



Audit Strategy and Completion Report

East Lindsey District Council– Year ended 31 March 2023

November 2024

Audit and Governance Committee
East Lindsey District Council
The Hub, Mareham Road
Horncastle
Lincolnshire
United Kingdom
LN9 6PH

27 November 2024

Dear Committee Members,

Audit Strategy and Completion Report – Year ended 31 March 2023

We are pleased to present our Audit Strategy and Completion Report for East Lindsey District Council for the year ended 31 March 2023. The purpose of this document is to summarise our audit and to explain how the statutory backstop arrangements introduced by the Accounts and Audit (Amendment) Regulations 2024, have affected the completion of our work and the reporting consequences. We consider two-way communication with you to be key to a successful audit and particularly important in the context of the backstop arrangements as it facilitates:

- reaching a mutual understanding of the scope of the audit and the responsibilities of each of us;
- sharing information to assist each of us to fulfil our respective responsibilities; and
- providing you with constructive observations arising from the audit process even though this has been curtailed by the backstopped arrangements.

We would usually report the results of our planning work, including the significant risks identified and our planned procedures, in our Audit Strategy Memorandum. The results of our audit, including significant matters identified would usually be reported to you in our Audit Completion Report. As a result of the backstop arrangements, we have determined that the most appropriate way to communicate each of the matters required under auditing standards, in this single Audit Strategy and Completion Report.

As it is a fundamental requirement that an auditor is, and is seen to be, independent of audited bodies, section 8 of this document summarises our considerations and conclusions on our independence as auditors.

2022/23 is the final year of our appointment as the Council's auditor. We will fully cooperate with the incoming auditor to support an efficient audit handover process and provide access to such information from our audits that they deem necessary.

I would like to express our thanks for the assistance of your team during the course of our audit. If you would like to discuss any matters in more detail then please do not hesitate to contact me at Mark.Surridge@mazars.co.uk

Yours faithfully

Mark Surridge
Forvis Mazars LLP

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Our reports are prepared in the context of the 'Statement of Responsibilities of auditors and audited bodies' and the 'Appointing Person Terms of Appointment' issued by Public Sector Audit Appointments Limited.
Reports and letters prepared by appointed auditors and addressed to the Council are prepared for the sole use of the Council and we take no responsibility to any member or officer in their individual capacity or to any third party.

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Our audit and the implications of the statutory backstop

Our audit and the implications of the statutory backstop

We are appointed to perform the external audit of East Lindsey District Council (the Council) for the year to 31 March 2023. The scope of our engagement is set out in the Statement of Responsibilities of Auditors and Audited Bodies, issued by Public Sector Audit Appointments Ltd (PSAA) available from the PSAA website: <https://www.psa.co.uk/managing-audit-quality/statement-of-responsibilities-of-auditors-and-audited-bodies/>.

Our audit of the financial statements

The detailed scope of our work as your appointed auditor for 2022/23 is set out in the National Audit Office's (NAO) Code of Audit Practice ('the Code'). Our responsibilities and powers are derived from the Local Audit and Accountability Act 2014 ("the 2014 Act").

We are appointed to audit the financial statements in accordance with International Standards on Auditing (UK), and under normal circumstances our objectives would be to form and express an opinion on whether the financial statements present a true and fair view of the Council's financial affairs for the year and whether they have been prepared, in all material respects, in accordance with the Code of Practice on Local Authority Accounting.

Government has recently introduced measures intended to resolve the local government financial reporting backlog. Amendments to the Accounts and Audit Regulations require the Council to publish its audited 2022/23 financial statements and accompanying information on or before 13 December 2024. In accordance with the Code, we are required to provide our audit report on those financial statements in sufficient time to enable the Council to meet these responsibilities, whether the audit is completed or not.

The Council produced draft 2022/23 financial statements for the 30 October 2024 Audit & Governance Committee and as a result of the backstop arrangements, we have determined that there is insufficient time to complete our audit procedures so as to obtain sufficient appropriate evidence, and, in our view, the effects of the resulting lack of evidence is pervasive to the financial statements as a whole. As a result, we intend to issue a disclaimer of opinion on the Council's financial statements. We have included our proposed audit report in Appendix B. When an opinion is disclaimed the auditor does not express an opinion on the financial statements and, consequently, no assurance is provided on the financial statements. Members will note that the form and content of this report differs substantially from the report which they will have seen in previous years. We provide more details on this in section 5.

Further information on the procedures we have undertaken in order to issue a disclaimer of opinion in advance of the backstop date is provided in section 3.

Responsibilities in respect of fraud and internal control

The responsibility for safeguarding assets and for the prevention and detection of fraud, error and non-compliance with law or regulations rests with both Those Charged With Governance and management. This includes establishing and maintaining internal controls over compliance with relevant laws and regulations, and the reliability of financial reporting. As part of our audit procedures in relation to fraud we are required to inquire of Those Charged with Governance, key management, and internal audit, as to their knowledge of instances of fraud, the risk of fraud and their views on internal controls that mitigate the fraud risks.

Management is also responsible for such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Despite our intention to issue a disclaimer of opinion, where matters come to our attention through the course of our audit, we may be required to report these to you. Section 5 sets out any internal control recommendations we have made and any misstatements identified in the draft financial statements and how these have been addressed by management.

Wider reporting and electors' rights

The 2014 Act requires us to give an elector, or any representative of the elector, the opportunity to question us about the accounts of the Council and consider objections made to the accounts. We also have a broad range of reporting responsibilities and powers under the 2014 Act. On 9 November 2024, we received correspondence from a local elector and on 14 November 2024, accepted this as an eligible objection. We will need to perform work on this objection to evaluate whether or not it has an impact on our ability to issue our audit report by the backstop date. We will issue a follow up letter to the Committee to report progress on this matter.

