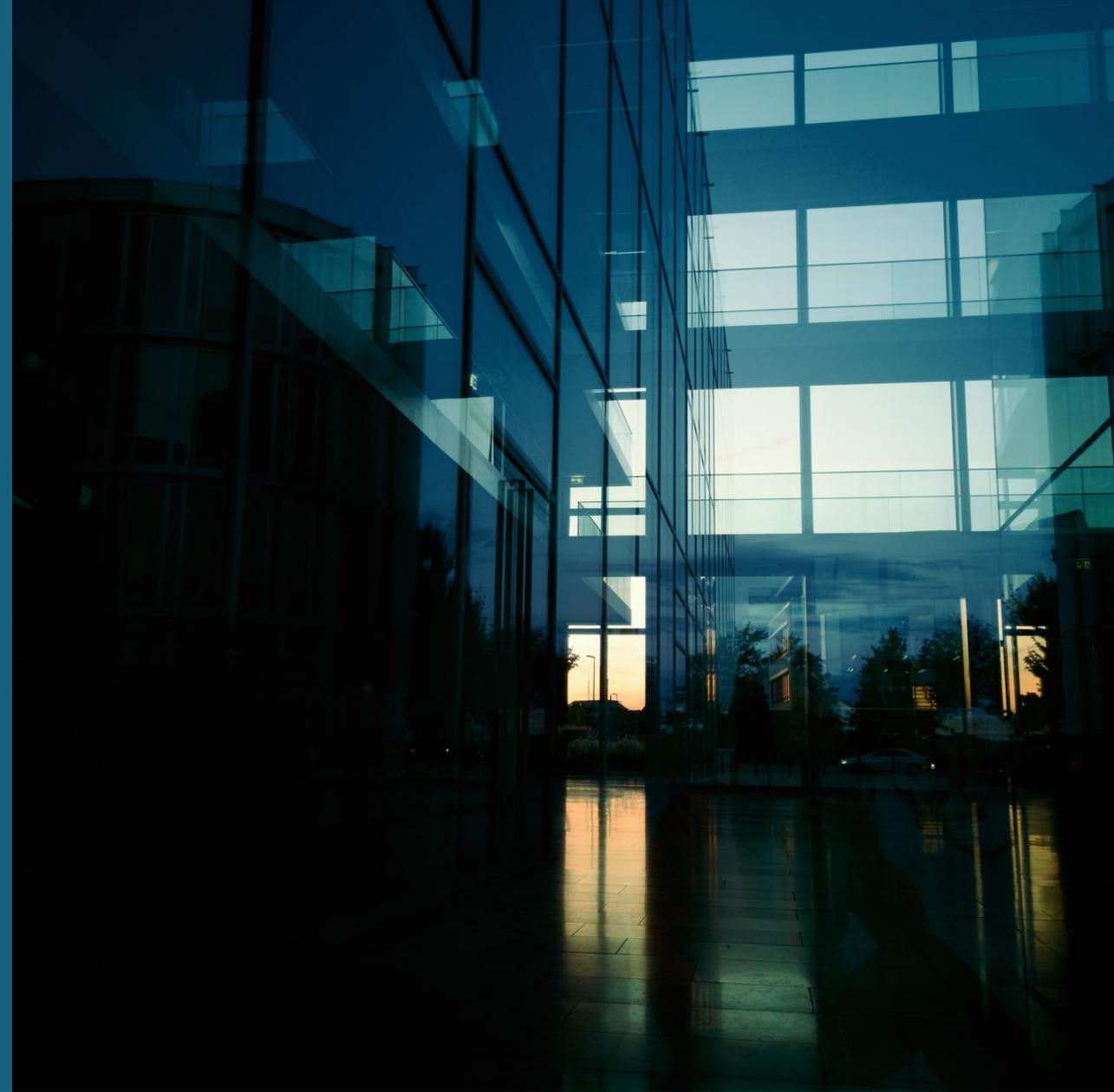


Auditor's Annual Report

North Lincolnshire Council – year ended
31 March 2021

9 March 2022



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Section 01: **Introduction**

1. 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 Lincolnshire Council ('the Council') for the year ended 31 March 2021. Although this report is addressed to the Council, it is designed to be read by a wider audience including members of the public and other external stakeholders.

