



# Audit Completion Report

North Lincolnshire Council

Year ending 31 March 2020

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Audit Committee  
North Lincolnshire Council  
Church Square House  
30 - 40 High Street  
Scunthorpe  
North Lincolnshire  
DN15 6NL

13 November 2020

Dear Members,

### **Audit Completion Report – Year ended 31 March 2020**

We are pleased to present our Audit Completion Report for the year ended 31 March 2020. The purpose of this document is to summarise our audit conclusions.

The scope of our work, including identified significant audit risks and other areas of management judgement, was outlined in our Audit Strategy Memorandum which we presented on 15 July 2020. Since we issued our Audit Strategy Memorandum the UK has been subject to the challenges and restrictions of COVID-19. We have reviewed our Audit Strategy Memorandum and concluded that the original significant audit risks and other areas of management judgement remain appropriate.

One implication of COVID-19 for the Council was that the dates for submission of the draft and audited financial statements were pushed back to 31 August and 30 November respectively. Even with the revised timetable we acknowledge the difficulties encountered by your team during accounts preparation and audit, and would like to express our thanks for the assistance of your team during our audit.

If you would like to discuss any matters in more detail then please do not hesitate to contact me on 07747 764 529.

Yours faithfully



Mark Kirkham  
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# 1. EXECUTIVE SUMMARY

## Purpose of this report and principal conclusions

The Audit Completion Report sets out the findings from our audit of North Lincolnshire Council ('the Council') for the year ended 31 March 2020, and forms the basis for discussion at the Audit Committee meeting on 23 November 2020.

The detailed scope of our work as your appointed auditor for 2019/20 is set out in the National Audit Office's (NAO) Code of Audit Practice. Our responsibilities and powers are derived from the Local Audit and Accountability Act 2014 and, as outlined in our Audit Strategy Memorandum, our audit has been conducted in accordance with International Standards of Auditing (UK) and means we focus on audit risks that we have assessed as resulting in a higher risk of material misstatement.

Sections 2 and 5 of this report outline the detailed findings from our work on the financial statements and our conclusion on the Council's arrangements to achieve economy, efficiency and effectiveness in its use of resources. Section 2 also includes our conclusions on the audit risks and areas of management judgement in our Audit Strategy Memorandum, which include:

- management override of control;
- property, plant and equipment valuations; and
- defined benefit liability valuation.

## Status of our work

As we outline on the following page, our work is substantially complete. Subject to the satisfactory completion of the outstanding work, at the time of issuing this report we have the following conclusions:

### Opinion on the financial statements

We anticipate issuing an unqualified opinion, on the financial statements. Given the material valuation uncertainty relating to the valuation of land and buildings highlighted in the financial statements, we have included an Emphasis of Matter paragraph within our auditor's report. Page 7 and 8 provide further details. Our proposed audit opinion is included in the draft auditor's report in Appendix B.

### Value for money conclusion

We anticipate concluding that the Council had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources. Our draft auditor's report, including proposed conclusion, is provided in Appendix B.

### Whole of Government Accounts (WGA)

We anticipate completing our work on your WGA submission, in line with the group instructions issued by the NAO, by the deadline of 4 December 2020. We anticipate reporting that the WGA submission is consistent with the audited financial statements

### Wider powers

The 2014 Act requires us to give an elector, or any representative of the elector, the opportunity to question us about the accounting records of the Council and to consider any objection made to the accounts. There have been no matters arising for the 2019/20 audit.

