2026.

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 the yearly outturn performance against the Council Plan targets for the year 2025/26 was reviewed by Cabinet in July 2026.

The Council publishes the outcomes from external reviews and monitors the implementation of any recommended actions through its performance management framework. During 2025/26, the Council considered the findings of the Care Quality Commission's assessment of Adult Social Care services, which resulted in a "Requires Improvement" rating. The assessment identified a number of areas requiring further development and the Council established an improvement programme, supported by performance monitoring and oversight arrangements, to address the recommendations. This demonstrates how external performance information is being used to identify areas for improvement and monitor the delivery of corrective action.

The Council completed its annual self-assessment against the CIPFA Financial Management Code and reported the results to the Audit and Governance Committee. The assessment concluded that the Council complies with the six principles of the Code and identified a number of areas for ongoing development. We reviewed the self-assessment and supporting reports and identified no evidence of significant weaknesses in arrangements. However, we noted opportunities for the Council to continue strengthening the integration of financial and performance reporting, medium-term financial planning and option appraisal arrangements.

We also reviewed the Council's annual Value for Money Report, which summarised activities undertaken during 2025/26 and identified further actions for 2026/27 and beyond. The report concluded the Council has effective arrangements in place to achieve value for money.

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 changes in health and care legislation. The most recent update to the partnership arrangements was through the development of an updated Section 75 Agreement during 2024/25. The Section 75 Agreement brings together ICB and Council funding to promote and enable integration and joint decision-making. There were no changes to the partnership arrangements during 2025/26.

Changes to the administration of the partnership arrangements were subsequently implemented during the second quarter of 2026/27, transferring responsibility for administrative management from health partners to the Council. These changes were administrative in nature and did not alter the underlying partnership arrangements or governance framework. Our review of the follow-up review undertaken by Internal Audit during 2025/26 confirmed that the issues identified in the 2024/25 review of the Section 75 arrangements had been addressed and the agreed actions implemented.

We have confirmed the Joint Committee established under the Section 75 arrangements continues to provide a platform for developing integrated commissioning arrangements and supporting joint decision-making between partners. Based on the assurance work completed and the follow-up review of prior findings, we do not consider there to be any significant weaknesses in the governance arrangements in place during 2025/26.

Annual Complaints Report 2025/26

We reviewed the Local Government and Social Care Ombudsman (LGSCO) Annual Review Letter for 2025/26. During the year, the Ombudsman investigated 10 complaints relating to the Council, all of which were upheld, compared with 7 complaints investigated and 6 upheld (86%) in 2024/25.

Whilst the proportion of upheld complaints increased, the LGSCO reported that the Council complied with 100% of its recommendations, compared with 86% in the previous year, the Council's implementation of all agreed recommendations demonstrates a commitment to learning from complaints and improving service delivery. Based on our review, we identified no evidence of a significant weakness in arrangements.

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VFM arrangements – Improving Economy, Efficiency and Effectiveness

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

Commissioning and procurement

We confirmed that the Council approved a procurement strategy in November 2023 which covers the period 2023-2027. Internal Audit undertook procurement-related audit work during 2025/26. In particular, the Support at Home Procurement audit received a Substantial Assurance opinion with no recommendations raised. We also reviewed the Council's Annual Procurement Report, which highlighted a number of improvements implemented during the year, including mandatory procurement e-learning for managers, the launch of a contract management toolkit and updates to procurement processes and templates following implementation of the Procurement Act 2023. Based on our review, we identified no evidence of a significant weakness in procurement arrangements.

Partnerships: Local Government Reorganisation

Local Government Reorganisation (LGR) remained a significant strategic issue for the Council during 2025/26. Following publication of the English Devolution White Paper, the Council developed and submitted its preferred proposal to Government in November 2025, based on retaining the Council's current administrative boundaries. As at 31 March 2026, the Council was awaiting the Government's decision and continued to undertake preparatory work to ensure organisational readiness and assess the potential implications of reorganisation. The Council recognised the potential impact of LGR on resources and capacity and maintained governance arrangements to oversee planning and preparedness activities.

