

NORTH LINCOLNSHIRE COUNCIL

AUDIT COMMITTEE

23 November 2020

PRESENT: - Councillor K Vickers in the chair.

Councillors P Clark, T Ellerby, T Foster, A Davison, L Yeadon and D Wells

This was a Microsoft Teams Virtual Online meeting.

596 **SUBSTITUTIONS** – Councillor A Davison substituted for Cllr T Gosling and Councillor D Wells filled the vacancy at this meeting.

597 **DECLARATIONS OF DISCLOSABLE PECUNIARY INTERESTS AND PERSONAL OR PERSONAL AND PREJUDICIAL INTERESTS (IF ANY).**

Member - Councillor Wells

Minute Number - 601

Nature of Interest - Family member was a service user

598 **TO TAKE THE MINUTES OF THE MEETING HELD ON 16 SEPTEMBER 2020 AS A CORRECT RECORD AND AUTHORISE THE CHAIRMAN TO SIGN - Resolved** – That the minutes of the proceedings of this committee held on 16 September 2020, having been printed and circulated amongst the members, be taken as read and correctly recorded and signed by the Vice-Chairman.

599 **COUNTER FRAUD PROGRESS REPORT** - The Director: Governance and Partnerships submitted a report that informed the committee of the key issues arising from the council's counter fraud work.

The committee was informed that the council's framework to combat fraud, corruption and misappropriation was approved by the Audit Committee in April 2018. The framework followed national guidance as laid out in the document 'Fighting Fraud and Corruption Locally - The local government counter fraud and corruption strategy 2016-2019', published by the Chartered Institute of Public Finance and Accountancy (CIPFA) Counter Fraud Centre. It was based upon three key principles:

- Acknowledging and understanding fraud risks
- Preventing and detecting fraud
- Pursue - Being stronger in punishing fraud and recovering losses.

The Director highlighted the work carried out in each of these areas to demonstrate the council's continuing commitment to minimise the risk of fraud. Attached to the report as an appendix was a fraud six-month progress report.

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Following the verbal presentation, the Director responded to members questions.

Resolved - That the counter fraud work programme provided a sufficient level of assurance on the adequacy of the council's counter fraud arrangements.

600 **GOING CONCERN ASSESSMENT AS AT 31 MARCH 2020** - The Director: Governance and Partnerships submitted a report that summarised the management assessment of the council as it continued to operate as a going concern for the purposes of producing the Statement of Accounts for 2019/20.

The committee was informed that the council was required to compile its Statement of Accounts in accordance with the Code of Practice for Local Authority Accounting as published by the Chartered Institute of Public Finance and Accountancy (CIPFA). In accordance with the Code, the Council's Statement of Accounts was prepared assuming that the Council would continue to operate in the foreseeable future and that it was able to do so within the current and anticipated resources available. By this, it was meant that the Council would realise its assets and settle its obligations in the normal course of business. As part of this process the Council's appointed External Auditor required the Section 151 Officer to undertake a going concern assessment and assert if the Council could operate in the foreseeable future as a going concern.

As requested by the Council's appointed External Auditor Mazars, and as part of the closure of the 2019/20 financial statements, a going concern assessment as at the Balance Sheet date of 31st March 2020 had been completed. Considering the Covid-19 outbreak and the significant additional expenditure, and lost income for the Council as well as the financial support provided by Government, this was increasingly important.

The CIPFA Code (para 2.1.2.9) stated "an authority's financial statements shall be prepared on a going concern basis; that was, the accounts should be prepared on the assumption that the functions of the authority would continue in operational existence for the foreseeable future (see also paragraph 3.4.2.23 for bodies that followed the Code but may be discontinued without statutory prescription). Transfers of services under combinations of public sector bodies (such as local government reorganisation) did not negate the presumption of going concern".

The concept of a 'going concern' assumed that an authority, its functions, and services would continue in operational existence for the foreseeable future. This assumption underpins the accounts drawn up under the Local Authority Code of Accounting Practice and was made because local authorities carried out functions essential to the local community and were themselves revenue-raising bodies (with limits on their revenue-raising powers arising only at the discretion of central government). If an authority were in financial difficulty, the prospects were that alternative arrangements might be made by central

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government either for the continuation of the services it provided or for assistance with the recovery of a deficit over more than one financial year.

Where the 'going concern' concept was not the case, particular care would be needed in the valuation of assets, as inventories and property, plant and equipment may not be realisable at their book values and provisions may be needed for closure costs or redundancies. An inability to apply the going concern concept would potentially have a fundamental impact on the financial statements.

The Director guided the committee through the council's revenue monitoring position 2020/21 (attached at appendix 1 of the report) and the going concern assessment attached at appendix 2.

The Director then responded to questions on aspects of her report.

Resolved – That the going concern assessment set out in Appendix 2 of the report be endorsed.

601 **AUDIT OF ACCOUNTS 2019-20 - MATTERS ARISING FROM THE AUDIT**
– The Director: Governance and Partnerships submitted a report informing the committee that the Accounts and Audit Regulations required the council to publish a statement of accounts each financial year. These accounts were the formal statement of the council's financial performance for the year and its financial position at the end of that period. A financial year ran from April to March.

The legislation relating to the timescale for the production and audit of the accounts was amended for the 2019/2020 financial year due to the Coronavirus Pandemic. These changes were incorporated into the Accounts and Audit (Coronavirus) Amendments Regulation 2020 (SI 2020/404).

The production of the draft accounts deadline moved from 31 May to 31 August 2020. The audit completion date moved from 31 July to 30 November 2020.