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# 1. EXECUTIVE SUMMARY

## Status of our audit work

We have substantially completed our work on the financial statements and value for money conclusion for the year ended 31 March 2020. At the time of preparing this report the following matters remain outstanding:

Audit area	Status	Description of outstanding matters
Investment properties	●	We are finalising our work in this area and are in the process of resolving our final queries with the valuer.
Property, plant and equipment	●	We are finalising our work in this area and are in the process of resolving our final queries with the valuer. We have small items of work to complete in relation to disposals, existence and assets held for sale.
Cash and cash equivalents	●	We have one query outstanding in relation to the petty cash balance included within the financial statements.
Loans and borrowings	●	We are awaiting receipt of direct confirmation for two loan balances.
Pensions	●	We are yet to receive the final report from the pension fund auditor for the procedures we are seeking assurance on. We are awaiting the finalised actuary report to enable the adjustments to be processed. See Section 2 for further details.
Collection fund	●	We are finalising our work in this area.
Whole of Government Accounts (WGA)	●	We are yet to complete the procedures as set out in the NAO group instructions.
Audit quality control and completion procedures	●	Our audit work is undergoing final stages of review by the Engagement Lead. In addition, there are residual procedures to complete, including agreeing the expected amendments to the final Statement of Accounts, updating post balance sheet event considerations to the point of issuing the opinion and reviewing managements going concern assertion.

## Status

- Likely to result in material adjustment or significant change to disclosures within the financial statements
- Potential to result in material adjustment or significant change to disclosures within the financial statements
- Not considered likely to result in material adjustment or change to disclosures within the financial statements

We will provide the Audit Committee with an update in relation to these outstanding matters in a follow up letter, prior to signing the auditor's report.

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# 2. EXECUTIVE SUMMARY (CONTINUED)

### Our audit approach

We provided details of our intended audit approach in our Audit Strategy Memorandum in July 2020. We have not made any changes to our audit approach since we presented our Audit Strategy Memorandum.

### Materiality

We set materiality at the planning stage of the audit at £6.9m using a benchmark of approximately 1.7% of Gross Operating Expenditure. Our final assessment of materiality, based on the final financial statements and qualitative factors is £6.9m, using the same benchmark. We set our trivial threshold (the level under which individual errors are not communicated to the Audit Committee, at £207k based on 3% of overall materiality.

### Misstatements and internal control recommendations

Section 3 sets out the internal control recommendations that we make, together with an update on any prior year recommendations.

Section 4 outlines the misstatements noted as part of our audit as at the time of issuing this report. If any additional misstatements are noted on completion of the outstanding work, these will be reported to the Audit Committee in a follow up letter.



## 2. SIGNIFICANT FINDINGS

Set out below are the significant findings from our audit. These findings include:

- our audit conclusions regarding significant risks and key areas of management judgement outlined in the Audit Strategy Memorandum;
- our comments in respect of the accounting policies and disclosures that you have adopted in the financial statements. On page 9 we have concluded whether the financial statements have been prepared in accordance with the financial reporting framework and commented on any significant accounting policy changes that have been made during the year;
- any further significant matters discussed with management;
- any significant difficulties we experienced during the audit; and
- modifications required to our audit report.

### Significant risks and key areas of management judgement

As part of our planning procedures we considered the risks of material misstatement in the Council's financial statements that required special audit consideration. Although we report identified significant risks at the planning stage of the audit in our Audit Strategy Memorandum, our risk assessment is a continuous process and we regularly consider whether new significant risks have arisen and how we intend to respond to these risks. No new risks have been identified since we issued our Audit Strategy Memorandum.

#### Significant risk

#### Description of the risk

Management override of controls

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.

#### How we addressed this risk

We addressed this risk by performing audit work in the following areas:

- accounting estimates impacting on amounts included in the financial statements;
- consideration of identified significant transactions outside the normal course of business; and
- journals recorded in the general ledger and other adjustments made in preparation of the financial statements.

#### Audit conclusion

There are no matters arising from our work in relation to management override of controls.

## 2. SIGNIFICANT FINDINGS (CONTINUED)

### Property, plant and equipment valuation

#### Description of the risk

The Council's accounts contain material balances and disclosures relating to its holding of property, plant and equipment, investment properties and assets held for sale, with the majority of land and building assets required to be carried at valuation. Because of the high degree of estimation uncertainty we have determined there is a significant risk in this area.

