

# Auditor's Annual Report

North Kesteven District Council— year  
ended 31 March 2023

February 2024



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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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# 01

## Section 01: **Introduction**

# 1. Introduction

## Purpose of the Auditor's Annual Report

Our Auditor's Annual Report (AAR) summarises the work we have undertaken as the auditor for North Kesteven District Council ('the Council') for the year ended 31 March 2023. Although this report is addressed to the Council, it is designed to be read by a wider audience including members of the public and other external stakeholders.

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



### Opinion on the financial statements

We issued our audit report on 2<sup>nd</sup> February 2024. Our opinion on the financial statements was unqualified.



### Value for Money arrangements

In our audit report, we reported that we had not completed our work on the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources and had not issued recommendations in relation to identified significant weaknesses in those arrangements at the time of reporting. Section 3 confirms we have now completed this work and provides our commentary on the Council's arrangements. We are satisfied the Council has adequate arrangements in place for 2022/23 and we have not raised any significant weaknesses. We have raised one "other recommendation" as set out in section 3.



### Wider reporting responsibilities

We submitted the assurance statement to the National Audit Office (NAO) on 2<sup>nd</sup> February in line with the NAO's Group Audit Instructions. The Group Instructions state that the NAO may request further work from auditors on a sample of WGA bodies at a later date. Until the NAO confirms that it does not require any further work from us on the Council's WGA return, we are unable to complete the audit. When the NAO provides this confirmation we will issue our audit certificate for 2022/23.

# 02

Section 02:

**Audit of the financial statements**

## 2. Audit of the financial statements

### The scope of our audit and the results of our opinion

Our audit was conducted in accordance with the requirements of the Code, and International Standards on Auditing (ISAs). The purpose of our audit is to provide reasonable assurance to users that the financial statements are free from material error. We do this by expressing an opinion on whether the statements are prepared, in all material respects, in line with the financial reporting framework applicable to the Council and whether they give a true and fair view of the Council's financial position as at 31 March 2023 and of its financial performance for the year then ended. Our audit report, issued on 2<sup>nd</sup> February 2024 gave an unqualified opinion on the financial statements for the year ended 31 March 2023.

A summary of the significant risks we identified when undertaking our audit of the financial statements and the conclusions we reached on each of these is outlined in Appendix A. In this appendix we also outline the uncorrected misstatements we identified and summarise the internal control recommendations we made.

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

We reviewed the Council's accounting policies and disclosures and concluded they comply with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23, as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets, published in November 2022, appropriately tailored to the Council's circumstances.

Draft accounts were received from the Council on 31st May 2023. The Council subsequently identified errors and issues with these published accounts. The Council provided and published an updated draft accounts on 8<sup>th</sup> August 2023.

### Significant difficulties during the audit

During the course of the audit, we encountered some challenges, which we have discussed with management. The challenges included:

- working papers not being initially available for the start of the audit,
- some working papers being poor quality, resulting in difficulties in obtaining audit evidence,

- requested information not being provided promptly or as requested,
- delays in requesting information from third parties.

The Council encountered significant challenges through the closedown and audit period with the departure of key members of the finance team. Ensuring the finance team responsibilities were delivered, alongside supporting the audit process, was something that the remaining finance team members focussed on, but this understandably caused some delays to the audit process.

# 03

Section 03:

**Commentary on VFM arrangements**

### 3. Commentary on VFM arrangements

#### Overall summary





# 3. VFM arrangements – Overall summary

## Approach to Value for Money arrangements work

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



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



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



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

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's 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.

# 3. VFM arrangements – Overall summary

## Overall summary by reporting criteria

Reporting criteria	Commentary page reference	Identified risks of significant weakness?	Actual significant weaknesses identified?	Other recommendations made?
 <b>Financial sustainability</b>	11	No	No	No
 <b>Governance</b>	16	No	No	Yes
 <b>Improving economy, efficiency and effectiveness</b>	20	No	No	No

### 3. Commentary on 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

Significant weakness in 2021/22	None
Significant weaknesses identified in 2022/23	None

### Position brought forward from 2021/22

We reported in our Annual Auditor’s Report for 2021/22, that we had:

- Reviewed the 2021/22 financial performance and forecasts during the year and considered the Council’s financial outturn position as presented in the financial statements;
- Reviewed the 2022/23 General Fund Budget.
- Reviewed the Council’s Annual governance Statement for any significant issues and considered the general findings from our audit work in other areas.

As set out in the table above, there are no indications of a significant weakness in the Council’s arrangements for financial sustainability brought forward from 2021/22. The Council’s underlying arrangements in relation to financial sustainability are not significantly different in 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, and Statement of Accounts for 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 plans 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 Officers and relevant work performed on the financial statements, we are satisfied that the Council’s arrangements for budget monitoring remain appropriate, including regular reporting to Members and well-established arrangements for year-end financial reporting.

### 2022/23 Budget Setting and the Medium-Term Financial Strategy

We considered the 2022/23 budget setting process, including the Medium Term Financial Strategy as part of our work on the 2021/22 review of arrangements, with no significant concerns arising. We were satisfied that, the Budget Report for 2022/23 adequately explains revenue and capital budgets, with a sufficient link to specific business units, as well as an explanation on the impact to the general fund balance. The Council reported its

financial outturn position in the 2022/23 Statement of Accounts, which highlighted a total general fund budget variance of £783k, with £172.5k carried forward and the remainder appropriated to reserves. The HRA showed an underspend of £1.428m, of which £631k was carried forward to 2023/24, with the remainder appropriated to the major repairs reserve.