Value for Money arrangements

The amendments to the Accounts and Audit Regulations do not affect our responsibilities in relation to the Council's Value for Money arrangements. We are responsible for forming a view on the arrangements that the Council has in place to secure economy, efficiency and effectiveness in its use of resources. We discuss our approach to Value for Money work and our findings further in section 6 of this report.

Whole of Government Accounts

As a result of the backstop arrangements and our intention to issue a disclaimer of opinion on the Council's financial statements, we anticipate reporting to the NAO that we are unable to complete the mandatory audit procedures specified in their Group Audit Instructions. We are awaiting confirmation of when and how this should be reported to the NAO.

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Your audit team

Your audit team



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Our audit approach

Our audit approach

Audit scope

Our audit approach is designed to provide an audit that complies with all professional requirements. Our audit of the financial statements has been conducted in accordance with International Standards on Auditing (UK), relevant ethical and professional standards, our own audit approach and in accordance with the terms of our engagement. We have also had regard to the Local Audit Reset and Recovery Implementation Guidance ('LARRIG') issued by the National Audit Office and endorsed by the Financial Reporting Council in delivering our audit in the context of the backstop arrangements introduced by the 2024 amendments to the Accounts and Audit Regulations.

Our approach to the audit of the financial statements

In the absence of the backstop arrangements, our audit would be risk-based and primarily driven by the issues that we consider lead to a higher risk of material misstatement of the accounts. After completing our detailed risk assessment work and developing our audit strategy, we would design and complete audit procedures in response to the risks identified.

The conditions created by the imposition of the backstop arrangements mean that we have not carried out all of the work necessary to issue a detailed audit plan and to complete all the required audit procedures to provide an opinion on the financial statements. The approach we have taken to carrying out the Council's audit has been designed so that we can comply with International Standards on Auditing (UK) and issue our audit report to allow the Council to meet the backstop date of 13 December 2024 for publishing the financial statements and other relevant information.

We summarise below, the work we have undertaken to inform our audit strategy and our determination that it is necessary to issue a disclaimer of opinion on the Council's financial statements. As we have not completed all our planning procedures, including all risk assessment work, we do not include a summary of significant and enhanced risks as part of this report.

Area of the audit	Summary of our procedures
Acceptance and continuance	We have carried out all acceptance and continuance procedures including consideration of: <ul style="list-style-type: none">• The financial reporting framework adopted by the Council and the existence of any unusual or controversial accounting policies• The form, timing and expected content of our communication with Those Charged with Governance• Any actual or potential threats to our independence• The existence of any other factors that indicate we should not continue as the Council's auditor
Understanding the entity	We have carried out audit procedures to understand and document our understanding of the Council across a range of areas, including but not limited to: <ul style="list-style-type: none">• The Council's structure, including its wider group• Key accounting policies• Accounting estimates• The use of experts
Control environment assessment	We have documented our consideration of the Council's control environment. We carry out this work to inform both our work on the financial statements and as an element of our Value for Money arrangements risk assessment work.

Our audit approach

Area of the audit	Summary of our procedures
Fraud	We have carried out work on identifying potential fraud risks and made specific inquiries of management and Those Charged with Governance in respect of actual, potential or suspected fraud.
Materiality	We have considered the application of materiality for the audit of the Council's financial statements. Further details on the materiality thresholds determined, is included later in this section of our report.
Laws and regulations	We have obtained an understanding of the legal and regulatory framework applicable to the Council and made specific inquiries with management and Those Charged with Governance in respect of any instances of noncompliance with laws and regulations.
Written representations	We have requested certain written representations from management in accordance with ISA (UK) 580. The draft management letter of representation is provided in Appendix A.
Completion, review and reporting	<p>We have undertaken sufficient review procedures to ensure our audit complies with the requirements of ISA (UK) 230. This includes specific work to document our consideration of the implications of the backstop arrangements on our audit and the reporting implications.</p> <p>We have also considered whether any matters have come to our attention that we deem should be reported to Those Charged with Governance or that may be relevant to our auditor's report. Such matters may include misstatements identified in the draft financial statements or internal control recommendations.</p> <p>As we intend to issue a disclaimer of opinion, additional quality and risk management processes have also been followed.</p>

Our audit approach

Group audit approach

East Lindsey District Council produces consolidated group accounts covering the following entities:

- East Lindsey District Council = Parent company
- Invest East Lindsey Limited = 100% owned subsidiary

Entity	Classification	Auditor
East Lindsey District Council	Significant	Forvis Mazars
Invest East Lindsey Limited	Non-significant	Duncan & Toplis

Although not significant, the subsidiary is expected to contain individually material balances to the Parent company (the Council), therefore specific audit procedures would be required to be undertaken by the local audit team to gain the assurance on the overall group opinion.

Therefore, in the absence of backstop arrangements, the extent of our work on the group accounts would cover the following:

- Review of the consolidation of the subsidiary into the group accounts; and
- Specific testing undertaken on balances and related income statement costs.

However, as a result of the backstop, this work has not been completed for 2022/23.

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Materiality

Materiality

Definitions

Materiality is an expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole.

Misstatements in the financial statements are considered to be material if they could, individually or in aggregate, reasonably be expected to influence the economic decisions of users based on the financial statements.

Our approach to determining materiality

Although we intend to issue a disclaimer of opinion on the financial statements as a result of the backstop arrangements, we are required to determine materiality and communicate this to the Audit & Governance Committee.