Subsequent to the year end, on 16 July 2026, the Government confirmed that the Council would remain a unitary authority and would therefore not be subject to structural reorganisation. On 7 September 2026, the Government announced a wider pause to the implementation of local government reorganisation. As a result, the risks associated with implementing a new local government structure diminished. However, uncertainty remains regarding the future direction, timing and implications of local government reorganisation and the wider devolution agenda. The Council will therefore need to continue maintaining effective governance arrangements and working collaboratively with partners across Greater Lincolnshire. Based on our review, we did not identify any evidence of a significant weakness in the Council's arrangements.

Effective governance remained important in managing the risks associated with potential reorganisation, including maintaining service continuity, ensuring robust financial planning, supporting the workforce through change, managing assets and liabilities, and engaging effectively with stakeholders and partner organisations. The Council also continued to monitor the potential implications for programme management capacity, information systems and future service delivery models.

Greater Lincolnshire Combined County Authority

During 2025/26, the Council continued to work with partners through the Greater Lincolnshire Combined County Authority and participate in the development of regional priorities and programmes. As devolution arrangements continue to mature, the Council will need to ensure that appropriate governance, oversight and accountability arrangements remain in place to support effective partnership working and maximise the benefits arising from devolved responsibilities and funding.

We considered the Council's arrangements for participating in regional partnerships and collaborative governance structures. Based on our review, 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 2026.

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VFM arrangements

Identified significant weaknesses in arrangements and our recommendations



VFM arrangements - Identified significant weaknesses and our recommendations

Identified significant weaknesses in arrangements and recommendations for improvement

As a result of our work, we have identified significant weaknesses in the Council's arrangements to secure economy, efficiency and effectiveness it its use of resources. These identified weaknesses have been outlined in the table below. *The below wording is subject to final review and may change.*

	Identified significant weakness in arrangements	Financial sustainability	Governance	Improving the 3Es	Recommendation for improvement	Our views on the actions taken to date
1	**Dedicated Schools Grant** During 2025/26, the Council's cumulative Dedicated Schools Grant (DSG) deficit increased from £12.0m to £27.5m, reflecting continued expenditure pressures within the High Needs Block arising from increasing demand for Special Educational Needs and Disabilities (SEND) services, growth in Education, Health and Care Plans (EHCPs), and the cost of reliance on independent and out-of-area placements. The cumulative deficit continues to be held in an unusable reserve that prevents it from impacting upon the General Fund through the period of the statutory override, which currently remains in place until 31 March 2028. In February 2026, the Department for Education announced that it would fund 90% of cumulative DSG deficits as at 31st March 2026, conditional on the Council submitting and having approved, a Local SEND Reform Plan. On the basis of the submitted plan, in October 2026 the Council was notified that £24.7 of its cumulative deficit as at 31st March 2026 would be received as grant funding in the 2026/27 financial year. Whilst this significantly reduces the historic deficit position, a residual deficit of £2.8m as of 31st March 2026 remains and the underlying cost pressures continue.	●			The Council should: • deliver its approved Local SEND Reform Plan, ensuring it addresses the potential risk to the overall financial sustainability of the Council ; • implement and monitor the efficacy of the initiatives put in place to improve prevention and early intervention; and • transform provision and reduce costs while maintaining standards.	The recommendation has been made during the 2025/26 audit. As there has not been sufficient time for the Council to implement actions in response, we are unable to assess the effectiveness of any actions taken at this stage.

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VFM arrangements - Identified significant weaknesses and our recommendations

Identified significant weaknesses in arrangements and recommendations for improvement continued

Identified significant weakness in arrangements	Financial sustainability	Governance	Improving the 3Es	Recommendation for improvement	Our views on the actions taken to date
[Continued] The Council's Local SEND Reform Plan forecasts further in-year DSG deficits of £20.8m in 2026/27 and £28.2m in 2027/28. Based on the council's own forecasts, the cumulative DSG deficit could reach approximately £51.8m by the end of the statutory override period of 31st March 2028. DfE has not confirmed any funding for the financial years 2026/27 or 2027/28.The Council's Medium-Term Financial Plan indicates that its prudent General Fund balance will be maintained at £8.3m, which is not sufficient to absorb the forecast DSG deficit at the end of the statutory override period. Consequently, if the statutory override were removed without further Government intervention, and the forecast deficits materialise, the Council would not have sufficient reserves to absorb the accumulated DSG deficit without a significant impact on its financial sustainability In our view, this represents evidence of a significant weakness in the Council's financial sustainability arrangements, specifically in relation to: • how the body ensures that it identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds these into them					

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)
The National Audit Office (NAO), as group auditor for the WGA, requires us to carry out work and provide a WGA Assurance Statement in respect of the Council's consolidation data. The NAO are yet to publish their group audit instructions for the Whole of Government Accounts (WGA) return. Until we receive these, we are unable to complete our work in this area.