The Council also reported a £14.329m underspend on their capital programme. The Council have a large capital programme (£39.4m approved budget in 2022/23 and £48.8m in 2023/24.) This capital programme is significant for a District Council of its size, and supports key regeneration schemes in the area, as well as the Council’s priority of delivering sustainable housing growth. The Council will need to ensure it has sufficient resources to manage and deliver the capital programme, and ensure that the revenue impacts of the capital expenditure continue to be factored into the medium term financial strategy. We note that some of the underspends are being reprofiled into future years, however for 2022/23, of the £14.329m underspend, only £1.6m was carried forward. The majority of the underspend not carried forward was made up of the HRA new homes build programme (£4.6m), and Lafford Homes Development schemes (£7.6m).

Our testing of capital additions as part of the financial statements audit did not identify any concerns relating to the Council’s arrangements. Furthermore, there is no indication of excessive use of capital flexibilities to support revenue expenditure, nor has our work on the financial statements highlighted any concerns regarding the Council’s policy for setting the Minimum Revenue Provision.

### 2022/23 Statement of Financial Position

We carried out a high-level analysis of the 2022/23 financial statements, including the Movement in Reserves Statement and the Balance Sheet, 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.

The Council’s financial position as reported in the balance sheet does not indicate significant weaknesses in financial sustainability. The most significant change in the balance sheet relates to movements in the Council’s pension fund net liability (being a deficit position) of £6.5m, down from £41.1m in the prior year. This significant movement over the prior year, has been seen across sector, in part to do with the triennial valuation. It is not unusual to see material movements in the net pension liability and this is consistent with our experience at other local authorities.

# 3. VFM arrangements – Financial Sustainability

## Overall commentary on the Financial Sustainability reporting criteria - continued

The Council's useable reserves totalled £28.8m at the end of 2022/23 (£33.9m at the end of the previous year), with:

- General Fund and Earmarked Reserves of £21.6m (prior year: £27.5m);
- Housing Revenue Account, Earmarked Reserves and Major Repairs Reserve of £4.3m (prior year £4.1m); and
- Capital Receipts and Grants Reserves of £2.4m (prior year £2.4m).

These reserves provide some mitigation against future financial challenges, and include specific reserves (Income Volatility Reserve £4.5m, Business Rates Appeals Reserve £2.4m and Financial Resilience Reserve £1.3m) to address future volatility and support investment plans. The Council will need to continue to ensure that any use of reserves to smooth the financial position over the next few years is properly planned. Use of reserves cannot be relied on to provide a long term solution to funding gaps. Our work has not highlighted either a risk of or actual significant weakness in the Council's arrangements for ensuring financial sustainability.

### 2023/24 Budget Setting and the Medium-Term Financial Strategy

Over the duration of the MTFS, the general fund shows a projected estimated balance of £1.6m, maintained consistently to the end of 2025/26. Proposals to achieve this outcome include the need to deliver additional savings totalling £703k across the 3 years from 2023/24 – 2025/26. The phasing of the savings are back-ended giving the Council time to firm up its plans: with a target of £114k for 2023/24, and the remaining £588k across 2024/25 and 2025/26. We note however that in the General Fund 10 year summary, required savings continue to increase significantly, up to £1.2m by 2033/34. The plan also includes a need to draw on reserves in 2023/24, with the forecasted appropriations from reserves for 2023/24 being £3.1m. The use of reserves to support the revenue budget are significant but are planned to be a short term measure. The Council will need to ensure reserve use is sustainable in the medium term and is part of a range of measures to manage the Council's financial position.

We have reflected on the progress in 2023/24 by reviewing the budget monitoring report to the November 2023 meeting of the Executive Board covering the period to Quarter 2 of 2023/24. The report gives an overview of the financial position, supported by adequate detail available within the appendices. The revenue budget is projecting a deficit of £409k on the general fund, and a £31k surplus on HRA. The report details the reasons behind the most significant variances. A number of underspends and areas of reduced income prove to be 'one off' in nature and relate solely to this financial year. However, some represent a more longer-term trend,

including those relating solely to the ongoing legacy impacts of Covid-19 and the cost of living challenges, and where appropriate these will be considered and be factored into the budget setting process for 2024/25.

Overall, the Council's reported financial performance at Quarter 2 does not indicate any risk of significant weakness in the Council's arrangements in setting the 2023/24 MTFS.

### 2024/25 Medium-Term Financial Strategy

We have also updated our review to consider the most recent MTFS (2024/25) that went to the Executive board in November 2023. The updated position shows no projected savings for 2023/24, with £810k savings now required across the subsequent 3 years to 2026/27. We note the forecasted general fund position for 2024/25 has moved from £1.6m deficit as per the 2023/24 MTFS, to £3.5m surplus in the 2024/25 MTFS, largely due to business rates income now projected to be £11m rather than £6.8m, as well as expected receipt of £1.2m revenue support grant in the year. Financial performance continues to be closely monitored and these changes are not indicative of any risk of significant weaknesses in the Council's arrangements.

### Lafford Homes

The Council owns a wholly owned subsidiary company to deliver market rental housing, Lafford Homes Limited. Lafford Homes is a housing company that is focused on assisting the Council to achieve its objectives arising from the Central Lincolnshire Local Plan 2016 to 2036, and on helping to meet the housing demands of local people in North Kesteven. Lafford Homes receive significant financing through loans from the Council. As at 31<sup>st</sup> March 2023, the value of these loans on the Council's Balance Sheet is £19.1m. The Council General Fund benefits from additional investment interest from Lafford Homes. Traditional investment income returns have declined in recent years with investment income from Lafford Homes now representing the main source of returns received.