We determine materiality for the financial statements as a whole (overall materiality) using a benchmark that, in our professional judgement, is most appropriate to entity. We also determine an amount less than materiality (performance materiality), which is applied when we carry out our audit procedures and is designed to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Further, we set a threshold above which all misstatements we identify during our audit (adjusted and unadjusted) will be reported to the Audit & Governance Committee.

Judgements on materiality are made in light of surrounding circumstances and are affected by the size and nature of a misstatement, or a combination of both. Judgements about materiality are based on a consideration of the common financial information needs of users as a group and not on specific individual users.

An assessment of what is material is a matter of professional judgement and is affected by our perception of the financial information needs of the users of the financial statements. In making our assessment we assume that users:

- Have a reasonable knowledge of business, economic activities, and accounts;
- Have a willingness to study the information in the financial statements with reasonable diligence;
- Understand that financial statements are prepared, presented, and audited to levels of materiality;
- Recognise the uncertainties inherent in the measurement of amounts based on the use of estimates, judgement, and consideration of future events; and
- Will make reasonable economic decisions based on the information in the financial statements.

We consider overall materiality and performance materiality while planning and performing our audit based on quantitative and qualitative factors. When planning our audit, we make judgements about the size of misstatements we consider to be material.

The overall materiality and performance materiality that we determine does not necessarily mean that uncorrected misstatements that are below materiality, individually or in aggregate, will be considered immaterial.

We revise materiality as our audit progresses should we become aware of information that would have caused us to determine a different amount had we been aware of that information at the planning stage.

Materiality

Our approach to determining materiality (continued)

For the group and single-entity financial statements, we consider that gross revenue expenditure is the key focus of users of the financial statements and, as such, we base our materiality levels around this benchmark.

We have set a materiality threshold of 2% of gross revenue expenditure for the group financial statements, and the Council's single entity statements. Based on the draft 2022/23 financial statements, overall materiality for the year ended 31 March 2023 was £2.320m (£2.050m in the prior year), and performance materiality was £1.624m (£1.640m in the prior year).

For the single entity statements, we anticipate overall materiality for the year ended 31 March 2023 was £2.280m (£1.900m in the prior year), and performance materiality was £1.596m (£1.520m in the prior year).

Group financial statements	2022/23 £'000s	2021/22 £'000s
Overall materiality	£2,320	£2,050
Performance materiality	£1,624	£1,640
Clearly trivial	£70	£62

Single entity financial statements	2022/23 £'000s	2021/22 £'000s
Overall materiality	£2,280	£1,900
Performance materiality	£1,596	£1,520
Clearly trivial	£68	£57
Senior Officer's Remuneration	£5	£5

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Significant findings

Significant findings

Background and modification of the audit opinion

As a result of the backstop arrangements, we have not been able to complete sufficient audit procedures to enable us to provide an unmodified opinion on the Council's financial statements. As we have determined that the effects, or potential effects on the financial statements of the lack of sufficient appropriate evidence are pervasive, we will be issuing a disclaimer of opinion. This means we are expressing no opinion on the financial statements.

Appendix B sets out our draft audit report which explains the basis of our disclaimer of opinion being the introduction of the backstop arrangements which require the Council to publish its audited 2022/23 financial statements by 13 December 2024.

Members will note that the draft audit report does not report on other matters that would usually appear in an unmodified audit report. These include:

- the use of the going concern assumption in the preparation of the financial statements; and
- the consistency of the other information presented with the financial statements.

Although we are disclaiming our audit opinion, auditing standards require us to report matters to you that have come to our attention during the course of our audit, which we include in this section of this report.

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 2022/23 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. On 9 November 2024, we received an eligible objection from a local elector, which we are in the process of considering. Should any matter arise relevant to the 2022/23 financial statements, we will notify the Audit & Governance Committee.

Significant matters discussed with management

During our audit we discussed the following significant matters with management:

- Delays in the production of draft accounts supported by appropriate working papers, with the draft financial statements presented at the Audit & Governance Committee on 30 October 2024.
- Implications of the backstop arrangements

As part of our audit, we sought and obtained information from management in relation to actual or suspected non-compliance with laws and regulations, and any actual or suspected fraud which could materially impact upon the financial statements.

Based on our review of the information received, we have no matters to report in relation to fraud and the Council's compliance with laws and regulations. We have not undertaken any further work in these areas and do not provide any assurance that the financial statements are free from material error .

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.

Our observations on internal control

As part of our planning procedures, we obtained an understanding of Council's internal control environment and control activities relevant to the preparation of the financial statements, which was sufficient to inform our audit strategy. Although our audit was not designed to express an opinion on the effectiveness of Council's internal controls, we are required to evaluate any deficiencies in internal control that come to our attention, even though we intend to issue a disclaimer of opinion.

A deficiency in internal control exists if:

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

The matters reported in this section of our report are limited to those deficiencies and other control recommendations that we have identified through the audit procedures we were able to complete before the backstop date. If we had performed more extensive procedures on internal control, we might have identified more other matters to report. Our comments in this section should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.

Significant deficiencies in internal control

A significant deficiency in internal control is one which, in our professional judgement, has the potential for financial loss, damage to reputation, or a loss of information which may have implications on the achievement of business strategic objectives. Our view is that observations categorised as a significant deficiency are of sufficient importance to merit the attention of the Audit & Governance Committee.

We have not identified any significant deficiencies in the Council's internal controls as at the date of this report. At Appendix E, we have re-produced the control recommendations from the 2021/22 audit.

