



**Draft VFM Progress Report**  
**East Lindsey District Council – year ended 31 March 2022 and 31 March 2023**

November 2024

## Approach to Value for Money arrangements work

Our work on VFM arrangements is substantially well progressed and this report was produced at a point in time to meet the Audit & Governance Committee date. However, having received an objection to the financial statements on 9 November 2024, we will need to reflect on whether there are implications from that work that may inform our conclusions.

This report, therefore, represents findings prior to this objection and is subject to revision.

We shall issue a final report once our work is fully complete.

Our reports are prepared in the context of the 'Statement of responsibilities of auditors and audited bodies' issued by Public Sector Audit Appointments Ltd. Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the Council. No responsibility is accepted to any member or officer in their individual capacity or to any third party.

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## VFM Arrangements: Overall Summary

# VFM arrangements – Overall summary

## Approach to Value for Money arrangements work

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



**Financial sustainability** - How the Council plans and manages its resources to ensure it can continue to deliver its services.



**Governance** - How the Council ensures that it makes informed decisions and properly manages its risks.



**Improving economy, efficiency and effectiveness** - How the Council uses information about its costs and performance to improve the way it manages and delivers its services.

Our work is carried out in three main phases.

### Phase 1 - Planning and risk assessment

At the planning stage of the audit, we undertake work so we can understand the arrangements that the Council has in place under each of the reporting criteria; as part of this work we may identify risks of significant weaknesses in those arrangements.

We obtain our understanding of arrangements for each of the specified reporting criteria using a variety of information sources which may include:

- NAO guidance and supporting information
- Information from internal and external sources including regulators
- Knowledge from previous audits and other audit work undertaken in the year
- Interviews and discussions with staff and directors

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

### Phase 2 - Additional risk-based procedures and evaluation

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

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

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

We also make recommendations where we identify weaknesses in arrangements or other matters that require attention from the Council. We refer to two distinct types of recommendation through the remainder of this report:

- **Recommendations arising from significant weaknesses in arrangements** - We make these recommendations for improvement where we have identified a significant weakness in the Council arrangements for securing economy, efficiency and effectiveness in its use of resources. Where such significant weaknesses in arrangements are identified, we report these (and our associated recommendations) at any point during the course of the audit.
- **Other recommendations** - We make other recommendations when we identify areas for potential improvement or weaknesses in arrangements which we do not consider to be significant but which still require action to be taken.

The table on the following page summarises the outcomes of our work against each reporting criteria, including whether we have identified any significant weaknesses in arrangements or made other recommendations.

## VFM Arrangements: Financial Sustainability

- How the body plans and manages its resources to ensure it can continue to deliver its services

# 3. VFM arrangements – Financial Sustainability

## Overall commentary on the Financial Sustainability reporting criteria

### Position brought forward from 2020/21

There are no indications of a significant weakness in the Council's arrangements for financial sustainability brought forward from 2020/21. The Council's underlying arrangements in relation to financial sustainability are not significantly different in 2021/22 or 2022/23.

### Overall responsibilities for financial governance

We have reviewed the Council's overall governance framework, including Council and committee reports, the Annual Governance Statement for 2021/22 and draft for 2022/23, and Statement of Accounts for 2021/22 and draft 2022/23. These confirm the Council undertook its responsibility to define the strategic aims and objectives, approve budgets and monitor financial performance against budgets and plan to best meet the needs of the Council's service users.

### The Council's financial planning and monitoring arrangements

Through our review of Council and committee reports, meetings with management and relevant work performed on the financial statements, we are satisfied that the Council's arrangements for budget monitoring remain appropriate, including reporting to Members.

The arrangements for the 2021/22 budget setting process largely followed the arrangements in place for 2020/21 but with a better understanding based on the experiences during the year of the impact of Covid-19 on the Council's services. Arrangement for the 2022/23 budget are not significantly different to prior years, which were deemed adequate.

### 2021/22

A balanced budget for 2021/22 was approved at the March 2021 Council alongside the updated MTFs. We have reviewed the MTFs and supporting reports to Council in March and are satisfied that it adequately explained the financial risks and that the main financial assumptions were not unreasonable.