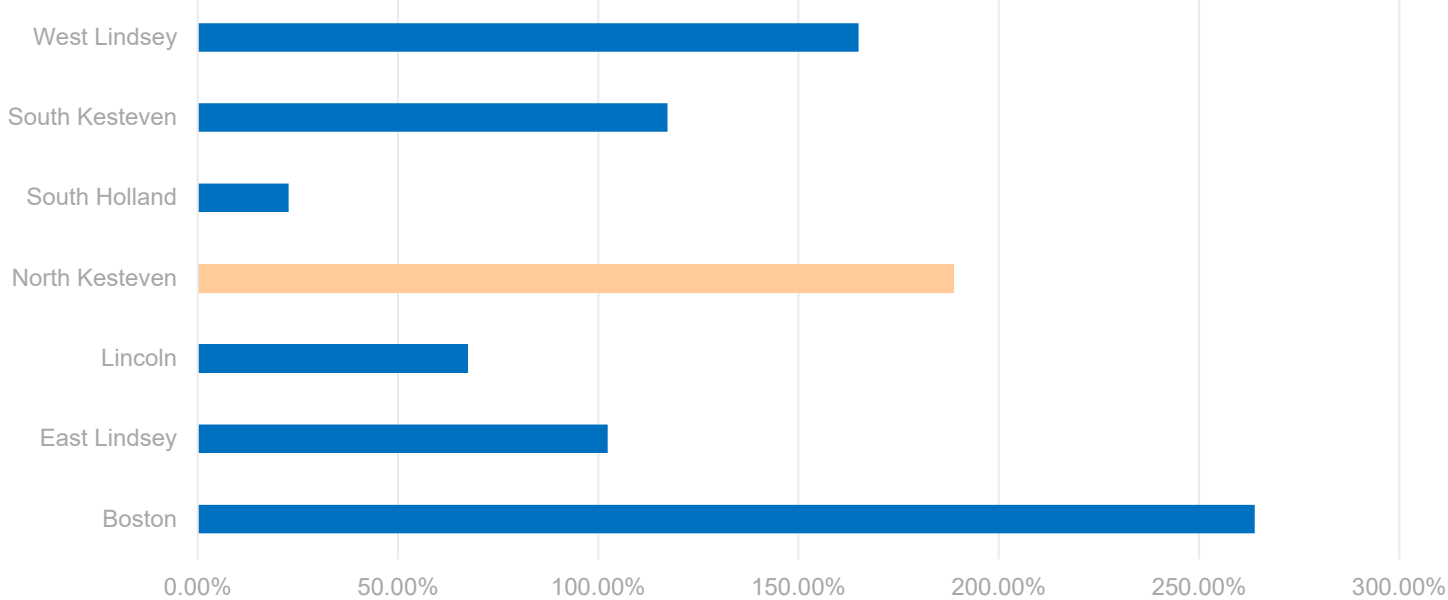
We note that the Council is looking to expand its presence in the housing construction and regeneration private sector. The aim is to advance further the achievement of the Council's key priorities and ambitions as well as generate additional financial returns for the General Fund and HRA.

# VFM arrangements – Financial Sustainability

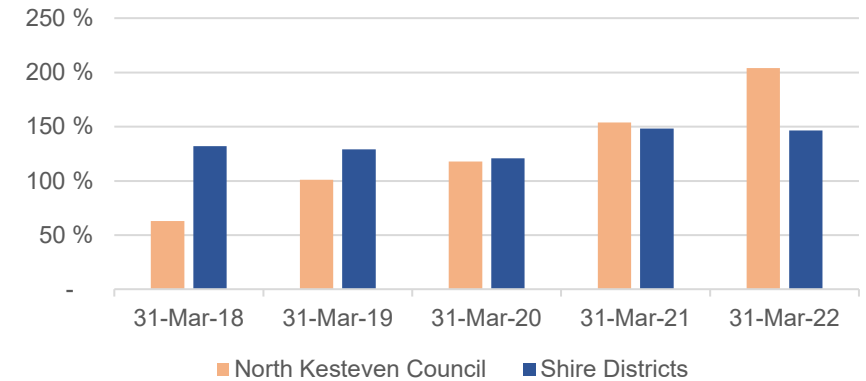
## Financial sustainability and revenue reserves

We have also performed a more detailed review of the Council’s revenue reserves. 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 just below the median between 2018 – 2019 when compared to shire districts in England, but have increased from 2020 onwards, resulting in a level above the median in 2021 and 2022. When compared to other Lincolnshire councils, North Kesteven has the second highest level of reserves as a percentage of service expenditure.

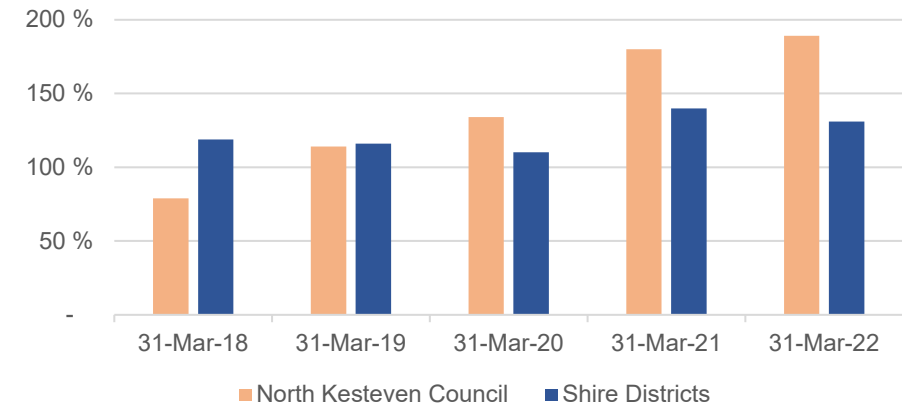
Un-ringfenced reserves as % of service expenditure adjusted for ring-fenced grants: 2021/22