Other observations on internal control

We also report to you, our observations on the Council's internal controls where, in our professional judgement, there is a need to strengthen internal control or enhance business efficiency that do not constitute significant deficiencies in internal control but which we view as being important for consideration by management.

We do not have any other internal control observations to bring to your attention as at the date of this report.

Whether internal control observations merit attention by the Audit & Governance Committee and/or management is a matter of professional judgment, taking into account the risk of misstatement that may arise in the financial statements as a result of those observations.

Summary of amendments to the financial statements

The Council's S151 Officer authorised the Council's draft financial statements for issue on 30th October 2024.

Although we intend to issue a disclaimer of opinion, we still report any amendments which management have made to the draft financial statements, identified either through the audit procedures that we have undertaken, or separately by management.

This information is provided to the Audit & Governance committee for information and to support it to discharge its responsibilities. It is important for members to note that, given we are issuing a disclaimer of opinion, we provide no assurance over the material accuracy of the amendments that have been made to the draft financial statements which are summarised in this section.

Amendments to the financial statements

Management has not processed any amendments to the draft financial statements.

Unadjusted misstatements

When we issue a disclaimer of opinion as a result of the backstop arrangements, auditing standards require us to consider whether we are aware of any matter that would have otherwise required a modification to our opinion. Such matters may include, for example, material misstatements that have been identified which have not been amended by management in the final financial statements. We confirm that no such matters have come to our attention.

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Value for Money arrangements

Value for money arrangements

The framework for Value for Money arrangements work

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

2022/23 is the third audit year where we are undertaking our value for money (VFM) work under the 2020 Code of Audit Practice (the Code). Our responsibility remains to be satisfied that the Council has proper arrangements in place and to report in the audit report and/or the audit completion certificate where we identify significant weaknesses in arrangements. Separately we provide a commentary on the Council's arrangements in the Auditor's Annual Report. The introduction of the backstop arrangements does not alter our responsibilities in relation to Value for Money arrangements work.

Specified reporting criteria

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

1. **Financial sustainability** – how the Council plans and manages its resources to ensure it can continue to deliver its services;
2. **Governance** – how the Council ensures that it makes informed decisions and properly manages its risks; and
3. **Improving economy, efficiency and effectiveness** – how the Council uses information about its costs and performance to improve the way it manages and delivers its services

Our approach

Our work falls into three primary phases as outlined opposite. We need to gather sufficient evidence to support our commentary on the Council's arrangements and to identify and report on any significant weaknesses in arrangements. Where significant weaknesses are identified we are required to report these to the Council and make recommendations for improvement. Such recommendations can be made at any point during the audit cycle and we are not expected to wait until issuing our overall commentary to do so.

Planning and risk assessment	<p>Obtaining an understanding of the Council's arrangements for each specified reporting criteria. Relevant information sources include:</p> <ul style="list-style-type: none">• NAO guidance and supporting information;• information from internal and external sources including regulators;• knowledge from previous audits and other audit work undertaken in the year; and• interviews and discussions with officers and Members.
Additional risk-based procedures and evaluation	<p>Where our planning work identifies risks of significant weaknesses, we will undertake additional procedures to determine whether there is a significant weakness.</p>
Reporting	<p>We will provide a summary of the work we have undertaken and our judgements against each of the specified reporting criteria as part of our commentary on arrangements. This will form part of the Auditor's Annual Report.</p> <p>Our commentary will also highlight:</p> <ul style="list-style-type: none">• significant weaknesses identified and our recommendations for improvement; and• emerging issues or other matters that do not represent significant weaknesses but still require attention from the Council.

Value for money arrangements

Status of our work

We have completed our work in respect of the Council's arrangements for the year ended 31 March 2023 and have identified one significant weakness in arrangements and have made associated recommendations. We provide further details on the identified significant weaknesses and our recommendations later in this section of our report.

Our draft audit report at Appendix B confirms that we have matters to report in respect of significant weaknesses. As noted above, our commentary on the Council's arrangements will be provided in the Auditor's Annual Report in November 2024.

Identified risks of significant weaknesses in arrangements

The NAO's guidance requires us to carry out work to understand the Council's arrangements and to identify risks that significant weaknesses in arrangements may exist. The table below outlines the risk of significant weaknesses in arrangements that we have identified to date.

	Risk of significant weakness in arrangements	Financial sustainability	Governance	Improving the 3Es	Planned procedures
1	<p>Accounting and Governance Arrangements of INVEST East Lindsey Ltd.</p> <p>We are still to receive group accounts from the Council in respect of its wholly owned subsidiary company INVEST East Lindsey Ltd. We are also aware that the statutory accounts in respect of this company have been qualified by its external auditors in relation to non-compliance with the Companies Act 2006, in particular the duty to keep adequate accounting records.</p> <p>We believe the above issues present a risk of significant weakness in the Council's arrangements for Governance (how the body ensures that it makes informed decisions and properly manages its risks) including:</p> <ul style="list-style-type: none"> • how the body 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, including in relation to significant partnerships; • how the body monitors and assesses risk and how the body gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud 		●		<p>Our work will include, but not be limited to:</p> <ul style="list-style-type: none"> • Reviewing the detailed Audit Completion (ISA 260) Report from the external auditors to INVEST East Lindsey Ltd.; • Reviewing relevant internal audit reports; • Meeting with Officers, Internal Audit and, if necessary, the external auditors to INVEST East Lindsey Ltd.; and • Considering the relevant governance arrangements put in place by the Council over its investment in INVEST East Lindsey Ltd.