We reviewed performance reports issued to the Executive Board during the year as well as performing audit work over the going concern assertion as part of our work on the financial statements. A final report covering the whole year and outturn went to Executive Board in July 2022 and we are satisfied that the reports adequately contain detail on financial performance, including variances to budget. The reports also contain information on progress against the capital programme and reasons for over or underspends against the budget profile to provide adequate scrutiny and oversight.

### 2022/23

Arrangements for financial planning and monitoring are consistent with 2021/22 with adequate arrangements for monitoring in place.

### 2021/22 and 2022/23 Statement of Financial Position

We have audited the 2021/22 financial statements, where the Council adequately summarises the financial position of the Council, including performance against its budget through the narrative report. Our review of the audited financial statements of 2021/22 and the draft financial statements for 2022/23 does not highlight a risk of significant weakness in arrangements for financial sustainability.

The purpose of the Council's general fund reserve is to meet costs arising from any unplanned or emergency events. It also acts as a financial buffer to help mitigate against the financial risks the Council faces and can be used to a limited degree to 'smooth' expenditure on a one-off basis across years. Whereas earmarked reserves are set aside for specific purposes.

We carried out a high-level analysis of the financial statements subject to our audit, including the Movement in Reserves Statement and our work to date has not highlighted any risks of significant weakness in arrangements or indicators of a risk to the Council's financial sustainability:

	31-Mar-19	31-Mar-20	31-Mar-21	31-Mar-22	31-Mar-23
General Fund Balance	3,337	2,486	2,351	1,822	1,822
Earmarked GF Reserves	25,592	22,247	35,291	31,423	21,677
<b>Total revenue reserves</b>	<b>28,929</b>	<b>24,733</b>	<b>37,642</b>	<b>33,245</b>	<b>23,499</b>
Capital Reserves	3,708	4,618	5,515	14,307	29,659
<b>Total usable reserves</b>	<b>32,637</b>	<b>29,351</b>	<b>43,157</b>	<b>47,552</b>	<b>53,158</b>