Un-ringfenced reserve as % of Net Revenue Expenditure - median



Un-ringfenced reserves as % of service expenditure adjusted for ring-fenced grants - median



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

## Financial sustainability and reserves (continued)

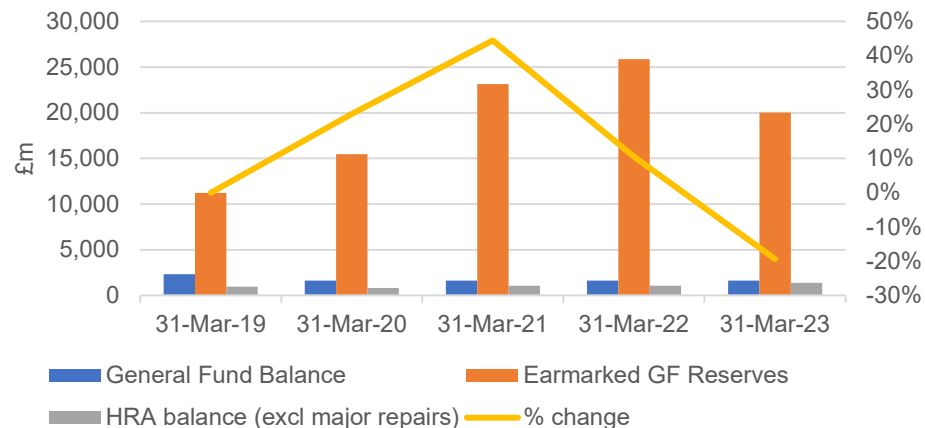
The purpose of the Council’s general fund reserve is to meet costs arising from any unplanned or emergency events. It also acts as a financial buffer to help mitigate against the financial risks the Council faces and can be used to a limited degree to ‘smooth’ expenditure on a one-off basis across years.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

Through a review of the financial statements, we have considered the Council’s revenue reserves over time:

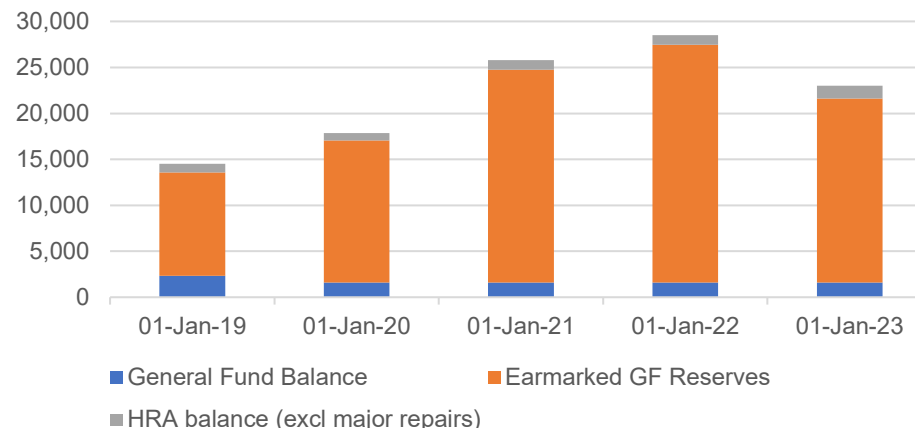
- As set out on the previous page, the Council’s revenue reserves are above the median for district councils.
- The Council’s general fund balance has remained consistent over the last 5 years. Whilst earmarked reserves have increased over the four years to 2022, we note they have reduced in 2023. Reserves are finite, and the Council should ensure they continue to manage their reserves levels.

Overall, we are satisfied that the Council’s Reserves position does not give rise to an immediate risk of significant weakness in arrangements to secure financial sustainability but is something that Council need to continue to monitor and manage through savings programmes going forwards.

Useable Revenue Reserves: North Kesteven District Council



Useable Revenue Reserves: North Kesteven District Council



Based on the above considerations we are satisfied there is not a significant weakness in the Council’s arrangements in relation to financial sustainability for the year ended 31 March 2023.

### 3. Commentary on 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

Significant weakness in 2021/22	None
Significant weaknesses identified in 2022/23	None

### Position brought forward from 2021/22

As set out in the table above, there are no indications of a significant weakness in the Council's arrangements for financial sustainability brought forward from the previous year.

### 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. The Council has an established governance structure in place which is set out within its Annual Governance Statement (AGS). We reviewed the AGS and considered the Audit Committee's review of the AGS and monitoring of actions throughout the year in relation to any significant governance issues.

The governance structure, as described in the AGS includes amongst other things the constitution, Code of Local Governance and scheme of delegation which shows the levels of authority required for all key decisions. The AGS sets out the governance principles which the Council are committed to and within which the Council conducts its business and affairs. The AGS identifies the arrangements in place to enable the Council to meet the good governance principles identified.

The Constitution sets out how the Council operates, how decisions are reached and what procedures are followed to ensure that these are transparent and accountable to local people. It is kept under review and updated as required. The Constitution sets out how the Council operates, how decisions are made and the procedures to support the Council's aims of being transparent and accountable. The Constitution includes the Budget and Policy Framework Procedure Rules, Financial Procedure Rules and Contract and Procurement Procedure Rules and the Members' Code of Conduct.

The required Standards Committee arrangements are in place designed to promote and maintain high standards of conduct by members and co-opted Members of the District Council and of the Town and Parish Councils within the District. We have reviewed the Committee's minutes in the year and not identified any matters of concern.