Value for money arrangements

Key findings	Conclusion
<p>Accounting and Governance Arrangements of INVEST East Lindsey Ltd.</p> <p>We have completed our planned procedures, summarising our findings as follows:</p> <p>Modified audit reports for Invest East Lindsey</p> <p>We obtained the audited accounts of Invest East Lindsey for the years ended 31 March 2021, 31 March 2022 and 31 March 2023 from Companies House. In examining the accounts, we noted that the audit report was modified in respect of failure to comply with the requirements of the Companies Act in both years: “In our opinion, the company has failed to comply with the Companies Act 2006, section 386, within their duty to keep adequate accounting records.” We have prepared a side-by-side comparison of the external auditor’s report on the 2021/22 and 2022/23 financial statements on the next page.</p> <p>From the work we have performed, including review of committee reports, the only reporting of this to Audit & Governance Committee was within Internal Audit’s report into Invest East Lindsey in September 2023. We also obtained the external auditor’s findings report, which reported a significant number of control deficiencies. As the financial statements of the company are incorporated into the Council’s group financial statements, we would expect these modifications to be presented as a standalone item to the Audit & Governance Committee.</p> <p>Work of Internal Audit</p> <p>The Head of Internal Audit reported in July 2022 that improvements were required over the governance of Invest East Lindsey, with a more detailed report presented in September 2023. We have reviewed this report and whilst the action plan showed that many of the recommendations had been implemented, those actions not implemented by September 2023 included no arrangements to ensure there was effective oversight of the Shareholder Supervisory Board or arrangements to be assured over the effectiveness of risk management in the Company. We attended the private meeting of the September 2024 Audit & Governance Committee where a follow up report against those Actions was presented. The report did not reference the non-compliance with the Companies Act.</p> <p>Group financial reporting</p> <p>We first reported issues over the lack of information available from the company to prepare the consolidated financial statements to the Audit & Governance Committee in March 2023. Subsequent progress reports were presented in November 2023 and March 2024 where key information to prepare group financial statements, including the valuation of the caravan park remained outstanding. Through our work on the financial statements, the main reasons for these delays were due to lack of available expertise to value the caravan park and lack of appropriate protocol to enable information to be shared on a timely basis between Invest East Lindsey and PSPS Ltd.</p> <p>Consolidated financial statements for 2021/22 were received in October 2024 and a summary of key findings from the audit were included in our Audit Completion Report presented to the Audit & Governance Committee on 30 October 2024, which is also where the 2022/23 draft financial statements were presented.</p>	<p>We note that the Council has responded to the initial findings and taken action as explained in the management response to the recommendations raised in the 2021/22 Audit Completion Report and discussed at the meeting of the Audit & Governance Committee on 30 October 2024 (re-produced at Appendix E).</p> <p>However, for the period under review, arrangements for the year ended 31 March 2022 and 31 March 2023, the matters reported could reasonably be expected to lead to a significant impact on the quality or effectiveness of service or on the body’s reputation.</p>

Value for money arrangements

Modified Audit Reports: Invest East Lindsey Ltd

2021/22 Audit Report: 20 December 2022

2022/23 Audit report: 14 December 2023

REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF INVEST EAST LINDSEY LIMITED

Qualified Opinion

We have audited the financial statements of Invest East Lindsey Limited (the 'company') for the year ended 31 March 2022 which comprise the Statement of Profit or Loss, the Statement of Profit or Loss and Other Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity, the Statement of Cash Flows and Notes to the Statement of Cash Flows, 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 International Financial Reporting Standards (IFRSs) as adopted by the UK.

In our opinion the financial statements:

- except for the specific matter reported on by exception, give a true and fair view of the state of the company's affairs as at 31 March 2022 and of its loss for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the UK, but
- have not been prepared in accordance with the requirements of the Companies Act 2006.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the Report of the Directors.

In our opinion the company has failed to comply with the Companies Act 2006, section 386, within their duty to keep adequate accounting records. The breach of compliance with the requirements is the basis for our Qualified Opinion of the Financial Statements. Based on the audit evidence obtained we have assessed that except for the affects of this specific matter, the financial statements give a true and fair view.

REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF INVEST EAST LINDSEY LIMITED

Opinion

We have audited the financial statements of Invest East Lindsey Limited (the 'company') for the year ended 31 March 2023 which comprise the Statement of Profit or Loss, the Statement of Profit or Loss and Other Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity, the Statement of Cash Flows and Notes to the Statement of Cash Flows, 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 International Financial Reporting Standards (IFRSs) as adopted by the UK.

In our opinion the financial statements:

- except for the specific matter reported on by exception, give a true and fair view of the state of the company's affairs as at 31 March 2023 and of its loss for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the UK; but
- have been prepared in accordance with the requirements of the Companies Act 2006.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the Report of the Directors.

In our opinion the company has failed to comply with the Companies Act 2006, section 386, within their duty to keep adequate accounting records. The underlying record keeping was found to be poor and was not updated on a timely basis. This has led to the conclusion that adequate books and records were not maintained during the year. Since the year end date considerable effort has been made to review the accounting records and to rectify the accounting entries for the year, enabling an unqualified audit opinion to be given. Based on the audit evidence obtained we have assessed that except for the affects of this matter, the financial statements give a true and fair view.

The Audit Report for Invest East Lindsey contains identical conclusions with regard to non-compliance with the Companies Act (blue highlights), with one word changed (green box).