# VFM arrangements – Financial Sustainability

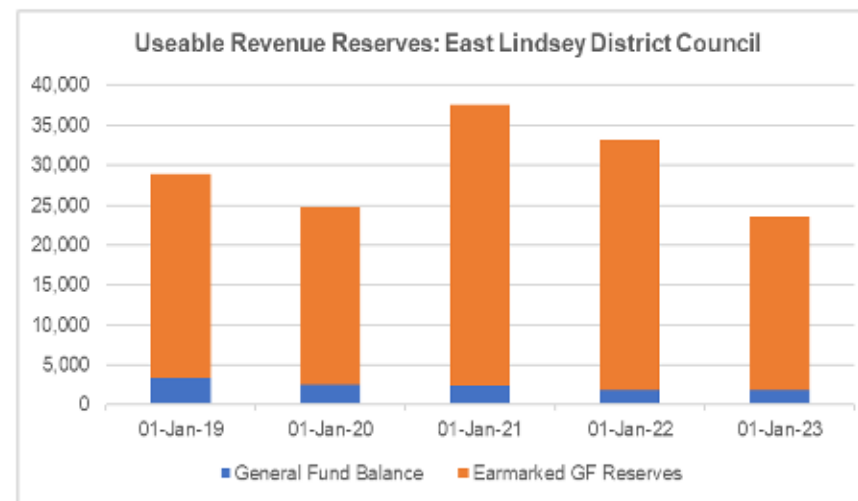
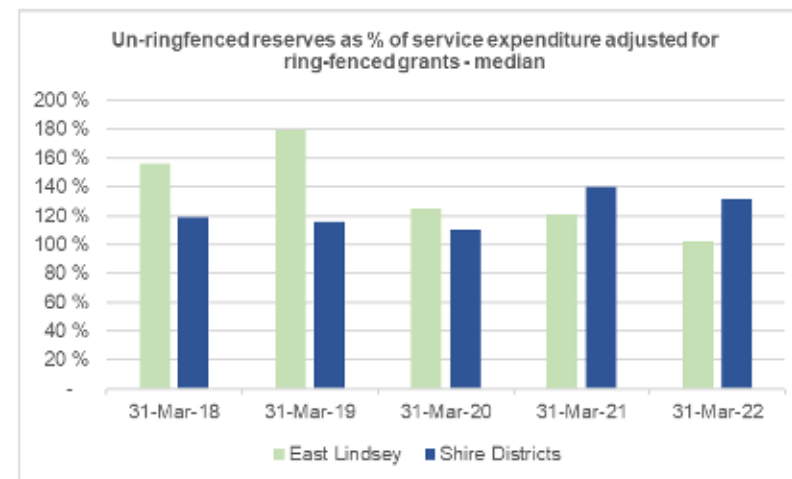
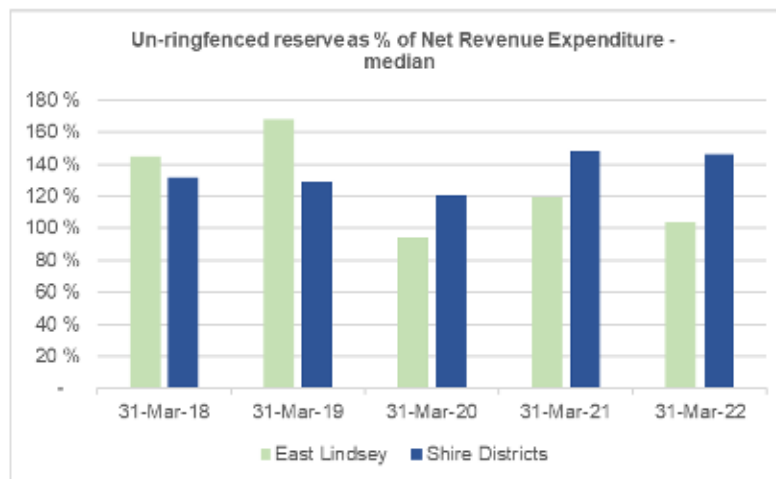
## Financial sustainability and revenue reserves

The purpose of the Council's general fund reserve is to meet costs arising from any unplanned or emergency events. It also acts as a financial buffer to help mitigate against the financial risks the Council faces and can be used to a limited degree to 'smooth' expenditure on a one-off basis across years. Whereas earmarked reserves, are set aside for specific purposes.

We have also performed a more detailed review of the Council's revenue reserves:

1. We reviewed data published in May 2023 by the Department for Levelling Up, Housing and Communities on Local authority general fund earmarked and unallocated reserve levels, 2017-18 to 2021-22. The Council's reserves have generally been above the median compared to County Council since 2018 (top two charts right).
2. Through a review of the financial statements, we have considered the Council's revenue reserves over time.

The Council's Reserves position does not give us cause for immediate concern in relation to a risk of significant weakness in arrangements to secure financial sustainability for the year ended 31 March 2022 or 2023. Whilst reserves remain stable, they are finite.