There are Overview and Scrutiny Committee arrangements in place to support the work of the other Committees and the Council as a whole. Specific Overview and Scrutiny Panels have a work programme in place to steer their coverage of services and policy decisions taken. The Constitution includes the Overview and Scrutiny Committee procedure rules, which cover the arrangements for call in of decisions. We have reviewed the Overview and Scrutiny Committee's minutes throughout the year and not identified any concerns.

Our review of Committee papers confirms that a template covering report is used for all reports, ensuring the purpose, risks, and recommendations are clear. Minutes are published and reviewed by Committees to evidence the matters discussed, challenge and decisions made.

### Risk management

The Council has an established risk management framework and systems in place which are built into the governance structure of the organisation. There is an approved Risk Management Strategy which includes the Council's approach, guidance, the Council's risk appetite and roles and responsibilities.

Each directorate maintains and updates its own risk register, which then feeds into the Council-wide corporate risk register. We have reviewed an example register and confirmed it is sufficiently detailed to allow for effective risk management. Each risk has an assigned risk owner and a risk score based on a probability and impact matrix. Where mitigating actions are identified they are also assigned an owner and a due date to ensure there is appropriate accountability. This enables the Council to have effective oversight of the risks.

The Audit Committee receives regular reports on the Council's Strategic Risks and provides oversight on the risk management arrangements in place and the adequacy of the controls and proposed actions. We have attended meetings of the Committee and reviewed minutes and reports presented during the year, including matters relating to risk. From our attendance at meetings and review of the minutes, we are satisfied there is sufficient evidence of member oversight of risk management, including holding officers to account.

# 3. VFM arrangements – Governance

## Overall commentary on the Governance reporting criteria - continued

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 Statement as part of our work on the financial statements with no significant issues arising.

### Audit Committee

The Council has an established Audit Committee. We have reviewed supporting documents and confirmed the Committee meets regularly and reviews its programme of work to maintain focus on key aspects of governance and internal control. Our attendance at Audit Committee has confirmed there is an appropriate level of challenge and the Committee demonstrates an understanding of its role in the governance framework.

### Internal Audit

Internal Audit progress reports are presented to Audit Committee meetings including follow-up reporting on recommendations from previous Internal Audit reports. From our attendance at meetings, we are satisfied this allows the Committee to effectively hold management to account. At the end of each financial year the Head of Internal Audit provides an Annual Report including an opinion on the Council's governance, risk and control framework based on the work completed during the year. For 2022/23 the Head of Internal Audit concluded that the Council's arrangements for Governance, Risk, Internal Control, and Financial Control were all 'performing well', with no significant concerns identified that significantly affected the framework and successful delivery of the Council priorities. We have reviewed the Annual Report and are satisfied that the Head of Internal Audit's opinion does not indicate any significant weaknesses in the Council's governance arrangements.

The Council is part of the County Fraud Partnership, has a Counter Fraud, Corruption, Bribery and Money Laundering Strategy and a Whistleblowing Policy. The Council carries out proactive anti-fraud work, such as the regular Council Tax Single person discount reviews, and partakes in the bi-annual National Fraud Initiative. An annual fraud report is taken to the Audit Committee. We have reviewed the Annual Fraud Report 2022/23 and have not identified any significant concerns with these arrangements.

### Arrangements for budget setting and budgetary control

The Council has an established set of arrangements in place for budget setting and control. The process is set out and approved through the Constitution, which encompasses the Budgetary and Policy Framework Procedure rules. The framework includes clear responsibilities, including the role of the Executive Board in leading the budget setting process and providing professional advice, review by the Overview and Scrutiny Panel and the reservation of the approval of the Budget to the Council based on the Executive Board's recommendation.

The process begins with the creation of the Medium Term Financial Strategy and the tactical financial strategies for Capital and Treasury Management which involves various assumptions and known changes moving forward. From that base the finance team in conjunction with budget managers go through a more detailed review of service need/pressures identifying any potential budget bid requirements or savings.

This process is performed alongside the compilation of the annual refresh of the NK Plan to ensure new initiatives/requirements are financially appraised and considered for inclusion within the base budgets. Relevant consultation occurs on both documents in January each year and is scrutinised in a special Target Budget meeting of the Performance and Resources Overview and Scrutiny Panel.

This results in the development of the NK Financial Plan that is approved alongside the NK Plan in February each year. The Council considers these strategic plans together as part of the Budget Setting meeting ensuring a cohesive approach in decision making.

Following approval of the NK Financial Plan, budget monitoring commences to monitor progress against targets. Budget monitoring responsibilities of budget holders are documented and they are supported in this role by the finance team. Budget monitoring reports are produced on a monthly basis and there are regular meetings held, including finance team members, to discuss the financial performance and forecasts. There are rules in place regarding the reporting of budget variances and the requirement to operate within approved budgets.

There are similar processes and controls in place for development and control of the capital programme alongside the revenue budget setting. The Treasury Management Strategy statement (encompassing the Treasury Management and Annual Investment Strategies) are approved at the same time as the revenue budgets and monitored and reported on throughout the year.

# 3. VFM arrangements – Governance

## Overall commentary on the Governance reporting criteria - continued

Quarterly Financial Performance reports are presented to the Executive Board, alongside a Treasury Management Performance report. These reports cover:

- General Fund and Housing Revenue Account projected outturn;
- Fees and charges income;
- Service expenditure variances;
- Treasury management activities and variances;
- Council Tax and Business Rates collection;
- Reserve movements; and
- Capital expenditure variances and projected outturn.

### 2023/24 Budget Setting and the Medium-Term Financial Strategy

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. The arrangements in place for budget setting and updating the Medium-Term Financial Strategy are as expected for a District Council, with arrangements for: consultation, scrutiny, evaluation of financial risk, alignment to business plans and sources of funding.