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



Opinion on the financial statements

We issued our audit report on 9 December 2021. Our opinion on the financial statements was unqualified.



Value for money (VFM) arrangements

In our audit report issued we reported that we had not completed our work on the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources. Section 3 confirms that we have now completed this work and provides our commentary on the Council's arrangements.



Wider reporting responsibilities

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.

Introduction

Audit of the financial statements

02

Section 02:

Audit of the financial statements

2. Audit of the financial statements

The scope of our audit and the results of our opinion

Our audit was conducted in accordance with the requirements of the Code, and International Standards on Auditing (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 2021 and of its financial performance for the year then ended. Our audit report, issued on 9 December 2021 gave an unqualified opinion on the financial statements for the year ended 31 March 2021.

Qualitative aspects of the Council's accounting practices

We have reviewed the Council's accounting policies and disclosures and concluded they comply with the 2020/21 Code of Practice on Local Authority Accounting, appropriately tailored to the Council's circumstances.

Draft accounts were received from the Council on 1 July 2021 and were of a good quality.

Significant difficulties during the audit

During the course of the audit we did not encounter any significant difficulties and we have had the full co-operation of management.

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 the following deficiencies in internal control as part of our audit.

Description of deficiency

Members' Allowances

Our testing highlighted that Members are paid an allowance of £47 for acting as a substitute at a Council meeting. The rate paid agrees to a 2016/17 version of the Members' allowance handbook that is no longer updated but it is not included within the allowance rates for 2020/21 published on the Council's website.

Potential effects

Lack of transparency in the allowance rates paid to Members.

Recommendation

The substitution allowance should be included within the published allowance rates on the Council's website.

Management response

Thank you for bringing this to our attention, this is an administrative oversight that will be amended in the scheme publication; in terms of transparency, we can confirm that the publication of Members Expenses Claimed include substitutions payments.

2. Audit of the financial statements

Internal control recommendations – Follow up on previous internal control points

Description of deficiency

Property, plant and equipment (PPE) valuations

In the 2019/20 Audit Completion Report we reported we had 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 was 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.

2020/21 Update

Our work in the current year has identified further arithmetic errors.

Description of deficiency

Creditor payments

In the 2019/20 Audit Completion Report we reported that 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.

2020/21 Update

Our work in the current year has identified that there is still no method or evidence of the checks performed.

2. Audit of the financial statements

Internal control recommendations – Follow up on previous internal control points

Description of deficiency

Pensions source data

In the 2019/20 Audit Completion Report we reported that when reviewing the source data used by the actuary, we noted a difference in the pensionable pay amount. The pension fund 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.

2020/21 update

The recommendation has been implemented.

Description of deficiency

Property, plant and equipment (PPE) controls

In the 2019/20 Audit Completion Report we reported 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.

2020/21 update

The recommendation has been implemented.



03

Section 03:

Commentary on VFM arrangements

3. 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

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. Where we identify significant risks, we design a programme of work (risk-based procedures) to enable us to decide whether there is a significant weakness in arrangements. 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. We have identified no risks of significant weakness.

Where our risk-based procedures identify actual significant weaknesses in arrangements, we are required to report these and make recommendations for improvement. We have identified no actual significant weaknesses in arrangements requiring reporting or recommendations for improvement.

The table below summarises the outcomes of our work against each reporting criteria. On the following page we outline further detail of the work we have undertaken against each reporting criteria, including the judgements we have applied.

