



# Annual Audit Letter

North Lincolnshire Council  
Year ending 31 March 2019





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# 1. EXECUTIVE SUMMARY

## Purpose of the Annual Audit Letter

Our Annual Audit Letter summarises the work we have undertaken as the auditor for North Lincolnshire Council (the Council) for the year ended 31 March 2019. Although this letter 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 (the 2014 Act) and the Code of Audit Practice issued by the National Audit Office (the NAO). The detailed sections of this letter provide details on those responsibilities, the work we have done to discharge them, and the key findings arising from our work. These are summarised below.

Area of responsibility	Summary
Audit of the financial statements	<p>Our auditor's report issued on 31 July 2019 included our opinion that the financial statements:</p> <ul style="list-style-type: none"><li>• give a true and fair view of the Council's financial position as at 31 March 2019 and of expenditure and income for the year then ended; and</li><li>• have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.</li></ul>
Other information published alongside the audited financial statements	<p>Our auditor's report issued on 31 July 2019 included our opinion that:</p> <ul style="list-style-type: none"><li>• the other information in the Statement of Accounts is consistent with the audited financial statements.</li></ul>
Value for money conclusion	<p>Our report concluded that we are satisfied that in all significant respects, the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.</p>
Reporting to the group auditor	<p>On 31 July 2019 2019 we reported that your activity was below the threshold set by the NAO, meaning we were not required to review the Whole of Government Accounts return.</p>
Statutory reporting	<p>Our auditor's report confirmed that we did not use our powers under s24 of the 2014 Act to issue a report in the public interest or to make written recommendations to the Council.</p>

## 2. AUDIT OF THE FINANCIAL STATEMENTS

Opinion on the financial statements

Unqualified

### The scope of our audit and the results of our work

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 2019 and of its financial performance for the year then ended.

Our audit was conducted in accordance with the requirements of the Code of Audit Practice issued by the NAO, and International Standards on Auditing (ISAs). These require us to consider whether:

- the accounting policies are appropriate to the Council's circumstances and have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management in the preparation of the financial statements are reasonable; and
- the overall presentation of the financial statements provides a true and fair view.

Our auditor's report, issued to the Council on 31 July 2019, stated that, in our view, the financial statements give a true and fair view of the Council's financial position as at 31 March 2019 and of its financial performance for the year then ended.

### Our approach to materiality

We apply the concept of materiality when planning and performing our audit, and when evaluating the effect of misstatements identified as part of our work. We consider materiality throughout the audit process, in particular when determining the nature, timing and extent of our audit procedures, and when evaluating the effect of uncorrected misstatements. An item is considered material if its misstatement or omission could reasonably be expected to influence the economic decisions of users of the financial statements.

Judgements about materiality are made in the light of surrounding circumstances and are affected by both qualitative and quantitative factors. As a result we have set materiality for the financial statements as a whole (financial statement materiality) and a lower level of materiality for specific items of account (specific materiality) if we decide they attract public interest. We also set a threshold for reporting identified misstatements to the We call this our trivial threshold.

The table below provides details of the materiality levels applied in the audit of the financial statements for the year ended 31 March 2019:

Financial statement materiality	Our financial statement materiality is based on 2% of gross operating expenditure at surplus / deficit on provision of services level.	£5.937m
Trivial threshold	Our trivial threshold is based on 3% of financial statement materiality.	£0.178m

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## 2. AUDIT OF THE FINANCIAL STATEMENTS

### Our response to significant risks

As part of our continuous planning procedures we considered whether there were risks of material misstatement in the Council's financial statements that required special audit consideration. Risks are categorised as either significant (highest level), enhanced or standard.

We reported significant risks identified at the planning stage to the Audit Committee within the Audit Strategy Memorandum and provided details of how we responded to those risks in our Audit Completion Report. The table below outlines the identified significant and enhanced risks, the work we carried out on those risks and our conclusions.

Identified significant risk	Our response	Our findings and conclusions
<p><b>Management override of controls</b></p> <p>In all entities, 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. Because of the unpredictable way in which such override could occur, we consider there to be a risk of material misstatement due to fraud and thus a significant risk on all audits.</p>	<p>We addressed this risk by carrying out audit work in the following areas:</p> <ul style="list-style-type: none"> <li>• accounting estimates impacting on amounts included in the financial statements;</li> <li>• consideration of identified significant transactions outside the normal course of business; and</li> <li>• journals recorded in the general ledger and other adjustments made in preparation of the financial statements.</li> </ul>	<p>There were no significant issues arising from our work that we were required to report to you.</p>