We reviewed the Council's balanced budget for 2023/24 as set by Council in March 2023, which approved a 2.76% increase in Council Tax. We read the assumptions underpinning the Medium-Term Financial Strategy (MTFS) as included in reports to the Executive Board. In our view, these include an adequate level of detail over the assumptions and cost pressures facing the council, which are consistent with our experience at similar sized authorities and not unreasonable. In addition, there is sufficient narrative to explain the rationale and key financial risks.

Our review of the relevant meeting minutes confirmed there was challenge and scrutiny of the budget setting process and any material budget variances were identified and explained on a regular basis. The Executive

Board approves and tracks the use of earmarked reserves throughout the year. There were no significant unexpected over or underspends reported at the year-end.

### Financial statements closedown process and external audit

Draft accounts were received from the Council on 31st May. The Council identified a number of errors and issues with the published draft accounts, and we agreed we would audit the revised draft version once these had been corrected. The revised draft accounts were published on 8th August. While meeting the statutory deadline for draft accounts is important, it is equally important that the Council balances prompt publication with accuracy of the accounts. For 2023/24 the Council should ensure it has robust closedown processes and quality assurance reviews of the draft accounts to identify errors and issues prior to publication. Subsequently, during the course of the audit, we encountered some challenges which we discussed with management and reported in our Audit Completion Report. The challenges included:

- working papers not being initially available for the start of the audit,
- some working papers being poor quality, resulting in difficulties in obtaining audit evidence,
- requested information not being provided promptly or as requested,
- delays in requesting information from third parties.

The Council encountered significant challenges through the closedown and audit period with the departure of a key member of the finance team. The Council should ensure that they adequately support the audit process, and ensure the finance team have sufficient capacity to support the audit alongside their day to day responsibilities. Whilst we don't consider this to represent a significant weakness in the Council's arrangements, we have raised an "other recommendation" in this regard.

Overall, we have not identified any indicators of a significant weakness in the Council's arrangements relating to the Governance criteria for the year ended 31 March 2023, however we have raised an "other recommendation". See page 24 for full details.

### 3. Commentary on 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

Significant weakness in 2021/22	None
Significant weaknesses identified in 2022/23	None

### Position brought forward from 2021/22

As set out in the table above, there are no indications of a significant weakness in the Council's arrangements for financial sustainability brought forward from the previous year.

### Performance Monitoring

The Council's arrangements are consistent with the prior year, with the Council's Corporate Strategy, the NK plan, setting out what it wants to achieve for local residents and communities and is published on its website. The NK Plan 2023-26 was prepared following consultation with residents, businesses, partners and colleagues. The NK Plan responds to the main challenges facing the district, ensuring the Council uses its resources and influence to deliver priorities and services needed by communities across North Kesteven. The strategy provides a basis for Council's service and financial planning arrangements. The strategy sets out the Council's vision, details the purpose and breaks down the five categories of priorities. For each priority there is a key ambition as well as supportive ambitions.

The Council has in place a performance management framework which includes identified responsibilities of managers and processes for regular performance reporting and corrective action if required. The framework is reviewed annually and is scrutinised by the Performance and Resources Overview and Scrutiny Panel before approval by the Council's Executive Board.

Our review of minutes and reports confirms members receive regular reporting on performance measures. Performance monitoring is undertaken quarterly to the Resources Overview & Scrutiny Panel through a series of KPIs established following the preparation of the NK Plan. For each KPI the Council's performance management system generates as Red – Amber – Green (RAG) traffic light rating. These quarterly reports identify whether the performance is on/off track and its direction of travel. They include appropriate commentary to explain any significant factors which are affecting performance and actions being taken to correct performance.

We reviewed the performance outturn for 2022/23 as evidence of the Council's approach to evaluating performance. In our view, reports contain sufficient narrative, including the appendices, to demonstrate that there are adequate arrangements to assess performance and identify areas for action.

On an annual basis, the Council's overall performance is summarised in the Narrative Report as part of the Statement of Accounts. This outlines the Council's progress against its ambitions, highlighting key successes and risk areas. The Narrative Report also includes an agreed plan for subsequent years, including any areas for improvement. This provides the public with an overall assessment of the Council activities for the financial year.

The Council's overall financial objectives and strategy are documented in the Council's budget and Medium-Term Financial Strategy which is reviewed and updated annually.

### Partnerships and Commissioning

The Council is open to considering all options to deliver services. This means it commissions from other organisations where it is appropriate to do so and where it can achieve the same or better outcomes at reduced cost. The Council actively seeks to commission jointly with other public service agencies where possible.

In this respect, there are a number of significant partnership arrangements in place and some key support services (for example in-sourcing of a number of payroll contracts, shared Revenue and Benefits services, and ICT) are provided through agreements with neighbouring councils. There are relevant governance frameworks in place for these partnership arrangements, predominantly through Shared Services Boards and Service Level Agreements, and the Council continues to keep its role in these activities under review.

The Council is 100% shareholder of a single property investment company, Lafford Homes Limited. The Council's transactions with this company are disclosed in the financial statements and there are appropriate governance arrangements in place.

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

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

### Procurement

Through our work on the financial statements, our testing of expenditure, and consideration of key financial controls, has not identified any issues relating to procurement.

The Council has Contract and Procurement Procedure Rules in place which outlines how the procurement of goods, works and services is achieved. These documents take into account latest legislative and operational changes at the Council, and provide a corporate framework for the procurement of goods, works and services. There are also controls in place designed to ensure that all procurement activity is conducted with openness, honesty and accountability. The Council works through the Lincolnshire Procurement Partnership which provides access to specialist procurement services and savings and has its own specialist procurement staff. The Council has specific arrangements through standing financial instructions and purchase order controls and our work on the financial statements has not identified any significant internal control deficiencies in these areas.