The Director confirmed that she approved the council's unaudited accounts on 3 July 2020. This met the statutory requirement that they be approved by 31 August 2020.

The Accounts had been produced under International Financial Reporting Standards (IFRS).

The accounts had since been audited and the external auditors had set out their findings in a report. Members were required to consider the proposed amendments and approve the changes to the accounts that result from it. It was a statutory requirement that this process be concluded by 30 November 2020.

The International Standard on Auditing 260 – 'The Auditor's Communication

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with Those Charged with Governance (ISA 260)' required auditors to report certain matters arising from the audit of the council's financial statements before giving an opinion on them.

The report from the council's Auditors (Mazars) was attached to the report as an appendix. It set out the matters arising from the audit of the council's 2019-2020 accounts. A copy of the amended accounts was attached as an appendix.

The main findings of the report were:

- It was expected that an unqualified opinion on the council's accounts with an Emphasis of Matter paragraph be included in relation to uncertainty around valuations.
- It was expected that an unqualified opinion on the council's arrangements for securing Value for Money would be raised.
- In relation to internal controls the report recommended that:
 - a check was put in place to ensure the Pensionable pay figure within the annual actuarial report was checked to ensure it was the same as the figure provided
 - valuation certificates included arithmetic checks to ensure they were accurate
 - a comparison of new Property, Plant and Equipment valuations to net book values plus in-year depreciation took place at year-end, and
 - the sample checks that were undertaken of authorised signatories on creditor invoices was documented.

The Director confirmed that a manager's response had been provided for each of these areas and processes would be put in place to prevent them from occurring in the future.

- 1 unadjusted misstatement was identified in relation to the Cash Flow statement
 - The cash flow statement included a balancing figure of £311k within the working papers.

The value was investigated but it was decided that no adjustment would be made within the financial statements.

- 1 Adjusted misstatement was identified in relation to the defined benefit liability valuation.
 - The pensionable pay figure was incorrect within the actuary's report

A revised actuary report has been received and the figures had been worked through the statement of accounts attached to the report. It was unclear why

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the actuary did not use the figures the council had provided to them.

- 5 disclosure amendments were identified:
 - Cash Flow Statement – a small transposition error had occurred
 - Note 18 Financial Instruments – Non-contractual obligations were taken out of the creditors figure (eg. NNDR, Council Tax, National Insurance).
 - Note 31 Officers' Remuneration, Exit Packages – One payment for lieu in notice was omitted in error and a difference between an estimated and actual amount paid was updated.
 - Note 32 External Audit Costs – updated to include the fee for the work on Teachers' Pension Return for the 2019/2020 at the request of the auditors.

- Note 31 Officers' Remuneration, Over £50k table – prior to the audit starting this table was amended to split the total between Teachers and Other Staff. As it was a change to the signed draft accounts it had been noted as a change.

- 1 Unadjusted disclosure amendments:
 - Due to the error found on the Exit Packages disclosure, the known error was extrapolated and projected an understatement of £22k. This was a projected error only and had not been amended for with the statement of accounts.

International Standard on Auditing 580 'Management Representations' required auditors to obtain written confirmations of appropriate representations from management before the audit report was issued. A proposed letter of representation was attached to the report as an appendix, which the Committee was asked to approve and authorise the Vice-Chairman of the Audit Committee and the Director: Governance and Partnerships to sign.

Additionally, IAS 570 required a specific statement on the applicability of the 'Going Concern' concept to the council. The accounts had been prepared on a going concern basis. A review of the applicability of the concept to the council was considered and approved previously (minute 599 refers).

The Chairman invited representatives of Mazars, the council's external auditors, to comment on the ISA 260 report. Mazars guided members through the ISA 260 report, paying particular attention to the outstanding work to be completed. To conclude, Mazars publicly thanked council officers from the Accountancy Team for their co-operation and partnership approach to the closedown of the council's accounts.

Members commented on particular aspects of the council's Statement of Accounts 2019-2020 and ISA 260 Report to which the Director: Governance and Partnerships and representatives of Mazars responded to.

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Resolved – (a) That the Statement of Accounts for 2019-20, prepared on a going concern basis and as amended in line with the auditor’s findings, be received and approved; (b) that the contents of the External Auditors Completion Report (ISA 260) be noted; (c) that the signing of the Letter of Representation by the Vice-Chairman of the Audit Committee and the Director: Governance and Partnerships be endorsed; (d) that the Vice-Chairman of the Audit Committee and Director: Governance and Partnerships be authorised to approve the audited set of accounts on behalf of the committee following the completion of all audit work, and (e) that all council officers who had contributed towards the closedown of the council accounts be congratulated for their commitment and professionalism towards achieving the 30 November 2020 statutory deadline. *

* The Director: Governance and Partnerships received confirmation on 30 November 2020 that Mazars had now completed its work on the outstanding items and, as a result of the findings, had amended the ISA 260 report.

Therefore, following receipt of the amended ISA 260 report, the council’s external auditors had now given the council’s accounts a clean opinion, prior to the statutory deadline of 30 November 2020.

601a **AUDITED ACCOUNTS 2019-20**

601b **STATEMENT OF ACCOUNTS**

601c **AUDIT COMPLETION REPORT - REPORT SUBMITTED BY MAZARS**

602 **ANY OTHER ITEMS WHICH THE CHAIRMAN DECIDES ARE URGENT BY REASONS OF SPECIAL CIRCUMSTANCES WHICH MUST BE SPECIFIED**
- There were no other items submitted.