Reporting criteria	Commentary page reference	Risks of significance weaknesses in arrangements identified?	Actual significant weaknesses in arrangements identified?
Financial sustainability	13	No	No
Governance	15	No	No
Improving economy, efficiency and effectiveness	17	No	No

3. VFM arrangements – Financial Sustainability

Overall commentary on the Financial Sustainability reporting criteria

How the Council identifies significant financial pressures that are relevant to its short and medium-term plans

The Council has an established process for developing its Medium Term Financial Strategy (MTFS). The MTFS is reviewed annually capturing the Council’s short and medium term priorities and delivery plans. The process of developing the strategy involves input by officers across the Council to ensure all known funding streams and priority investment areas are included and that funding gaps are identified.

Services are encouraged to resolve financial pressures within their net approved budget where possible, with significant pressures flowing through to the MTFS to be reviewed as part of the organisational budget balancing considerations. Organisation-wide initiatives that support the Council’s overall ambitions and priorities are considered and managed by the Senior Leadership Team.

The Council has a good track record of spending within the approved budget. The Covid 19 pandemic impacted 2020/21 and created short term pressures but the Council received additional funding and ultimately achieved an underspend for the year of £8.7m. A significant amount (£7.0m) of Government funding was carried forward to 2021/22 to manage financial uncertainties and provide some resilience. We have seen evidence of effective financial management arrangements despite the additional issues caused by the COVID-19 pandemic.

How the Council plans to bridge funding gaps and identifies achievable savings

The setting and monitoring of savings plans are incorporated into the budget process. Updating the MTFS involves reviewing existing plans in terms of deliverability, identifying priority investment areas and reviewing available funding. Where funding gaps are identified they are managed through a mixture of service efficiency, reprioritisation of investment and maximising income streams. Where possible, savings are to be delivered

within a service’s overall net approved budget and savings plans are incorporated into the budget.

Review of the budget packs for a sample of services show evidence of reporting of current year savings plans, including responsible officers, whether action plans are in place for delivery and whether these are on track. Budget savings are quantified, with monitoring including a forecast outturn position and commentary if there are deviations from the budgeted. The packs also include an update on prior year unachieved savings. Service monitoring of savings feeds into the overall monitoring of the Council’s budget position reported to Cabinet.

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

The Council has established processes in place to consider both revenue and capital investment and target them to meet priorities and the desired outcomes. The Council identifies its priorities through the Council Plan which is updated periodically. The current Plan runs for the period 2018 to 2021 and clearly sets out the priorities of the Council, why each of the priorities is important and what action the Council intends to take to address each priority.

Review of the MTFS demonstrates consistency with the priorities in the Council Plan and this confirms the linkage between the overall priorities and the financial strategy. Review of the capital investment strategy also shows clear linkages with the Council’s overall priorities. The MTFS is also clearly linked with the Treasury Management Strategy.

Financial reports prepared for meetings of the Cabinet refer to the Council’s priorities with overall revenue investment and revenue monitoring being shown against each priority area. Capital investment monitoring is also reported in the same format.

3. VFM arrangements – Financial Sustainability

Overall commentary on the Financial Sustainability reporting criteria continued

The Integrated Commissioning and Quality Executive (ICQE) terms of reference confirm that formal partnerships and cross organisation roles exist where priorities and outcomes are shared. Planning, including financial planning, is considered jointly to ensure investment requirements are focused and understood, and are supported by integrated commissioning strategies that are consistent with the Council Plan.

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

The Council’s budget setting process considers the investment required by relevant plans. The closest interaction is with capital investment plans where the investment is supported by a business case process that considers the whole life cost of schemes. In line with the Prudential Code and the Council’s Capital Investment Strategy, the revenue implications of capital investment decisions are assessed and the Capital Investment Strategy is linked to the Council’s overall priorities, MTFs and Treasury Management Strategy, to ensure investments are fully funded.