Overall, we have not identified any indicators of a significant weakness in the Council's arrangements relating to the Improving Economy, Efficiency and Effectiveness criteria for the year ended 31 March 2023.

### 3. Commentary on VFM arrangements

Identified significant weaknesses in arrangements and our recommendations



# 3. Identified significant weaknesses and our recommendations

## Identified significant weaknesses in arrangements and recommendations for improvement

As a result of our work, we are satisfied there are no significant weaknesses in the Council’s arrangements to secure economy, efficiency and effectiveness in its use of resources. However, we have raised the following ‘other recommendations’

### Other recommendations

		Financial sustainability	Governance	Improving the 3Es	Recommendation for improvement
1	<p><u>Accounts production and publication:</u> Initial draft accounts were published on 31st May 2023, however the Council identified a number of errors and issues to be rectified. We therefore agreed to audit the revised version, which was not received until 8th August 2023.</p> <p><u>Audit process:</u> Working papers were not initially available to us at the start of the audit. This caused significant delays due to us not having sufficient working papers and evidence to review. Once working papers were received, we found the quality in many cases to be poor, resulting in difficulties performing our testing and obtaining evidence. We also found that requested information and evidence was not provided promptly, and often the information provided did not satisfy the request and we were required to follow-up with further queries multiple times.</p>		●		<p>The Council should:</p> <ul style="list-style-type: none"> <li>• Ensure the published accounts have been subject to robust quality assurance processes to provide them with assurance on the quality and accuracy of the accounts before publishing.</li> <li>• Ensure that comprehensive working papers are produced as part of the closedown process. The accounts should be derived from underlying working papers, and as such when the accounts are drafted and published, the relevant workings should be available alongside to support the figures and disclosures. The Council should maintain working papers throughout the year where possible, in order to make the closedown process more efficient.</li> <li>• Ensure that sufficient and appropriate resource is available to support the audit process. Contingency plans should be considered in order to reduce the impact of potential staff absences or changes.</li> </ul>



# 04

Section 04:

**Other reporting responsibilities and  
our fees**

## 4. Other reporting responsibilities and our fees

### Matters we report by exception

The Local Audit and Accountability Act 2014 provides auditors with specific powers where matters come to our attention that, in their judgement, require specific reporting action to be taken. Auditors have the power to:

- issue a report in the public interest;
- make statutory recommendations that must be considered and responded to publicly;
- apply to the court for a declaration that an item of account is contrary to the law; and
- issue an advisory notice.

We have not exercised any of these statutory reporting powers.

The 2014 Act also gives rights to local electors and other parties, such as the right to ask questions of the auditor and the right to make an objection to an item of account. We did not receive any such objections or questions.

### Reporting to the NAO in respect of Whole of Government Accounts consolidation data

We submitted the assurance statement to the National Audit Office (NAO) on 2nd February in line with the NAO's Group Audit Instructions. The Group Instructions state that the NAO may request further work from auditors on a sample of WGA bodies at a later date. Until the NAO confirms that it does not require any further work from us on the Council's WGA return, we are unable to complete the audit. When the NAO provides this confirmation we will issue our audit certificate for 2022/23.

## 4. Other reporting responsibilities and our fees

### Fees for work as the Council's auditor

We reported our proposed fees for the delivery of our work under the Code of Audit Practice in our Audit Strategy Memorandum presented to the Audit Committee in July 2023. Having completed our work for the 2022/23 financial year, we can confirm that our fees are as follows:

Area of work	2021/22 fees £000	2022/23 fees* £000
Scale fee in respect of our work under the Code of Audit Practice	32,669	42,718
Additional fee in respect of increased regulatory expectations:		
Additional testing on IAS19 Pension Liabilities	2,605	Included in scale fee
Additional testing on valuation of land, buildings, dwellings, and investment properties	4,127	Included in scale fee
Group accounts	1,930	Included in scale fee
<b>Subtotal</b>	<b>41,331</b>	<b>42,718</b>
Additional fee relating to new auditing standards (ISA540 Estimates, ISA315 Planning and Risk Assessment)	3,298	10,500
Additional fee due to quality of audit working papers and additional work resulting	5,030	31,000
Additional fee relating to work required on the Investment/Long Term Debtors prior period adjustment	-	4,500
Additional fee relating to the work required on the Pension asset ceiling, adjustments, and subsequent testing on pension adjustment	-	6,500
Additional fee relating to the introduction of the Council's new ledger system	-	7,000
Additional fee in respect of the revised VFM responsibilities	7,500	10,000
<b>Subtotal</b>	<b>15,828</b>	<b>69,500</b>
<b>Grand total</b>	<b>57,179</b>	<b>112,218</b>

The additional fee requests are subject to scrutiny, review and approval by Public Sector Audit Appointments Ltd. The Council received £16,389 of grant funding to meet rising audit costs.



# Appendix

# A. Further information on our audit of the financial statements

## Significant risks and audit findings

As part of our audit, we identified significant risks to our audit opinion during our risk assessment. The table below summarises these risks, how we responded and our findings.