Value for Money

Identified significant weaknesses in arrangements and recommendations for improvement

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

Identified significant weakness in arrangements (Draft and subject to consultation)	Financial sustainability	Governance	Improving the 3Es	Recommendation for improvement (Draft and subject to consultation)	Our views on the actions taken to date
<p>Accounting and Governance Arrangements of INVEST East Lindsey Ltd.</p> <p>The external auditor's report on the financial statements for INVEST East Lindsey for the financial year ended 31 March 2022 (signed December 2022) and 2023 (signed December 2023) cited non-compliance with the Companies Act regarding the duty to keep accounting records. The Audit & Governance Committee were informed of the matter on the 2021/22 financial statements in a report from the Council's Internal Auditors in September 2023.</p> <p>The Council's 2021/22 financial statements presented for audit did not include group financial statements. There were delays in obtaining sufficient and appropriate information to produce the consolidated financial statements. These delays were not resolved until October 2024 when the 2021/22 accounts were presented as a final version and draft 2022/23 accounts were produced and presented to the 30 October Audit Committee.</p> <p>In our view, these are indicative of a significant weakness in arrangements for the financial year ended 31 March 2022 and 31 March 2023 under the theme of "Governance: how the body ensures that it makes informed decisions and properly manages its risks, including, how the Council ensures effective processes and systems are in place to support its statutory financial reporting requirements and how the body monitors and assesses risk and how the body gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud" that leads to – or could reasonably be expected to lead to – significant impact on the quality or effectiveness of the Council's reputation.</p>		●		<p>The Council should ensure:</p> <ul style="list-style-type: none"> • there is a clear protocol for the provision of information from Invest East Lindsey, on a timely basis, to support the preparation of the consolidated financial statements; • all recommendations raised from Internal Audit's review from September 2023 have been implemented; • the Audit & Governance Committee is provided with details on why proper accounting records were not maintained and the actions that have been taken to address this. • the Audit & Governance Committee receives regular assurance reports over the governance and risk management of the Council's subsidiaries to ensure it is clear on how the Council gains assurance to inform the Annual Governance Statement and Consolidated financial statements. 	<p>We note the action taken by the Council as explained in the management response to the recommendation raised in our Audit Completion Report presented to the 30 October 2024 Audit & Governance Committee (reproduced as Appendix E), and that the Council produced the 2022/23 financial statements in October 2024 and has plans in place to produce group financial statements for 2023/24</p>

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Audit fees and other services

Audit fees and other services

Fees for audit and other services

Our fees (exclusive of VAT) for the audit of East Lindsey District Council for the year ended 31 March 2023 are outlined below.

Fees for work as the Council's appointed auditor

For 2022/23 PSAA have not prescribed the fees payable for undertaking procedures to issue a disclaimed audit report. The table below sets out our estimate of the fee for 2022/23.

Area of work	2020/21 Actual Fee	2021/22 Actual Fee	2022/23 Planned fee	2022/23 Actual Fee	2023/24
Scale fee in respect of our work under the Code of Audit Practice	36,071	36,071	43,148	43,148 Actual procedures performed: 19,500	139,067
Additional fees in respect additional testing undertaken to comply with increased regulatory requirements relating to: IAS19 pension liabilities; valuation of land, buildings and investment properties	7,067	7,067	Included in scale fee	Included in scale fee	Included in scale fee
Introduction of Group Accounts	-	6,000	6,000	Work not performed	
Additional fees in respect of additional work from the introduction of new auditing standards (ISA 540 estimates)	2,892	2,892	2,892	Work not performed	Included in scale fee
Additional fees in respect of additional work from the introduction of new auditing standards (ISA 315)	N/A	N/A	5,000	Partially performed: 910	
Other additional testing – additional costs as a result of quality preparation issues and reporting	-	7,500	-	-	
Additional costs involved for the implementation of the new ledger, including use of IT specialists	-	8,500	N/A	N/A	
Additional costs arising from impact of Covid-19	2,376	N/A	N/A	N/A	
Other additional costs: <ul style="list-style-type: none"> IAS19 Pension Triennial Review Additional costs arising from testing of group consolidation adjustments: issues re valuation of caravans Modified Audit Report 	-	3,952 6,050	-	- - 7,392	
Additional fees in respect of the VFM Commentary	9,293	8,500	8,500	6,000	Included in scale fee
Additional fees in relation to VFM risks of significant weakness in arrangements	-	2,947	660	660	
Additional fees in relation to electors questions and objections	-	10,500	-	TBC	
Total fee variations	14,561	63,908	23,052	TBC	
Total fees	57,699	99,979	66,200	TBC	139,067
MHCLG Grant for ELDC to cover fees	(18,595)	(18,595)	(18,909)	(18,909)	

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Confirmation of our independence

Confirmation of our independence

We are committed to independence and confirm that we comply with the FRC's Ethical Standard. In addition, we have set out in this section any matters or relationships we believe may have a bearing on our independence or the objectivity of our audit team.

Based on the information provided by you and our own internal procedures to safeguard our independence as auditors, we confirm that in our professional judgement there are no relationships between us and any of our related or subsidiary entities, and you and your related entities, that create any unacceptable threats to our independence within the regulatory or professional requirements governing us as your auditors.

We have policies and procedures in place that are designed to ensure that we carry out our work with integrity, objectivity, and independence. These policies include:

- All partners and staff are required to complete an annual independence declaration.
- All new partners and staff are required to complete an independence confirmation and complete annual ethical training.
- Rotation policies covering audit engagement partners and other key members of the audit team.
- Use by managers and partners of our client and engagement acceptance system, which requires all non-audit services to be approved in advance by the audit engagement partner.

Prior to the provision of any non-audit services, Mark Surridge will undertake appropriate procedures to consider and fully assess the impact that providing the service may have on our independence as auditor.