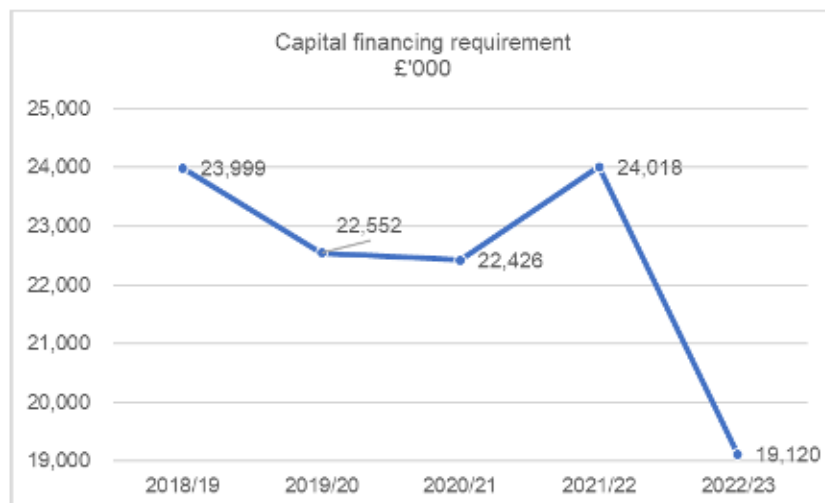


Details on the definitions and data quality arrangements are available here: <https://www.gov.uk/government/publications/local-authority-general-fund-earmarked-and-unallocated-reserve-levels-2017-18-to-2021-22>

# VFM arrangements – Financial Sustainability

## The Council's capital expenditure and financing

The Council's arrangements for setting and monitoring capital expenditure are consistent with the previous year, which we deem to be adequate. We considered the Council's capital financing requirement as set out in Note 34 of the financial statements, and illustrated in the diagram below, each decrease representing a reduction in the underlying need to borrow to finance capital expenditure.



In 2021/22, the Council spent £11.4m on capital investment, including £2.9m of REFCUS (Revenue Expenditure Funded from Capital Under Statute). Our testing of these balances did not identify any material issues. We have not audited the 2022/23 financial statements, which show £17.2m capital expenditure, including £10m in REFCUS.

The duty to make Minimum Revenue Provision (MRP) is an important component of the Prudential Framework to ensure capital expenditure and borrowing can be repaid. As confirmed through our prior year audit of the financial statements, the Council's current MRP policy is underpinned by formal legal advice and no MRP has been made. Voluntary charges (Voluntary Revenue Provision) have been made in 2020/21 and previous years and the guidance permits these to be 'clawed' back in future years if needed.

Our review of the financial statements over time shows the council made a voluntary charge in 2019/20 and

2020/21 but a 'clawback' of £1.2m in 2021/22 and then a £4.9m contribution in 2022/23

Capital financing	2019/20	2020/21	2021/22	2022/23
Capital receipts, including reserves	155	489	149	1,467
Grants & Contributions	1,575	2,218	3,530	11,627
Direct revenue contributions	6,792	2,442	5,023	4,171
Voluntary Revenue Provision	1,429	126	(1,194)	4,894
<b>Total capital financing</b>	<b>9,951</b>	<b>5,275</b>	<b>7,508</b>	<b>22,159</b>

The Council is aware its approach to the voluntary revenue provision will need to be completely reviewed as part of the implementation of the new regulation requirements.

Whilst we are satisfied the Council's capital expenditure and capital financing does not give rise to a risk of significant weakness in arrangements, however, the importance and impact of the MRP is often poorly understood outside of finance teams and can lead to significant issues affecting the financial sustainability of a local authority.