#### How we addressed this risk

In relation to the valuation of property, plant & equipment, investment properties and assets held for sale we:

- critically assessed the valuer's scope of work, qualifications, objectivity and independence to carry out the required programme of revaluations;
- considered whether the overall revaluation methodologies used by the valuer's are in line with industry practice, the CIPFA Code of Practice and the Council's accounting policies;
- assessed whether valuation movements are in line with market expectations by using information available from other sources;
- critically assessed the treatment of the upward and downward revaluations in the Council's financial statements with regards to the requirements of the CIPFA Code of Practice; and
- critically assess the approach that the Council adopts to ensure that assets not subject to revaluation in 2019/20 are materially correct, including considering the robustness of that approach in light of the valuation information reported by the Council's valuer.

#### Audit conclusion

At the outset of the COVID-19 outbreak, an expectation was raised that valuers were likely to conclude that a "material uncertainty" for the valuation of land and buildings existed at the balance sheet date. The Council's valuer has followed guidance issued by the Royal Institute of Chartered Surveyors and concluded that the impact of COVID-19 on the property market has led to a "material uncertainty" over the valuation of your land and buildings at the balance sheet date. This has been properly disclosed in the notes to the Statement of Accounts and we also asked management to extend the scope to include investment properties in Note 4 given the valuation is subject to the same uncertainty.

We expect, in line with normal practice, to include reference to this disclosure as an 'emphasis of matter' in our audit report. Our draft report at Appendix B includes the 'emphasis of matter' paragraph we expect to include. The draft wording is subject to our internal review processes, and if this wording subsequently changes we will provide an update in the follow up letter to the Audit Committee when the audit is completed.

In section 3 we have identified two internal control recommendations in relation to property, plant and equipment.

The procedures we have undertaken to date have not identified any material errors or uncertainties in the financial statements, or further matters that we wish to bring to Members' attention.



## 2. SIGNIFICANT FINDINGS (CONTINUED)

### Defined benefit liability valuation

#### Description of the risk

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 2019.

The valuation of the Local Government Pension Scheme relies on a number of assumptions, most notably around the actuarial assumptions, and actuarial methodology.

There are financial and demographic assumptions used in the calculation of, 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.

There is a risk that the assumptions and methodology used in valuing your pension obligation are not reasonable or appropriate to the Council's circumstances. This could have a material impact to the net pension liability in 2019/20.

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#### How we addressed this risk

As part of our work we reviewed the controls that the Council has in place over the information sent to the scheme actuary, including the Council's process and controls relevant to the assumptions used in the valuation. We also evaluated the competency, objectivity and independence of the scheme actuary, Hymans Robertsons.

We reviewed the appropriateness of the methodology applied, and the key assumptions included within the valuation, and compared them to expected ranges, utilising the information provided by PwC, the consulting actuary engaged by the National Audit Office. We reviewed the methodology applied in the valuation of the liability by Hymans Robertsons.

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#### Audit conclusion

The draft financial statements submitted for audit included pension figures provided by the actuary which were based on the estimated asset values at 31 March 2020. During the course of the audit, the actuary provided an update which included the pension figures based on actual asset values at 31 March 2020. The financial statements have been amended to incorporate the revised figures. This has reduced the value of the net pension liability.

When agreeing the source data used by the actuary, we noted a difference on the pensionable pay figure. The pension fund have confirmed an incorrect figure has been used and a revised actuary report has been requested. We have included an internal control recommendation in relation to this matter in Section 3.

Our work on the adjustment for these two issues is still underway and we will report the detailed amendment within our follow up letter.

The Pension Fund accounts disclose a material valuation uncertainty in relation to the valuation of level 3 unquoted property investments and level 3 unquoted pooled funds because of the potential impact of COVID-19. is disclosed in notes 4 and 39 of your revised financial statements. We plan, in line with normal practice, to include reference to this disclosure as an 'emphasis of matter' in our audit report. The purpose of this paragraph is to draw attention to this disclosure, it is not a qualification and does not modify our proposed unqualified opinion. Our draft report at Appendix B includes the 'emphasis of matter' paragraph we expect to include. The draft wording is subject to our internal review processes, and if this wording changes we will provide an update in the follow up letter to the Audit Committee.