We confirm, as at the date of this report, that the engagement team and others in the firm as appropriate are independent and comply with relevant ethical requirements. However, if at any time you have concerns or questions about our integrity, objectivity or independence, please discuss these with Mark Surridge in the first instance.

Appendices

A: Draft management representation letter

B: Draft audit report

C: Key Communication points

D: Forthcoming accounting and other issues

E: Control recommendations raised on the 2021/22 audit

Appendix A: Draft management representation letter

To be inserted

Appendix B: Draft audit report

To be inserted

Appendix C: Key communication points

We value communication with the Audit & Governance Committee as a two way feedback process at the heart of our client service commitment. ISA (UK) 260 *Communication with Those Charged with Governance* and ISA (UK) 265 *Communicating Deficiencies In Internal Control To Those Charged With Governance And Management* specifically require us to communicate a number of points with you.

Relevant points that need to be communicated with you at each stage of the audit are outlined below.

Form, timing and content of our communications

We will present the following reports:

- Our Audit Strategy and Completion Report; and
- Our Auditor's Annual Report

These documents will be discussed with management prior to being presented to yourselves and their comments will be incorporated as appropriate. We have taken the decision to report to you all of the matters which we would usually report in our Audit Strategy Memorandum and Audit Completion Report, within this single Audit Strategy and Completion Report given the nature of the backstop arrangements and the impact upon our audit.

Key communication points at the planning and completion stage of our audit communicated our Audit Strategy and Completion Report

- Our responsibilities in relation to the audit of the financial statements;
- The planned scope and timing of the audit and the effects of the backstop arrangements;
- Our commitment to independence;
- Responsibilities for preventing and detecting errors;
- Materiality and misstatements;
- Fees for audit and other services.
- Significant deficiencies in internal control;

- Significant findings from the audit including any significant matters discussed with management and significant difficulties, if any, encountered during the audit;
- Summary of misstatements and other corrections made to the draft financial statements;
- Management representation letter; and
- Our proposed draft audit report.

Appendix D: Forthcoming accounting & other issues

New standards and amendments

The information provided on this page outlines forthcoming amendments to existing IFRS and the issuance of new standards. How these are adopted and adapted into the Code of Practice on Local Authority Accounting is yet to be determined and is subject to the approval of the Financial Reporting Advisory Board (FRAB).

Amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current (Issued January 2020), Deferral of Effective Date (Issued July 2020) and Non-current Liabilities with Covenants (Issued October 2022)

The January 2020 amendments clarify the requirements for classifying liabilities as current or non-current in IAS 1 by providing clarification surrounding: when to assess classification; understanding what is an 'unconditional right'; whether to determine classification based on an entity's right versus discretion and expectation; and dealing with settlements after the reporting date.

The October 2022 amendments specify how covenants should be taken into account in the classification of a liability as current or non-current. Only covenants with which an entity is required to comply with by the reporting date affect the classification as current or non-current. Classification is not therefore affected if the right to defer settlement of a liability for at least 12 months is subject to compliance with covenants at a date after the reporting date. These amendments also clarify the disclosures about the nature of covenants, so that users of financial statements can assess the risk that non-current debts accompanied by covenants may become repayable within 12 months.

Amendments to IAS 16 Leases: Lease Liability in Sale and Leaseback (Issued September 2022)

The amendments include additional requirements to explain how to subsequently measure the lease liability in a sale and leaseback transaction, specifically how to include variable lease payments.

For further information, please refer to our blog article: [Amendments to IFRS 16 Leases – Lease Liability in a Sale and Leaseback](#)

Amendments to IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments: Disclosures: Supplier Finance Arrangements (Issued May 2023)

The amendments introduce changes to the disclosure requirements around supplier finance arrangements with the intention of providing more detailed information to help users analyse and understand the effects of such arrangements.

The amendments provide an overarching disclosure objective to ensure that users of financial statements are able to assess the effects of such arrangements on an entity's liabilities and cash flows, as well as some additional disclosure requirements relating to the specific terms and conditions of the arrangement, quantitative information about changes in financial liabilities that are part of the supplier financing arrangement, and about an entity's exposure to liquidity risk.

For further information, please refer to our blog article: [IASB publishes final amendments on supplier finance arrangements](#)

Appendix D: Forthcoming accounting & other issues

New standards and amendments (continued)

Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2 Making Materiality Judgements: Disclosure of Accounting Policies (Issued February 2021)

The amendments set out new requirements for material accounting policy information to be disclosed, rather than significant accounting policies. Immaterial accounting policy information should not be disclosed as accounting policy information taken in isolation is unlikely to be material, but it is when the information is considered together with other information in the financial statements that may make it material.

Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates (Issued February 2021)

The amendment introduces a new definition for accounting estimates and clarifies how entities should distinguish changes in accounting policies from changes in accounting estimates. The distinction is important because changes in accounting estimates are applied prospectively only to future transactions and other future events, but changes in accounting policies are generally applied retrospectively to past transactions and other past events.

IFRS 17 Insurance Contracts (issued May 2017) and Amendments to IFRS 17 Insurance Contracts (Issued June 2020)

IFRS 17 is a new standard that will replace IFRS 4 *Insurance Contracts* (IFRS 4). The standard sets out the principles for the recognition, measurement, presentation and disclosure about insurance contracts issued, and reinsurance contracts held, by entities.