Risk	How we addressed the risk	Audit Conclusion
<p><b><u>Management Override of Controls</u></b></p> <p>This is a mandatory significant risk on all audits due to the unpredictable way in which such override could occur.</p> <p>Management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.</p> <p>Due to the unpredictable way in which such override could occur there is a risk of material misstatement due to fraud on all audits.</p>	<p>We addressed the management override of controls risk through performing audit work over accounting estimates, journal entries and significant transactions outside the normal course of business or otherwise unusual.</p>	<p>No issues have been identified</p>

# A. Further information on our audit of the financial statements

## Significant risks and audit findings continued

Risk	How we addressed the risk	Audit Conclusion
<p><b><u>Valuation of land and buildings (Council)</u></b></p> <p>The Council's accounts contain material balances and disclosures relating to its holding of land and buildings within the caption of property, plant and equipment, with the majority required to be carried at valuation.</p> <p>The valuation of these assets is complex and is subject to a number of management assumptions and judgements.</p> <p>Due to the high degree of estimation uncertainty associated, we have determined there is a significant risk in this area.</p>	<p>We addressed the risk by:</p> <ul style="list-style-type: none"> <li>• Obtaining an understanding of the skills, experience and qualifications of the valuers, and considering the appropriateness of the Council's instructions to the valuer.</li> <li>• Obtaining an understanding of the basis of valuation applied by the valuers in the year.</li> <li>• Obtaining assurance on the appropriateness of the methodology and assumptions adopted by the Council's valuers.</li> <li>• Obtaining an understanding of the Council's approach to ensure that assets not subject to revaluation in 2022/23 are materially fairly stated.</li> <li>• Obtaining an understanding of the Council's approach to ensure that assets revalued through 2022/23 are materially fairly stated at the year end.</li> <li>• Sample testing the completeness and accuracy of underlying data provided by the Council and used by the valuers as part of their valuations.</li> <li>• Using relevant market and cost data to assess the reasonableness of the valuation as at 31 March 2023.</li> </ul>	<p>No material matters were identified.</p> <p>We reported two internal control recommendations in relation to the Council's valuation and impairment process.</p>

# A. Further information on our audit of the financial statements

## Significant risks and audit findings continued

Risk	How we addressed the risk	Audit Conclusion
<p><b><u>Valuation of investment properties (Group)</u></b></p> <p>The Council's consolidated accounts contain material balances and disclosures relating to its holding of investment properties at a group level, with the majority required to be carried at valuation.</p> <p>The valuation of these assets is complex and is subject to a number of management assumptions and judgements.</p> <p>Due to the high degree of estimation uncertainty associated, we have determined there is a significant risk in this area.</p>	<p>We addressed the risk by:</p> <ul style="list-style-type: none"> <li>• Obtaining an understanding of the skills, experience and qualifications of the valuer, and considering the appropriateness of the Group's instructions to the valuer.</li> <li>• Obtaining an understanding of the basis of valuation applied by the valuer in the year.</li> <li>• Obtaining assurance on the appropriateness of the methodology and assumptions adopted by the Group's valuer.</li> <li>• Sample testing the completeness and accuracy of underlying data provided by the Group and used by the valuer as part of their valuations</li> </ul>	<p>No issues have been identified.</p>

# A. Further information on our audit of the financial statements

## Significant risks and audit findings continued

Risk	How we addressed the risk	Audit Conclusion
<p><b><u>Net defined benefit liability valuation</u></b></p> <p>The defined benefit liability relating to the Local Government pension scheme represents a significant balance on the Council's balance sheet. The Council uses an actuary to provide an annual valuation of these liabilities in line with the requirements of IAS 19 Employee Benefits. Due to the high degree of estimation uncertainty associated with this valuation, we have determined there is a significant risk in this area</p>	<p>We addressed the risk by:</p> <ul style="list-style-type: none"> <li>• Obtaining an understanding of the skills, experience and qualifications of the actuary, and considering the appropriateness of the instructions to the actuary.</li> <li>• Obtaining confirmation from the auditor of Lincolnshire Pension Fund that the Pension Fund has designed and implemented controls to prevent and detect material misstatement. This includes the controls in place to ensure data provided to the Actuary by the Pension Fund for the purposes of the IAS19 valuation of the gross asset and liability is complete and accurate.</li> <li>• Evaluating and challenging the work performed by the Pension Fund auditor on the Pension Fund investment assets, and considering whether the outcomes would materially impact our consideration of the Council's share of Pension Fund assets.</li> <li>• Reviewing the actuarial allocation of Pension Fund assets to the Council by the actuary, including comparing the Council's share of the assets to other corroborative information.</li> <li>• Reviewing the appropriateness of the Pension Asset and Liability valuation methodology applied by the Pension Fund Actuary, and the key assumptions included within the valuation. This includes comparing them to expected ranges, utilising information provided by PwC, consulting actuary engaged by the National Audit Office.</li> <li>• Agreeing the data in the IAS 19 valuation report provided by the Pension Fund Actuary for accounting purposes to the pension accounting entries and disclosures in the Council's financial statements.</li> <li>• Obtaining assurances from the auditor of Lincolnshire Pension Fund in relation to the Triennial review data</li> </ul>	<p>A material adjustment was required in this area. This was due to the actuary initially calculating a net pension asset. Upon challenge of the actuary's method of calculation, we determined that their calculation was not in line with our interpretation of IFRS14. As such, a revised report was produced which reported a pensions liability. The Council adjusted their accounts accordingly. In addition, the assurance letter we received from the auditor of Lincolnshire Pension Fund detailed a difference arising in their work. We reported North Kesteven's estimated share of this difference as an unadjusted misstatement.</p>



## A. Further information on our audit of the financial statements

### **Summary of uncorrected misstatements**

Our audit reported four unadjusted misstatements identified during the course of the audit. These misstatements were immaterial individually and cumulatively.

### **Summary of internal control recommendations**

Our audit reported seven internal control recommendations. All recommendations were accepted by management.

## Alastair Newall - Director

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