## 2. SIGNIFICANT FINDINGS (CONTINUED)

### Qualitative aspects of the Council's accounting practices

We have reviewed the Council's accounting policies and disclosures and concluded they comply with the requirements of the Code of Practice on Local Authority Accounting (the Code), appropriately tailored to the Council's circumstances.

Draft accounts were received from the Council on 3 July 2020 and were of a good quality. These were supported by working papers of a good standard and represents a significant achievement by the finance team.

### Significant matters discussed with management

#### McCloud

The McCloud judgment relates to potential age discrimination arising from transitional protections offered to some existing members of public service pension schemes that were not made available to younger members. In July 2019, Treasury confirmed that the difference in treatment between older and younger members of public service pension schemes would need to be removed in order to remove the discrimination. For the financial year 2018/19, Hyman Robertsons provided a revised actuarial report which included an estimate of the impact of the case on pension liabilities for the Local Government Pension Scheme (LGPS). At the time of making this estimate, actuaries were required to estimate what the proposed remedy would be. In 2019/20 the respective actuarial reports made an adjustment to the initial estimates based on further information received.

In July 2020, the Treasury initiated a consultation on the proposed remedy for public service pensions and MHCLG released a consultation into the proposed remedy for the LGPS, which set out the estimation basis for the impact of the judgment.

Management made enquires of the actuary of the LGPS, Hyman Robertsons, in relation to the expected outcome of this change on the LGPS. Hyman Robertsons confirmed that the estimate made in the 2019/20 IAS 19 report included a methodology not dissimilar to that in the consultation and as such your actuary does not expect there to be a material difference in the LGPS meaning that a recalculation based on the consultation remedies was not required.

#### Goodwin

A case was made against the Teachers Pensions Scheme in relation to sexual orientation discrimination. The discrimination occurs because there is a difference in survivor benefits payable depending upon whether the member was in a same-sex marriage or civil partnership or an opposite-sex marriage or civil partnership. The Government concluded that changes are required to the Teachers' Pension Scheme to address the discrimination. The Government believes that this difference in treatment will also need to be remedied in those other public service pension schemes, where the husband or male civil partner of a female scheme member is in similar circumstances.

In respect of the LGPS, your actuary has confirmed that there will be an additional liability arising from the Goodwin judgment. Full information is not yet available to accurately calculate the impact, however, based on an estimate, your actuary has indicated that the LGPS impact is not likely to be material. As the impact is below materiality, no adjustment to the financial statements has been made. As these issues relate to the refinement of an estimate rather than an error, they have not been reported as unadjusted misstatements.



## 2. SIGNIFICANT FINDINGS (CONTINUED)

### Significant difficulties during the audit

We did not encounter any significant difficulties and we have had the full co-operation of management. The outbreak of the Covid-19 pandemic affected the operation of Council services and the audit process with officers and the audit team working remotely. We held regular discussions with management to understand the implications and consider the impact on our risk assessment. We identified no changes in key financial processes that affected our audit approach but our usual methods of communication and engagement were revised and the circumstances involved some time lags in resolving audit queries. Overall, the finance team responded well.

### 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 2019/20 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.



### 3. INTERNAL CONTROL RECOMMENDATIONS

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

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

Our findings and recommendations are set out below. We have assigned priority rankings to each of them to reflect the importance that we consider each poses to your organisation and, hence, our recommendation in terms of the urgency of required action. In summary, the matters arising fall into the following categories:

Priority ranking	Description	Number of issues
<b>1 (high)</b>	In our view, there is potential for financial loss, damage to reputation or loss of information. This may have implications for the achievement of business strategic objectives. The recommendation should be taken into consideration by management immediately.	-
<b>2 (medium)</b>	In our view, there is a need to strengthen internal control or enhance business efficiency. The recommendations should be actioned in the near future.	3
<b>3 (low)</b>	In our view, internal control should be strengthened in these additional areas when practicable.	1

### 3. INTERNAL CONTROL RECOMMENDATIONS (CONTINUED)

#### Other deficiencies in internal control – Level 2

##### Description of deficiency

###### Pensions source data

When reviewing the source data used by the actuary, we noted a difference in the pensionable pay amount. The pension fund has confirmed this amount was used in an error, and the actuary have provided a revised report based on the actual pensionable pay.