## 2. AUDIT OF THE FINANCIAL STATEMENTS

### Significant risks (continued)

Identified significant risk	Our response	Our findings and conclusions
<p><b>Property, plant and equipment valuations</b></p> <p>The CIPFA Code requires that where assets are subject to revaluation, their year end carrying value should reflect the appropriate fair value at that date. The Council has adopted a rolling revaluation model which sees all land and buildings revalued over a five year cycle.</p> <p>Although the Council employs external experts to provide information on valuations, there remains a high degree of estimation uncertainty associated with the valuation of PPE due to the significant judgements and number of variables involved in providing valuations.</p> <p>In addition, as a result of the rolling programme of revaluations, there is a risk that individual assets which have not been revalued for up to four years are not valued at their materially correct fair value.</p>	<p>We addressed this risk via:</p> <ul style="list-style-type: none"> <li>assessed the valuer's scope of work, qualifications, objectivity and independence to carry out the Council's programme of revaluations;</li> <li>considered whether the overall revaluation methodology used by the valuer is in line with industry practice, the CIPFA Code of Practice and the Council's accounting policies;</li> <li>critically assessed the appropriateness of the underlying data and the assumptions used in the valuer's calculations, based on our expectations by reference to sector and local knowledge;</li> <li>considered the movement in market indices between the revaluation dates and the year end to determine whether there have been material movements over that time.</li> </ul>	<p>There were no matters arising from our work on valuation of property, plant and equipment.</p>

## 2. AUDIT OF THE FINANCIAL STATEMENTS

### Significant risks (continued)

Identified significant risk	Our response	Our findings and conclusions
<p><b>Defined benefit liability valuation (pensions)</b></p> <p>The net pension liability represents a material element of the Council's balance sheet. The Council is an admitted body of the East Riding of Yorkshire Pension Fund, which had its last triennial valuation completed as at 31 March 2016.</p> <p>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.</p> <p>There are financial and demographic assumptions used in the calculation of the Council's valuation, 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, or updated to reflect any changes.</p> <p>There is a risk that the assumptions and methodology used in valuing the Council's pension obligation are not reasonable or appropriate to the Council's circumstances. This could have a material impact to the net pension liability in 2018/19.</p>	<p>We have:</p> <ul style="list-style-type: none"> <li>critically assessed the competency, objectivity and independence of the East Riding of Yorkshire Pension Fund's Actuary, Hymans Robertson;</li> <li>liaised with the auditors of the East Riding of Yorkshire Pension Fund to gain assurance that the controls in place at the Pension Fund are operating effectively. This will include the processes and controls in place to ensure data provided to the Actuary by the Pension Fund for the purposes of the IAS19 valuation is complete and accurate;</li> <li>reviewed the appropriateness of the Pension Asset and Liability valuation methodologies applied by the Pension Fund Actuary, and the key assumptions included within the valuation. This will include comparing them to expected ranges, utilising information provided by PWC, consulting actuary engaged by the National Audit Office; and</li> <li>agreed the data in the IAS 19 valuation report provided by the Fund Actuary for accounting purposes to the pension accounting entries and disclosures in the financial statements.</li> </ul>	<p>Legal rulings in respect of GMP equalisation and transitional provisions (McCloud) created additional defined benefit liabilities. These were not taken account of in the actuary's estimate of the defined benefit liability. Management has liaised with the actuary to identify the impact of these rulings on the defined benefit liabilities. The GMP ruling has the effect of increasing the pension liability by £760k and McCloud increased the liability by £1.4m. Management adjusted the financial statements for these changes.</p>

## 2. AUDIT OF THE FINANCIAL STATEMENTS

### Internal control recommendations

As part of our audit we considered the internal controls in place that are relevant to the preparation of the financial statements. We did this to design audit procedures that allow us to express our opinion on the financial statements, but this did not extend to us expressing an opinion on the effectiveness of internal controls.

We identified no internal control recommendations as part of audit.

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### 3. VALUE FOR MONEY CONCLUSION

Value for money conclusion

Unqualified

#### Our audit approach

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

The overall criterion is that, 'in all significant respects, the Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.' To assist auditors in reaching a conclusion on this overall criterion, the following sub-criteria are set out by the NAO:

- informed decision-making;
- sustainable resource deployment; and
- working with partners and other third parties.

Our auditor's report, issued to the Council on 31 July 2019, stated that, in all significant respects, the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31<sup>st</sup> March 2019.

Sub-criteria	Commentary	Arrangements in place?
<b>Informed decision-making</b>	<p>The Council operates an Executive with a Leader and Cabinet model, and this is governed by a Council Constitution including all of the normal features of an effective governance framework in local government.</p> <p>The Council Plan sets out priorities which include growing the economy, keeping people safe and well, enabling communities to flourish. Delivery is monitored in quarterly performance reports. New decisions are supported by reports that outline options and relevant considerations, including references to financial, legal and performance issues where appropriate.</p> <p>There is evidence of financial reporting being used to deliver strategic objectives, for example, through the Medium Term Financial Strategy and in allocating resources to priority areas. In addition, regular financial reporting takes place, with formal reporting quarterly to Cabinet.</p> <p>Performance issues are included in reports where appropriate, and overall performance outcomes are monitored quarterly and also included in the Council's Annual Report.</p> <p>The Council has a Risk and Opportunities Protocol in place, and the Audit Committee oversees the governance framework including the work of internal audit.</p> <p>The Council's Annual Governance Statement includes a balanced assessment of the effectiveness of the Council's governance arrangements and identifies appropriate areas for further improvement.</p>	Yes