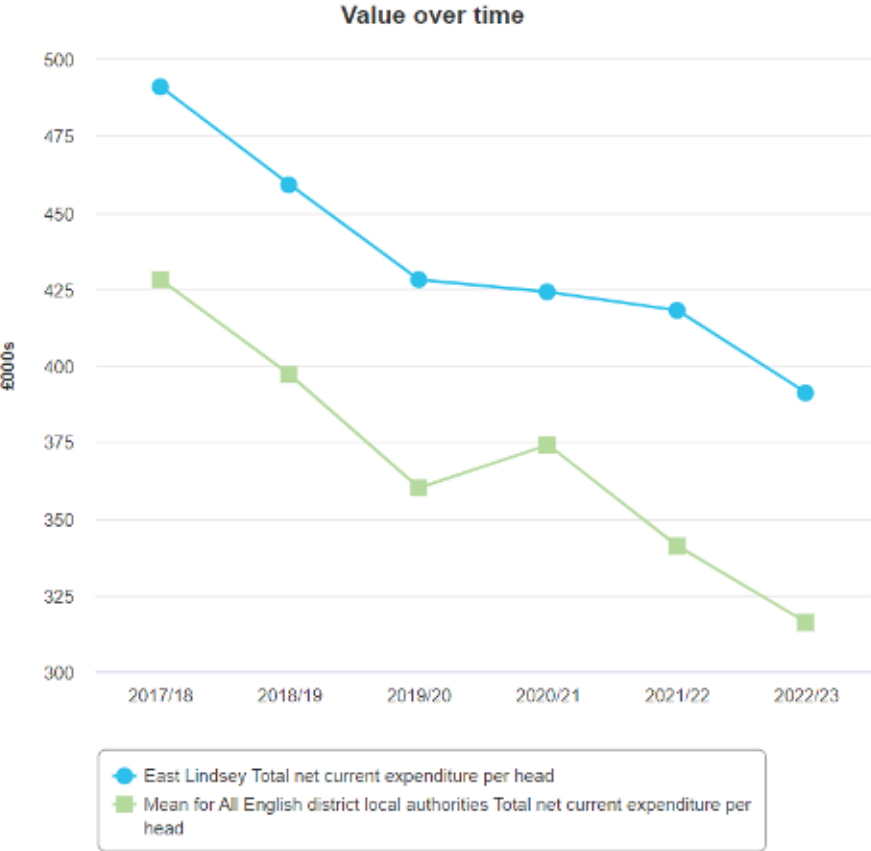


# VFM arrangements – Financial Sustainability

## The Council's spending benchmarks

We also used VFM spending profiles produced by LG Inform ([vfm.lginform.local.gov.uk](http://vfm.lginform.local.gov.uk)) to provide context on the Council's spending, which show the Council (blue line) is above average in its spending overall when compared to all district councils (green line), with costs falling in a similar pattern as the average. Whilst it represents opportunities for cost reduction, it does not present a risk of significant weakness in arrangements.

### Total net current expenditure per head (from 2017/18 to 2022/23)



## VFM Arrangements: Governance

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

### 3. VFM arrangements – Governance

#### Overall commentary on the Governance reporting criteria

#### Position brought forward from 2020/21

There are no indications of a significant weakness in the Council's arrangements for governance brought forward from the previous year.

#### Risks of significant weaknesses in arrangements

We have outlined below the risk of significant weaknesses in arrangements that we have identified as part of our continuous planning procedures, originally reported in March 2023 and the planned work to be performed. Detailed findings are on the next page.

Risk of significant weakness in arrangements	Planned procedures
<p><b>Accounting and Governance Arrangements of INVEST East Lindsey Ltd.</b></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.</p> <p><b>Relevant criteria*</b></p> <p>Governance: how the body ensures that it makes informed decisions and properly manages its risks, including:</p> <ul style="list-style-type: none"><li>• how the body monitors and assesses risk and how the body gains assurance over the effective operation of internal controls</li><li>• how the body ensures effective processes and systems are in place to supports its statutory financial reporting requirements; and ensures corrective action is taken where needed, including in relation to significant partnerships</li></ul>	<p>Our work included, but was not limited to:</p> <ul style="list-style-type: none"><li>• Reviewing the detailed Audit Completion (ISA 260) Report from the external auditors to INVEST East Lindsey Ltd.;</li><li>• Reviewing relevant internal audit reports;</li><li>• Meeting with Officers, Internal Audit and, if necessary, the external auditors to INVEST East Lindsey Ltd.; and</li><li>• Considering the relevant governance arrangements put in place by the Council over its investment in INVEST East Lindsey Ltd.</li></ul>

\* As defined by Auditor Guidance Note 03

### 3. VFM arrangements – Governance

#### Overall commentary on the Governance reporting criteria

Key findings	Conclusion
<p><b>Accounting and Governance Arrangements of INVEST East Lindsey Ltd.</b></p> <p>We have completed our planned procedures, summarising our findings as follows:</p> <p><b>Modified audit reports for Invest East Lindsey</b></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 &amp; 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 &amp; Governance Committee.</p> <p><b>Work of Internal Audit</b></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 &amp; 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><b>Group financial reporting</b></p> <p>We first reported issues over the lack of information available from the company to prepare the consolidated financial statements to the Audit &amp; 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 &amp; 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 &amp; Governance Committee on 30 October 2024.</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>

# VFM arrangements – Governance

## 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).

It does show that in 31 March 2022 and 31 March 2023, the auditor concluded that the financial statements were properly prepared in accordance with IFRSs, and a positive direction of travel under the Companies Act, from not being prepared with the Companies Act' to 'have been prepared ' for the year ended 31 March 2023.