###### Potential effects

The financial statements are materially mis-stated in relation to the pensions liability.

###### Recommendation

The finance team should review the data used by the actuary to confirm the accuracy of it.

###### Management response

On receipt of the actuary report, a review of the data included will be carried out and verified back to any data we have provided for their use

##### Description of deficiency

###### Property, plant and equipment (PPE) valuations

We noted four cases where there were arithmetic errors within the valuation certificates, resulting in incorrect asset valuations. The errors included overstatements and understatements which overall netted to an £80k variance which is below trivial. In addition, we identified a further case where a BCIS index had been incorrectly input into the valuation certificate. Again the value of the error was below our triviality threshold. It is, however, possible that these types of issues could result in a significant error.

###### Potential effects

PPE valuations are incorrect as a result of arithmetic or input errors within the valuation process.

###### Recommendation

Internal quality review processes are implemented to ensure valuation certificates once prepared are reviewed by a second officer prior to being provided to the finance team.

###### Management response

Existing valuation procedures and controls will be reviewed by the internal asset valuation working group, with a view to implementing additional quality control/checking systems.

### 3. INTERNAL CONTROL RECOMMENDATIONS (CONTINUED)

#### Description of deficiency

##### Property, plant and equipment controls

When carrying out our walkthrough test of the Property, Plant and Equipment system, we noted that the following control had not operated:

The Capital Accountant compares new valuations to net book values plus this year's depreciation and investigates large differences over £100k.

This check was completed upon request, with no issues identified.

##### Potential effects

Property, Plant and Equipment may be held at inaccurate values in the ledger.

##### Recommendation

Year end controls are carried out and implemented as designed.

##### Management response

A process will be written for the year end capital procedures and when the new Capital Accountant is in post, emphasis will be drawn to the importance of completing all Year End controls.

#### Other deficiencies in internal control – Level 3

#### Description of deficiency

##### Creditor payments

When carrying out our walkthrough test of the creditors system, we noted that random checks of signatories take place, however there is no method in place for these checks and no evidence of the check is maintained.

##### Potential effects

Unauthorised signatories are used to authorise expenditure.

##### Recommendation

A method is implemented for completing the checks, and evidence of the check is maintained.

##### Management response

A Business Objects Report will be scheduled to run at the beginning of each month. Using this report the Servicedesk will choose the top 10 randomly selected invoices and compare those signatories with those kept on file. The date checked will be recorded and results filed for reference

## 4. SUMMARY OF MISSTATEMENTS

We set out below the misstatements identified for adjustment during the course of the audit, above the level of trivial threshold of £207k.

The first section outlines the misstatements that were identified during the course of our audit which management has assessed as not being material, either individually or in aggregate, to the financial statements and does not currently plan to adjust.

The second section outlines the misstatements that have been adjusted by management during the course of the audit.

### **Unadjusted misstatements 2019/20**

On review of the cash flow statement it was noted there is a balancing figure of £311k included. This value has been investigated by officers and no adjustment has been made within the financial statements.

### **Adjusted misstatements 2019/20**

As noted in Section 2 in our response to the significant audit risk in respect of the defined benefit liability valuation, we have identified the need for an amendment. Our work in this area is still in progress, and we will report the detailed adjustment in our follow up letter to the Audit Committee on completion of the audit.



## 4. SUMMARY OF MISSTATEMENTS (CONTINUED)

### Disclosure amendments

In addition to the above numerical errors that relate directly to the primary statements or their related notes, our audit also identified a small number of errors and adjustments in relation to other disclosures. These have been discussed with management who have agreed to the amendments and include, but are not limited to:

- **Cash Flow Statement** - There was a transposition error on the total 'Net increase (or decrease) in cash and cash equivalents' which was incorrectly shown as £18,902k, but should be £18,092k. This has been amended in the revised financial statements.
- **Note 18 – Financial Instruments** – The disclosure for creditors has been amended from £28,171k to £14,518k to remove items that are not contractual obligations, as non domestic rates, council tax, payroll tax and national insurance. The prior year has also been amended from £22,813k to £16,807k.
- **Note 31 – Officers' Remuneration – Exit Packages** – There was £24k payment in lieu of notice on one exit package that was incorrectly omitted from the disclosure. There was also a pension strain cost of £4k that was based on an estimate due to timing. The disclosure has been amended for both issues.
- **Note 32 – External Audit Costs** – the disclosure has been updated to include the fee for the work on the Teachers Pensions Return of £3k which was omitted due to the work not being agreed at the time of preparing the financial statements.
- During the course of the audit, officers amended the presentation of Note 31 – Officers' Remuneration. The revised financial statements now include separate tables for teaching and other staff.

### Unadjusted disclosure amendments

As noted above, we identified errors in the disclosure of exit packages. We extrapolated the known error and projected an understatement of £22k. This is a projected error and has not been amended for within the financial statements.





# 5. VALUE FOR MONEY CONCLUSION

## Our approach

We are required to form a conclusion 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 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.

Commentary against each of the sub-criteria, and an indication of whether arrangements are in place, is provided below.

Sub-criteria	Commentary	Arrangements in place?
Informed decision making	<p>The Council operates an Executive with a Leader and Cabinet model, and this is governed by a Council Constitution including the normal features of an effective governance framework in local government.</p> <p>The Audit Committee monitors the Council's system of internal control and it met regularly during the year. The Internal Audit plan has been delivered for the year and the Head of Internal Audit Opinion provided satisfactory assurance. Internal Audit reports directly to the Audit Committee. The Audit Committee receives regular reports tracking services progress in responding to Internal Audit recommendations. The Audit Committee challenges management to ensure recommendations are implemented and this is in a timely manner.</p> <p>An Annual Governance Statement has been prepared and approved by the Audit Committee.</p> <p>A medium term financial plan was in place for the year ended 31 March 2020. Performance against the plan was reported regularly to the Cabinet.</p>	Yes



## 5. VALUE FOR MONEY CONCLUSION

Sub-criteria	Commentary	Arrangements in place?
Sustainable resource deployment	<p>The updated financial plan was approved by full Council in February 2020 and sets out the pressures faced by the Council in the coming year including demand and funding issues. The plan included the need for cost reduction initiatives over the medium term including to ensure a balanced financial position. The Council is now revisiting the financial plan in light of COVID-19 and the anticipated economic consequences in the short and medium term. This includes consideration of the key expenditure and income assumptions included in the plan. This is understandably difficult given the significant levels of ongoing uncertainty. Our VFM conclusion considers the arrangements in place for the 2019/20 financial year and recognises that the consequences of the pandemic affect arrangements in 2020/21.</p> <p>The 2019/20 outturn shows that this was a challenging financial year for some areas of Council. Demand pressures meant there were overspends in some service areas, especially within need led budgets, but these were partially offset by one off savings. The Council ended the year with a slight overspend of approx. 1.1%. The above pressures will continue alongside the financial pressures and challenges created by the response and recovery from COVID-19.</p> <p>In the year earmarked reserves increased by £6.6m mainly due to COVID-19 grant received at the year end. The General Fund reserve increased by £300k. Overall total useable reserves as at 31 March 2020 are £60.5m.</p> <p>Capital expenditure was lower than planned in the year by £7.3m against a total budget of £39.5m. The underspend has been carried into the 20120/21 budget.</p>	Yes
Working with partners and other third parties	<p>The Council works with a range of third parties including NHS Providers, LEP's and Housing Associations. There is a Partnership Protocol and a Joint Working Framework to govern the arrangements.</p> <p>The Council has issued procurement guidance, has contract 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

# 5. VALUE FOR MONEY CONCLUSION (CONTINUED)

## Significant audit risks

The NAO’s guidance requires us to carry out work to identify whether or not a risk to our conclusion exists. Risk, in the context of our Value for Money work, is the risk that we come to an incorrect conclusion rather than the risk of the arrangements in place at the Council being inadequate. In our Audit Strategy Memorandum, we reported that we had identified one significant audit risk. The work we carried out in relation to the significant risk is outlined below.