The Capital Investment Strategy recognises that the delivering Council objectives requires some capital investment as well as support for the achievement of ongoing reductions to the cost base. The MTFs provides for the level of borrowing after taking account of grants, other external funding and capital receipts to be generated through the sale of surplus assets. The revenue cost of this borrowing, interest payments and Minimum Revenue Provision (MRP) payments are incorporated into the MTFs. Similarly, the effect on Prudential Indicators are incorporated into the Treasury Management Strategy.

How the Council identifies and manages risks to financial resilience

The Council monitors key financial and activity-based indicators as part of its monthly and quarterly budget monitoring process. Budgets are underpinned by demand assumptions where possible and these are compared to actual activity throughout the year and financial implications assessed.

Review of the budget packs for a sample of services show evidence of the identification of COVID-19 financial implications as well as other issues. The reports also identify cost drivers and compare forecast activity levels against planned levels, identifying the financial impact and detailing any assumptions that have been made. The reports show a clear understanding of the issues faced within the services and the financial implications.

The Council’s 2020/21 financial position was reported to the Cabinet throughout the year with the final position reported in the outturn report of 12 July 2021. The reported position is consistent with the financial position reported during the year and did not indicate a weakness in the Council’s budget monitoring and reporting arrangements.

Our work did not identify a significant weakness in the Council’s arrangements in relation to the financial sustainability reporting criteria.

3. VFM arrangements – Governance

Overall commentary on the Governance reporting criteria

How the Council monitors and assesses risk and how the Council gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud

The Council operates a Cabinet and Leader model and is governed by a Constitution including the normal features of an effective local government governance framework.

The Council has a risk management protocol which is updated regularly and was most recently approved by the Audit Committee in January 2021. Risk management issues are reported to the Council's Audit Committee and the Council's Assurance Group of senior officers.

The Council has a Local Code of Corporate Governance which is aligned to the national guidance provided by CIPFA/ SOLACE. The Council has adopted the 3 lines of assurance model and this is central to ensuring that it receives assurance on the operation of controls and for the compilation of the Annual Governance Statement.

The Council's Internal Audit team provides assurance based on a risk-based audit plan. It produces an annual report to the Audit Committee, which provides an opinion on the Council's control environment. The Head of Internal Audit Opinion for 2020/21 gave the following assurance ratings:

- Control framework – satisfactory
- Governance – satisfactory
- Risk management – substantial assurance

The Council has a fraud strategy and this is subject to regular review. The Audit Committee is kept informed of anti-fraud activities through interim and annual reports.

How the Council approaches and carries out its annual budget setting process

The Council's approach in budget setting is to ensure investment in the right things rather than just a focus on savings and aligning that investment with Council Plan priorities. Review of the Council Plan, MTFS and Capital Investment Strategy demonstrate that the Council focuses on investments that align with its strategic priorities.

The MTFS includes consideration of the impact of Central Government funding and local taxation yields on the overall financial position and identifies these as risk areas. Review of the budget setting arrangements highlights no significant weaknesses and the Council is aware of the financial pressures it faces.

How the Council ensures effective processes and systems are in place to ensure budgetary control; to communicate relevant, accurate and timely management information (including non-financial information where appropriate); supports its statutory financial reporting requirements; and ensures corrective action is taken where needed

The Council has a well-established budget monitoring process which includes monthly updates focusing on the financial outturn position for revenue and capital. Each quarter a formal report is produced and taken to Cabinet setting out the latest forecast and any corrective action required. Support is provided by the Finance Business Partnering team to service managers, prioritising high risk areas.

Our review of Council minutes confirms there was regular reporting of the financial position during the 2020/21 financial year. The reports detailed the in-year pressures as well as planned mitigations. The outturn position was not significantly different to that reported to Members during the year and did not indicate a weakness in arrangements. The Council has a good record of delivering against its budget and this is evidence of effective arrangements for budgetary control.

The project plan for preparing the annual Statement of Accounts was delivered in 2020/21 with the draft being available for audit in early July 2021. Our audit of the financial statements did not identify any matters to indicate a significant weakness in the accuracy of the financial information reported or the process for preparing the accounts. It is our experience that management takes action to address audit matters in a timely and appropriate manner.