# 3. VFM arrangements – Governance

## Overall commentary on the Governance reporting criteria

### The Authority's governance structure

Based on our work, we are satisfied that the Council has established governance arrangements, consistent with previous years, in place. These are detailed in the Statement of Accounts and Annual Governance Statement. We have considered both documents against our understanding of the Council as part of our audit. Our review of Council and Committee papers confirms that a template covering report is used for all reports, ensuring the purpose, strategic context, governance issues, and recommendations are clear in support of informed decision making. Minutes are published and reviewed by Committees to evidence the matters discussed, challenge and decisions made.

### Budget Setting and the Medium-Term Financial Strategy (MTFS)

The Council's budget setting and medium-term financial planning follows a similar process and format to previous years and our review is supported by discussions with officers during the year and experience from prior year audits.

We have read committee and Council reports covering budget setting for 2022/23 and 2023/24, including the Medium-Term Financial Strategy (MTFS), with evidence of challenge and we are satisfied that the reports contain an adequate amount of detail regarding assumptions, including pay and inflation, and that these assumptions are not unreasonable. Our work found no indication that the Council's MTFS and budget setting process is not aligned to supporting plans.

### Risk management

The Annual Governance Statement is a critical component of the Council's governance arrangements. It is an evidenced self-assessment by the Council on the Council's governance, assurance and internal control frameworks for the financial year. No significant weaknesses in internal control have been identified from our work to date and Internal Audit have not identified or raised any significant concerns. We reviewed the Annual Governance Statements as part of our work on the financial statements for 2021/22 with no significant concerns arising.

### Audit & Governance Committee

The Council has an established Audit & Governance Committee. We have reviewed supporting documents and confirmed the Committee meets regularly. Our attendance at meetings has confirmed there is an appropriate level of effective challenge.

### Internal Audit

We have reviewed Internal Audit's reports to the Audit & Governance Committee and attended Committee meetings to observe the performance of Internal Audit. We have read the head of internal audit's report for 2021/22 and 2022/23 and are satisfied it does not highlight any unidentified significant weaknesses in arrangements.

## VFM Arrangements: Improving economy, efficiency and effectiveness

- How the body uses information about its costs and performance to improve the way it manages and delivers its services

### 3. VFM arrangements – Improving Economy, Efficiency and Effectiveness

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

##### Position brought forward from 2020/21

There are no indications of a significant weakness in the Council's arrangements brought forward from the prior year and the Council's arrangements are not significantly changed since the prior year. The Council's arrangements for 2021/22 and 2022/23 are consistent with 2020/21, which were deemed adequate.

##### Corporate Plan and Performance Monitoring

A joint performance management framework has been in place across Boston and East Lindsey Councils to support joint delivery of services during 21/22. Key Performance Indicators (KPIs) were agreed through the service planning process to capture performance against East Lindsey District Council's Strategic Aims and Boston Borough Council's Corporate Strategy. Our review of the quarter 4 year end performance report to Executive Board did not highlight a risk of significant weakness in arrangements.

A joint performance management framework was agreed across the South & East Lincolnshire Councils Partnership for 2022/23 to support the delivery of services. Key Performance Indicators (KPIs) have been agreed to capture performance against the strategic priorities of the Partnership and the individual Councils. A combined performance report has been presented to Strategic Leadership Team (SLT) and this information has then been split out by Council for Executive reporting. Our review of the quarter 4 year end performance report to Executive Board did not highlight a risk of significant weakness in arrangements.

##### Commissioning

The Council's procurement is governed by its Constitution's Contract Procedure Rules and wider UK legislation. Our work on the 2021/22 financial statements has not identified any significant concerns regarding commissioning or procurement.