Risk	Work undertaken	Conclusion
<p><b>Financial Sustainability</b>                      The Council’s medium term financial plan (MTFP) for the period 2020/21 to 2022/23 sets out the financial challenges the Council faces in the medium term. To achieve financial balance in the coming years, the MTFP includes planned use of reserves of £1.9m in 20/21 and £1.6m in 21/22.</p> <p>The continuing challenges the Council faces are not new and are not unique to North Lincolnshire Council. The challenges do, however, present a significant audit risk in respect of the arrangements that the Council has in place to deliver financial sustainability over the medium term.</p>	<p>We reviewed the arrangements the Council has in place for ensuring financial resilience and ensuring that the medium term financial plan has taken into consideration factors such as funding reductions, salary and general inflation, demand pressures and restructuring costs.</p> <p>We also reviewed the arrangements in place to monitor income and expenditure to deliver the budget and the Council priorities.</p>	<p>Our work provided sufficient assurance. We have no matters to report.</p> <p>The impact of the COVID-19 pandemic means the Council will need to revisit the financial plan, including assumptions and future budget gaps. Our conclusion considers arrangements in the 2019/20 financial year and recognises that the impact of COVID-19 was in March 2020. When setting the updated financial plan, arrangements were in place to set a financial plan which reflected the circumstances at that time.</p>

## Our overall conclusion

Our draft auditor’s report included in Appendix B states that we intend to issue an unqualified Value for Money conclusion for the 2019/20 financial year.



# APPENDIX A

## DRAFT MANAGEMENT REPRESENTATION LETTER

North Lincolnshire Council  
Church Square House  
30 – 40 High Street  
Scunthorpe  
DN15 6NL

[XX] November 2020

Dear Mark

### North Lincolnshire Council - audit for year ended 31 March 2020

This representation letter is provided in connection with your audit of the financial statements of North Lincolnshire Council (the Council) for the year ended 31 March 2020 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 2019/20 (the Code) and applicable law.

I confirm that the following representations, to the best of my knowledge and belief, 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 ourselves 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 and applicable law.

#### My responsibility to provide and disclose relevant information

I have provided you with:

- access to all information of which we are 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 Director Governance and Partnerships 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.

#### 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.

#### Accounting policies

I confirm that I have reviewed the accounting policies applied during the year in accordance with Code and 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.

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## DRAFT MANAGEMENT REPRESENTATION LETTER (CONTINUED)

### Accounting estimates, including those measured at fair value

I confirm that any significant assumptions used by the Council in making accounting estimates, including those measured at current or fair value, are reasonable.

### 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 and 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 Director Governance and Partnerships for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

I have disclosed to you:

- all the results of my assessment of the risk that the financial statements may be materially misstated as a result of fraud;
- all knowledge of fraud or suspected fraud affecting the Council involving:
  - management and those charged with governance;
  - employees who have significant roles in internal control; and
  - others where fraud could have a material effect on the financial statements.

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

### Related party transactions

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

### Charges on assets

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

### Impairment review

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

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## DRAFT MANAGEMENT REPRESENTATION LETTER (CONTINUED)

### Future commitments

I am not aware of any plans, intentions or commitments that may materially affect the carrying value or classification of assets and liabilities or give rise to additional liabilities.

### Service Concession Arrangements

I am not aware of any material contract variations, payment deductions or additional service charges in 2019/20 in relation to the Council's PFI schemes that you have not been made aware of.

### Subsequent events

I confirm all events subsequent to the date of the financial statements and for which the Code and 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

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

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

### Unadjusted misstatements

*I confirm that the effects of the uncorrected misstatements are immaterial, both individually and in aggregate, to the financial statements as a whole. Please make sure the appendix is attached to the letter and not cross-referenced to the appendix in the ACR. Please remove this paragraph if no unadjusted mis-statements.*

Yours faithfully

Director Governance and Partnerships: .....

Date: .....