Amendments to IFRS 17 Insurance Contracts: Initial Application of IFRS 17 and IFRS 9 Financial Instruments (Issued December 2021)

The amendments address potential mismatches between the measurement of financial assets and insurance liabilities in the comparative period because of different transitional requirements in IFRS 9 and IFRS 17. The amendments introduce a classification overlay under which a financial asset is permitted to be presented in the comparative period as if the classification and measurement requirements of IFRS 9 had been applied to that financial asset in the comparative period. The classification overlay can be applied on an instrument-by-instrument basis.

Appendix E: Control points raised on 2021/22

Summary of significant deficiencies in internal control

We reported our findings to the Audit & Governance Committee in October 2024, the table below summarises the significant internal control deficiencies we reported as part of our audit on the 2021/22 financial statements.

Description of deficiency	Recommendation(s)	Management response
<p>Production of draft accounts and working papers</p> <p>The availability of the Council's draft accounts and the availability and quality of its supporting working papers have seen a deterioration over previous years.</p>	<p>It is important that the Council takes the steps necessary to re-establish robust arrangements and staffing to support future year-ends. Quality control procedures in respect of the accounts preparation process and supporting working papers need to be strengthened and the Council, in its closedown procedures, should include sufficient time for a robust quality control process to be implemented.</p>	<p>The PSPS Finance Team has seen a high staff turnover in the past 2 years but is now in a resourced position to undertake the work required to complete the Financial Statements to the statutory deadline, along with producing the supporting working papers to the required standard. A timetable will be established well in advance of the 2024/25 year-end, and relevant communications and training shared with the Council, in preparation for the year end process. Quarterly financial reporting is now also being completed in line with the Committee timetable.</p>
<p>Oversight of group financial reporting requirements</p> <p>The failure of the Council to produce its group accounts on the same timescale as its own single-entity accounts, and the associated delay in obtaining the information necessary from its wholly owned subsidiary, Invest East Lindsey Limited, has highlighted significant deficiencies in the Council's arrangements over group reporting.</p> <p>As the Code requires group accounts to be prepared using uniform accounting policies for like transactions and other events in similar circumstances, a number of consolidation adjustments are required to re-align the accounts of subsidiaries to those of the Council. This further increases the need for close working arrangements to be in place to facilitate this process. Our audit found these to be lacking, in particular the failure of Invest East Lindsey to provide essential information to enable the consolidation to occur.</p> <p>We also noted that the audit opinion on the financial statements of Invest East Lindsey Limited for the year ended 31 March 2022 was qualified in December 2022, citing non-compliance with the Companies Act regarding maintaining proper books and records. This outcome was included in a report from Internal Audit to the Audit and Governance Committee in September 2023. The audit opinion on the financial statements of Invest East Lindsey Limited for the year ended 31 March 2023 also contained a similar 'except for' paragraph for the same reasons in December 2023. The timeliness and clarity of reporting, including actions being taken to address the underlying issues, to the Audit and Governance Committee could be improved.</p>	<p>The Council needs to ensure that it improves its skills and knowledge in relation to the requirements for group reporting and that it puts in place clear reporting and communication lines with both the consolidated company's accountancy team and external auditors. This will ensure that the group reporting team are fully apprised of the subsidiaries' activities and any associated implications for the group accounts.</p> <p>In its role as those charged with governance over the group, the Audit and Governance Committee should ensure that it receives copies of the audited financial statements from all of its group entities, reviews these and considers any implications arising from them. Where necessary it should seek assurance from the Director's on how it will address any failings in governance identified.</p>	<p>This recommendation is helpful and will be taken on board, with far closer working relationships having been continually developed between the Council and the Company since the financial year 2021/22. Receiving Invest East Lindsey's audited accounts is a function of the Shareholder Supervisory Board as delegated by Council to it; for the avoidance of doubt, the Shareholder Supervisory Board were notified by the Company of its qualification upon receipt of its audited accounts in 2022 as required. It must also be noted that there was no failure on behalf of the Company to provide essential information to the Council; rather, whilst the format of the information presented in the Company's audited accounts was in accordance with the Companies Act, it was not in the alternative format required by the Council; arrangements are already in hand for that to occur.</p> <p>Since the year end date 31 March 2023, considerable effort has been made to review the accounting records and to rectify the accounting entries for the year, enabling an unqualified audit opinion to be given.</p>

Appendix E: Control points raised on 2021/22

Description of deficiency	Recommendation(s)	Management response
<p>Alignment of Group Accounting Policies</p> <p>The CIPFA Code requires group accounts to be prepared using uniform accounting policies and for the accounting policies of subsidiaries to be aligned with the policies of the reporting authority. Our testing has identified that the accounting policy of Invest East Lindsey Limited with respect to the categorisation of caravans held for rental does not require these assets to be classified as investment properties and be valued at fair value.</p>	<p>The Council should ensure that its subsidiary company Invest East Lindsey Limited reviews its accounting policy with regard to the categorisation and valuation of its caravan assets held for rental, to ensure that the accounting policies of both entities are aligned in accordance with the requirements of the CIPFA Code.</p>	<p>The Council will consider requesting that Invest East Lindsey Limited reviews its accounting policy with regard to the categorisation and valuation of its caravan assets held for rental, to enable the consolidation of the Company's Accounts into the Group Accounts</p>

Contact

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Forvis Mazars LLP is the UK firm of Forvis Mazars Global, a leading global professional services network. Forvis Mazars LLP is a limited liability partnership registered in England and Wales with registered number OC308299 and with its registered office at 30 Old Bailey, London, EC4M 7AU. Registered to carry on audit work in the UK by the Institute of Chartered Accountants in England and Wales. Details about our audit registration can be viewed at www.auditregister.org.uk under reference number C001139861. VAT number: GB 839 8356 73

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