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3. VFM arrangements – Governance

Overall commentary on the Governance reporting criteria continued

How the Council ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency.

The foundation of the Council’s decision-making process is its Constitution and Scheme of Delegation which makes it clear where the responsibility for any given decision lies. Decisions are supported by management data and professional advice. Decisions are recorded, where appropriate, in Delegated Decision Records or Member Decision Reports which are published on the Council’s website. We noted that new decisions are supported by reports that outline options and relevant considerations, including references to financial, legal, HR, property and IT where appropriate, to ensure recommendations are supported by robust information.

Our review of Council minutes did not identify any evidence of a significant weakness in arrangements. The reports we reviewed support informed decision-making and were clear in the decision Members were asked to make.

The Council implemented measures to ensure that services could continue despite the restrictions arising during the COVID-19 pandemic. Decisions in relation to Covid related to such matters as business continuity, purchase of personal protective equipment and business support grants scheme.

How the Council monitors and ensures appropriate standards are maintained

The Council has nominated the Head of Legal and Democracy as its Monitoring Officer. The Council’s Monitoring Officer provides a framework to ensure compliance with relevant statutory requirements. We note through review of meeting papers legal considerations are routinely considered in reports to Members.

The Code of Conduct sets out a series of requirements of Councillors and follows the Nolan principles. The Code sets out who it applies to, standards of conduct and disclosable interests. The Standards Committee deals with issues relating to the conduct of Members. The terms of reference of the Standards Committee are set and clearly define the role of the Standards Committee.

There is an Officers Code of Practice for employees and this is shared on the intranet. The Code of Practice covers procurement activity and includes guidance in relation to declarations of interest and how to declare them within commissioning and procurement management processes.

The Statement of Accounts records material related party transactions as well as senior officer pay and Member allowances. We considered these disclosures and compared them with the interests declared and identified no matters to report.

We confirmed that contract procedure rules are in place and require procurement decisions to comply with appropriate standards.

There is regular reporting of treasury management activity that details the Council’s investments, cash and borrowing positions. The Treasury Management Strategy was approved ahead of the 2020/21 financial year and sets out the Council’s measures against which treasury management can be assessed. The measures include those designed to mitigate risk to the Council’s finances.

Our work did not identify a significant weakness in the Council’s arrangements in relation to the governance reporting criteria.

3. VFM arrangements – Improving Economy, Efficiency and Effectiveness

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

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

Quarterly Performance Reviews are carried out for all services to capture issues and identify areas for improvement in line with the Performance Management Framework with additional statutory reporting and performance responsibilities as appropriate to the service.

Review of the Performance Management Framework shows that it sets out the approach used to assess progress and measure success. The Framework sets out how outcomes can be intangible but can be informed by triangulating resident and visitor experiences, data and practice wisdom, for example, the experience and expertise of staff. Where outcomes are not as anticipated, action planning is used to effect change.

The Council uses financial and performance data to inform budget decisions. Service budget packs provide a comprehensive range of comparable data, identify key risk areas and focus on improvement areas and areas of budget risk.

Review of the budget packs for a sample of services show evidence of the identification of the financial implications of Covid 19 as well non pandemic related issues. The reports also identify cost drivers and compare forecast activity levels against planned levels, identifying the financial impact and detailing any assumptions that have been made.

How the Council evaluates the services it provides to assess performance and identify areas for improvement

The Council has a structured and consistent system of performance management, aligned with the assurance framework.

The Council's Assurance Group provides officer oversight of performance management to ensure action is being taken to address performance issues and to ensure compliance with the Performance Management Framework. This is underpinned by Head of Service reporting processes and SLT updates.

How the Council ensures it delivers its role within significant partnerships, engages with stakeholders it has identified, monitors performance against expectations, and ensures action is taken where necessary to improve.