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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 in our Audit Strategy Memorandum presented to the Audit and Governance Committee on 8 July 2026 . Having completed our work for the 2025/26 financial year, we can confirm that our fees are as follows

Area of audit work	2025/26 fees	2024/25 fees
Planned fee in respect of our work under the Code of Audit Practice	£338,723	£329,497
Additional fees in respect of 2024/25 audit: Assessment of removal of significant weakness in VFM conclusion	-	£,3000
Additional fees in respect of 2024/25 audit: Introduction of new accounting standard IFRS 16, leases	-	£7,503
Additional fees in respect of additional work of 2025/26: Work in relation to the DSG VFM significant weakness.	£4,000	0
Total fees	**£342,723**	**£340,000**

Fees for other work

We confirm that we have completed the assurance on the Teacher's Pension Return for a fee of £8,300 in 2025/26.

Appendices

A - Further information on our audit of the financial statements

Appendix A: Internal control conclusions

We identified one non-significant internal control recommendation in relation to IT general controls, this was also reported in the prior year.

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

Significant risks and audit findings

As part of our audit , 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
Management override of controls 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, we are required by auditing standards to identify a significant risk of management override of controls on our audit.	Our work on this risk is still ongoing. Based on testing completed to date, no matters have been identified in respect of management override of controls.
Valuation of land, buildings, surplus assets Land, buildings and surplus assets recognised within Other Property, Plant and Equipment (PPE) represent significant balances on the Council's balance sheet. As at 31 March 2026, total PPE was £142.6 million, of which land and buildings accounted for £89 million and surplus assets £2.2 million. The valuation of these assets is complex and involves significant management judgement and estimation uncertainty. The Council applies a five-year rolling valuation programme, under which land and buildings are subject to a full professional valuation at least once every five years, with remaining assets carried forward from prior valuations. From 2025–26, the Code requires that land and buildings not subject to a full valuation in-year are updated using appropriate indexation, with management judgement required in selecting suitable indices. Given the scale of the balances involved, errors in the valuation or indexation of land and buildings, surplus assets or investment properties could result in a material misstatement of the financial statements.	Our work on this risk is still ongoing. Based on testing completed to date, no matters have been identified in the valuation of land, buildings and surplus assets.

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

Significant risks and audit findings

As part of our audit , 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
Investment properties The balance sheet includes investment properties totalling £74.8 million (£72.5 million in 2024/25).Management engages its own Valuer as an expert to assist in determining the fair value of investment property to be included in the financial statements but there remains a high degree of estimation uncertainty associated with the valuation of land and buildings due to the significant judgements and number of variables involved.	Our work on this risk is still ongoing. Based on testing completed to date, no matters have been identified in the valuation of investment properties.

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

Significant risks and audit findings

As part of our audit , 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
Valuation of net defined pension liability The Council is an employer in the Local Government Pension Scheme, which is administered at a local level by the East Riding Pension Fund. The net defined benefit pension liability is a significant item on the Council's balance sheet, with a closing liability of £11.334 million as at 31 March 2026. The Council engages an independent actuary to perform an annual valuation of pension assets and liabilities in accordance with the requirements of IAS 19 Employee Benefits. The net pension asset/liability represents a material value within the Council's balance sheet. The Council is an admitted body of the East Riding of Yorkshire Pension Fund, with the latest triennial valuation being conducted as at 31st March 2026. The valuation of the Local Government Pension Scheme relies on a number of assumptions, most notably around the actuarial assumptions and actuarial methodology which results in the Council's overall valuation. There are financial and demographic assumptions used in the calculation, such as the discount rate, inflation rates and mortality rates. The assumptions should also reflect the profile of the Council's employees and should be based on appropriate data. The basis of the assumptions is derived on a consistent basis year to year, updated to reflect any changes. There is a risk that the assumptions and methodology used in valuing the pension obligation are not reasonable or appropriate to the Council's circumstances. This could have a material impact on the net pension asset/liability in 2025/26.	Our work on this risk is still ongoing. Based on testing completed to date, no matters have been identified in the valuation of net defined pension liability.

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