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### 3. VALUE FOR MONEY CONCLUSION

Value for money conclusion

Unqualified

Sub-criteria	Commentary	Arrangements in place?
<b>Sustainable resource deployment</b>	<p>The Council has made progress in addressing the financial challenges from public sector austerity and has a proven track record of strong budget management and delivering planned budget reductions.</p> <p>In recent years the Council has embarked on a transformation project, with the aim of making the Council more sustainable. Council transformation has been effective in adopting more efficient systems through greater use of digital technology and becoming more agile. The Council is continuing its transformation journey, bringing complementary areas of activity together. This includes commissioning activity, which now has a broader remit. Efficiencies have been made as a result of a series of contract reviews, in addition to lower activity in some areas.</p> <p>The Council have a risk and transformation reserve which is used to fund these projects.</p> <p>The Council continues to deliver its financial plans and the 2018/19 outturn achieved a £132k underspend against the general fund budget.</p>	Yes
<b>Working with partners and other third parties</b>	<p>The Council works with a range of third parties. The Shared Service with North East Lincolnshire is a strong example.</p> <p>The Council works closely with other public sector organisations across North Lincolnshire. For example the Place Board brings the Chief Executives from the Humberside area together to deliver better outcomes for residents of the area, in a more efficient way.</p> <p>The Council has procurement procedures in place and maintains a contracts register. The Council seeks to achieve best value from the procurement process, driving savings where possible, but also aiming to deliver sustainable services.</p>	Yes



## 4. OTHER REPORTING RESPONSIBILITIES

<b>Exercise of statutory reporting powers</b>	<b>No matters to report</b>
<b>Completion of group audit reporting requirements</b>	<b>Below review threshold</b>
<b>Other information published alongside the audited financial statements</b>	<b>Consistent</b>

The National Audit Office's (NAO) Code of Audit Practice and the 2014 Act place wider reporting responsibilities on us, as the Council's external auditor. We set out below, the context of these reporting responsibilities and our findings for each.

### Matters on which we report by exception

The 2014 Act provides us with specific powers where matters come to our attention that, in our judgement, require reporting action to be taken. We 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 law; and
- issue an advisory notice under schedule 8 of the 2014 Act.

We have not exercised any of these statutory reporting powers.

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

The NAO, as group auditor, requires us to complete the WGA Assurance Statement in respect of its consolidation data. On 31 July 2019 we reported that your activity was below the threshold set by the NAO, meaning we were not required to review the WGA return.

### Other information published alongside the financial statements

The Code of Audit Practice requires us to consider whether information published alongside the financial statements is consistent with those statements and our knowledge and understanding of the Council. In our opinion, the other information in the Statement of Accounts is consistent with the audited financial statements.

## 5. OUR FEES

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

We reported our proposed fees for the delivery of our work in the Audit Strategy Memorandum, presented to the Audit Committee in March 2019.

Having completed our work for the 2018/19 financial year, we can confirm that our final fees are as follows:

Area of work	2018/19 proposed fee	2018/19 final fee
Delivery of audit work under the NAO Code of Audit Practice	£80,186	£80,186
Housing Benefit Subsidy Claim	£7,800	£7,800*

\*subject to completion of work.

### Fees for other work

We confirm that we have not undertaken any non-audit services for the Council in the year.

## 6. FORWARD LOOK

### Financial outlook

The Council delivered an underspend of £132k for 2018/19. The Council has set a balanced budget for 2019/20, however the financial challenges remain uncertain for the short and medium-term. In recent years the Council has focused on transformation in order to meet these challenges. To continue to effectively manage the financial pressures, the Council needs to ensure its transformation programme continues to deliver. The Council is establishing good working relationships with third parties. Building and enhancing relationships with other public sector organisations in the coming year will assist the Council in managing the financial challenges it and the wider public sector are facing.

### Next year's audit and how we will work with the Council

We will focus our work on the risks that your challenges present to your financial statements and your ability to maintain proper arrangements for securing value for money.

In the coming year we will continue to:

- liaise with the Council's Internal Auditors to minimise duplication of work;
- attend Audit Committee meetings and present Audit Progress Reports including updates on regional and national developments; and
- host events for officers such as our Local Government Accounts workshop.

We will meet officers to identify any learning from the 2018/19 audit and will continue to share our insights from across local government and relevant knowledge from the wider public and private sector.

In terms of the technical challenges that officers face around the production of the statement of accounts, we will continue to work with them to share our knowledge of new accounting developments and we will be on hand to discuss any issues as and when they arise.

The Council has taken a positive and constructive approach to our audit and we wish to thank Members, the Audit Committee and officers for their support and co-operation during our audit.

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## CONTACT

### **Mark Kirkham**

Partner & Engagement Lead

Phone: 0113 387 8850

Email: [mark.kirkham@mazars.co.uk](mailto:mark.kirkham@mazars.co.uk)

### **Nicola Hallas**

Manager

Phone: 07781 283 559

Email: [nicola.hallas@mazars.co.uk](mailto:nicola.hallas@mazars.co.uk)