The Council has a Partnership Protocol and Framework that supports the effectiveness of partnership arrangements in delivering the Council's vision, strategic priorities and agreed outcomes, with each partnership being able to demonstrate their effectiveness as part of their governance arrangements. There are several significant partnerships that fall within the scope of the protocol and there is a wider integrated partnership working across North Lincolnshire and the Humber which includes, Humber Coast and Vale Integrated Care System, Humber Police and Crime Panel, Humber Bridge Board and Humberside Fire Authority.

The North Lincolnshire Health and Wellbeing Board, is a partnership board and statutory committee of North Lincolnshire Council, established as part of the Health and Social Care Act 2012. Reporting to the Health and Well Being Board is the North Lincolnshire Clinical Commissioning Group (CCG) & North Lincolnshire Council Integrated Commissioning & Quality Executive (ICQEX).

There are regular meetings between the Council and the CCG and these include senior representatives of each body focusing on delivery of the strategic assessment and in particular addressing health inequalities. ICQEX meetings include consideration of finance, quality and performance of relevant services focused on social care for the Council and health for the CCG.

3. VFM arrangements – Improving Economy, Efficiency and Effectiveness

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

How the Council ensures that where services are commissioned or procured this is done in accordance with relevant legislation

The Commissioning and Procurement team lead on high value/high risk commissioning and procurement projects, liaising with service area leads, legal and wider project team members as appropriate.

Contract Procedure Rules are in place, these are comprehensive and up to date. In addition, support is provided through service information and through advice with a focus on outcome-based commissioning and specification. Review of the guidance available confirms that it is comprehensive and enables a consistent approach. There is contract management guidance and templates to support effective contract management and assurance that contracts are delivering against outcomes.

Where contracts are managed in service areas, contract management reporting forms part of that service areas performance reporting.

Our work did not identify a significant weakness in the Council’s arrangements in relation to the economy, efficiency and effectiveness reporting criteria.

04

Section 04:

**Other reporting responsibilities and
our fees**

4. Other reporting responsibilities and our fees

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 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 but we did receive correspondence drawing our attention to a regularity matter which led to additional audit procedures.

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, and to carry out certain tests on the data. At the time of preparing this report we have not yet received instructions from the NAO on what procedures are required. As such this work is outstanding.

4. Other reporting responsibilities and our fees

Fees for work as the Council's auditor

We reported our proposed fees for the delivery of our work under the Code of Audit Practice in our Audit Strategy Memorandum presented to the Audit Committee in March 2021. Having completed our work for the 2020/21 financial year, we can confirm that our fees are as follows:.

Area of work	2019/20 fees	2020/21 fees
Planned fee in respect of our work under the Code of Audit Practice	£80,186	£80,186
Additional fees in respect of PPE valuation and pensions liability valuation	£14,950	£14,950
Additional fees in respect of ISA540 Auditing Accounting Estimates and Related Disclosures	N/A	£4,465
Additional fees in respect of correspondence referring to regularity issues	N/A	£3,000
Additional fees in respect of the new VFM approach	N/A	£10,000
Total fees	£95,136	£112,601

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4. Other reporting responsibilities and our fees

Fees for other work

In 2020/21 the Council has engaged Mazars LLP for the following non-audit services:

- Teachers' Pension Return - £3,500 plus VAT (fee for 2019/20 £3,000)
- School Centred Initial Teacher Training Return - £2,800 plus VAT (fee for 2019/20 £2,500)
- Housing Benefit Return - £9,500 plus VAT (fee for 2019/20 £7,800)

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Mazars is an internationally integrated partnership, specialising in audit, accountancy, advisory, tax and legal services*. Operating in over 90 countries and territories around the world, we draw on the expertise of 40,400 professionals – 24,400 in Mazars' integrated partnership and 16,000 via the Mazars North America Alliance – to assist clients of all sizes at every stage in their development.

*where permitted under applicable country laws.