# APPENDIX B DRAFT AUDITOR'S REPORT

## Independent auditor's report to the Members of North Lincolnshire Council

### Report on the financial statements

#### Opinion

We have audited the financial statements of North Lincolnshire Council for the year ended 31 March 2020, which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

In our opinion, the financial statements:

- give a true and fair view of the financial position of North Lincolnshire Council as at 31st March 2020 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 2019/20.

#### Basis for opinion

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

#### Emphasis of Matter – Effect of the Covid-19 pandemic on the valuation of land and buildings and investment properties

We draw attention to note 4, 14 and 16 of the financial statements, which describes the effects of the Covid-19 pandemic on the valuation of the Council's land and buildings and investment properties. As disclosed in note 4, 14 and 16 of the financial statements, the Council's valuers included a 'material valuation uncertainty' declaration within their report as a result of the Covid-19 pandemic creating a shortage of relevant market evidence upon which to base their judgements. Our opinion is not modified in respect of this matter.

#### Emphasis of Matter - Material uncertainty relating to valuations of property investments

We draw attention to Note 4 and 39 of the financial statements, which describes the effects of the Covid-19 pandemic on the valuation of the Pension Fund's level 3 unquoted property investments and level 3 unquoted pooled funds as at 31 March 2020. As disclosed in Note 4 and 39 of the financial statements, the outbreak of Covid-19 has had a significant impact on global financial markets. As such, the Pension Fund's property investment manager has included a material valuation uncertainty clause in some 31 March 2020 valuation reports because of the possible impact of Covid-19. There is, therefore, less certainty and a higher degree of caution should be attached to valuations of unquoted property investments and pooled funds than would normally be the case. Our opinion is not modified in respect of this matter.

#### Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where: the Director Governance and Partnership's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or the Director Governance and Partnership has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Council's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

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## DRAFT AUDITOR'S REPORT

### Other information

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

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

We have nothing to report in this regard.

### Responsibilities of the Director Governance and Partnership for the financial statements

As explained more fully in the Statement of the Director Governance and Partnership's Responsibilities, the Director Governance and Partnership 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 2019/20, and for being satisfied that they give a true and fair view. The Director Governance and Partnership is also responsible for such internal control as the Director Governance and Partnership determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Director Governance and Partnership is required to comply with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 and prepare the financial statements on a going concern basis, unless the Council is informed of the intention for dissolution without transfer of services or function to another entity. The Director Governance and Partnership 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.

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

### 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.

### Conclusion on North Lincolnshire Council's arrangements for securing economy, efficiency and effectiveness in the use of resources

#### Conclusion

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in April 2020, we are satisfied that, in all significant respects, North Lincolnshire Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

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### **Basis for conclusion**

We have undertaken our review in accordance with the Code of Audit Practice issued by the Comptroller and Auditor General, having regard to the guidance on the specified criterion issued in April 2020, as to whether 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. The Comptroller and Auditor General determined this criterion as that necessary for us to consider in satisfying ourselves whether the Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

### **Responsibilities of the Council**

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

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

We are required under section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice requires us to report to you our conclusion relating to proper arrangements. 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.

### **Use of the audit report**

This report is made solely to the members of North Lincolnshire Council, as a body, in accordance with part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 44 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the members of the Council those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the members of the Council, as a body, for our audit work, for this report, or for the opinions we have formed.

### **Certificate**

We certify that we have completed the audit of North Lincolnshire Council in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

OR

### **Delay in certification of completion of the audit**

We cannot formally conclude the audit and issue an audit certificate until we have completed the work necessary to issue our assurance statement in respect of the Council's Whole of Government Accounts consolidation pack. We are satisfied that these matters do not have a material effect on the financial statements or on our conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources.

Mark Kirkham  
For and on behalf of Mazars LLP

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# APPENDIX C INDEPENDENCE

As part of our ongoing risk assessment we monitor our relationships with you to identify any new actual or perceived threats to our independence within the regulatory or professional requirements governing us as your auditors.

We can confirm that no new threats to independence have been identified since issuing the Audit Strategy Memorandum and therefore we remain independent.



## CONTACT

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