The Council's arrangements for 2022/23 are not significantly different and our work has not identified a risk of significant weakness in arrangements.



### 3. VFM arrangements – Improving Economy, Efficiency and Effectiveness

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

##### Partnerships

In 2021/22, following approval at the August 2021 Full Council meeting, agreement was reached to widen the Council's existing strategic alliance, with its neighbouring authority Boston Borough Council, to form the South East Lincolnshire Councils Partnership effective from 1 October 2021. This arrangement brought together Boston Borough Council, East Lindsey District Council and South Holland District Council to form a partnership in local government in serving over 300,000 local residents, with a workforce (including those within PSPS) of almost 1,000 officers, working across an area of 1,112 square miles and supporting 122 elected members.

Appropriate monitoring processes are in place for both arrangements with the necessary management agreements, Memoranda of Understanding and Service Level Agreements in place.

We note that, in July 2022, the S&ELCP won the Public/Public award at the Local Government Chronicle (LGC) Awards, where the judging panel was impressed by the Partnership's ability to "demonstrate tangible improvements to local communities with a clearly articulated ambition for the future, despite being a relatively new partnership".

Whilst significant changes took place in 2021/22, there were no significant partnership changes in 2022/23 and no indication of a risk of significant weakness in arrangements.

We read the Local Government Association's Peer review and follow-up reports from October 2022 and September 2023, noting no indication of a risk of significant weakness in arrangements.

##### Invest East Lindsey

The Council's arrangements include a Shareholder Supervisory Board consisting of members and senior officers, which has a terms of reference including monitoring operations and performance to ensure compliance and alignment with Council corporate objectives. During 2021/22 and 2022/23, performance of the Company was not formally reviewed by the Council through its formal committee performance and accountability framework. However, the Shareholder Supervisory Board does oversee Company performance (as set out in the Shareholder Agreement the Shareholder Supervisory Board monitor the Company on behalf of the Council) and regular financial information was presented to the Shareholder Supervisory Board. We have summarised the financial performance of the company over the past three years, which shows ongoing losses and a negative net liability position. Officers confirmed that only contractual returns are included in the Council's

MTFP comprising loan interest and property rental income.

	20/21	21/22	22/23
Revenue	255	572	2,410
Gross Profit	(28)	264	293
Operating loss	(194)	(89)	(90)
Loss for the year	(202)	(68)	(209)
Gross profit margin	(11)%	46 %	12 %
Operating margin	(76)%	(16)%	(4)%
Non-Current Assets	280	1,089	1,186
Current Assets	1,515	2,935	3,730
Current Liabilities	570	2,193	2,836
Non-current liabilities	1,427	2,102	2,560
Net Assets / (Liabilities)	(202)	(271)	(480)

VFM Arrangements: Identified significant weaknesses in arrangements and our recommendations

# VFM arrangements - Identified significant weaknesses and our recommendations

## Identified significant weaknesses in arrangements and recommendations for improvement

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

Identified significant weakness in arrangements	Financial sustainability	Governance	Improving the 3Es	Recommendation for improvement	Our views on the actions taken to date
<p><b>Accounting and Governance Arrangements of INVEST East Lindsey Ltd.</b></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 &amp; 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"> <li>• 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;</li> <li>• all recommendations raised from Internal Audit's review from September 2023 have been implemented;</li> <li>• the Audit &amp; Governance Committee is provided with details on why proper accounting records were not maintained and the actions that have been taken to address this.</li> <li>• the Audit &amp; 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.</li> </ul>	<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 &amp; Governance Committee, 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>

## Appendices

A: Further information on our audit of the financial statements

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

## 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><b>Production of draft accounts and working papers</b></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><b>Oversight of group financial reporting requirements</b></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 A: Further information on our audit of the financial statements

## 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 statement.

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

# Follow us

## Forvis Mazars

**Mark Surridge**  
Partner

**Bethan Vance**  
Manager

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**forvis**  
**mazars**