

Guildhall Gainsborough
Lincolnshire DN21 2NA
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AGENDA

This meeting will be recorded and the video archive published on our website

Governance and Audit Committee
Tuesday, 23rd July, 2019 at 2.00 pm
Council Chamber - The Guildhall

Members: Councillor John McNeill (Chairman)
Councillor Mrs Jackie Brockway (Vice-Chairman)
Councillor Mrs Tracey Coulson
Councillor Christopher Darcel
Councillor David Dobbie
Councillor Mrs Caralyne Grimble
Councillor Mrs Angela White
Alison Adams
Andrew Morriss
Peter Walton

i) ISA 260 Report (PAGES 2 - 28)

Ian Knowles
Head of Paid Service
The Guildhall
Gainsborough

Monday, 15 July 2019

Agenda Item 6c



**Governance and Audit
Committee**

Tuesday, 23 July 2019

**Subject: Report to those charged with Governance - EXTERNAL AUDIT
REPORT - ISA 260**

Report by:

Presented by: Michael Norman, Mazars

Contact Officer:

Tracey Bircumshaw
Strategic Finance and Business Support Manager
tracey.bircumshaw@west-lindsey.gov.uk

Purpose / Summary:

To present to those charged with governance, the External Audit report on the quality of the Statement of Accounts and Annual Governance Statement 2018/19.

RECOMMENDATION(S):

1. That members accept the content of this report.

IMPLICATIONS

Legal: None from this report

Financial : FIN/51/20/TJB

Our appointed External Auditor was changed from KPMG LLP UK to Mazars from 1 April 2019 as part of the Public Sector Audit Appointments (PSAA) contract awards.

This procurement resulted in a reduced audit fee, with 2018/19 being £33k, a saving of £10k on the previous year.

Staffing : None from this report

Equality and Diversity including Human Rights :

None from this report

Risk Assessment :

None from this report

Data Protection Implications :

Data is shared for audit purposes

Climate Related Risks and Opportunities :

None from this report

Title and Location of any Background Papers used in the preparation of this report:

Call in and Urgency:

Is the decision one which Rule 14.7 of the Scrutiny Procedure Rules apply?

i.e. is the report exempt from being called in due to urgency (in consultation with C&I chairman)

Yes

No

x

Key Decision:

A matter which affects two or more wards, or has significant financial implications

Yes

No

1. **Background**

The draft report to those charged with Governance is attached at Appendix A. The report is written at a point in time and colleagues are clearing the 'work in progress' points at page 3. An update on these and any other issues will be provided at the Committee meeting.

The headlines of the report include:

- An unqualified audit opinion on the 2018/19 Statement of Accounts, subject to completing the remaining audit procedures.
- The Council has proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources.
- That there have been no material audit differences identified.

The Officers identified small presentational changes to the Statement of Accounts due to the recent McCloud Judgement.

The Council received an updated Actuarial Valuation 8 July 2019 which identified an increase in net liabilities (£0.332m), as this is below materiality no adjustments were made to the Statement of Accounts. However, as a figure was now known Note 34 Contingent Liabilities narrative in relation to the McCloud Judgement had to be removed.

In Note 33 Pensions the narrative was extended to explain no adjustment had been made in relation to the McCloud Judgement. The Statement of Accounts that were originally certified by the Chief Finance Officer and published have now been updated accordingly and agreed with External Audit.

- There have been no new significant risks identified within the Financial Statements since the Audit Strategy Memorandum was issued 29 March 2019.

An update and Audit conclusions on the significant findings in relation to management's judgement and significant risks are identified as;

- Management override controls
- Property, plant, equipment and Investment Properties
- Valuation of net defined pension liability
- Provision of business rates appeals against the ratings list
- Minimum Revenue Provision

The full report is attached at Appendix A and will be presented by Michael Norman, Audit Manager, Mazars.



Audit Completion Report

West Lindsey District Council

Year ending 31 March 2019

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2. Significant findings
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Appendix A – Draft management representation letter

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Appendix C – Independence

Our reports are prepared in the context of the 'Statement of responsibilities of auditors and audited bodies' and the 'Appointing Person Terms of Appointment' issued by Public Sector Audit Appointments Limited.

Reports and letters prepared by appointed auditors and addressed to the Council are prepared for the sole use of the Council and we take no responsibility to any member or officer in their individual capacity or to any third party.

Mazars LLP is the UK firm of Mazars, an international advisory and accountancy group. Mazars LLP is registered by the Institute of Chartered Accountants in England and Wales.

Governance and Audit Committee Members
West Lindsey District Council
Guildhall
Marshalls Yard
Gainsborough
Lincolnshire
DN21 2NA

16 July 2019

Dear Members

Audit Completion Report – Year ended 31 March 2019

We are pleased to present our Audit Completion Report for the year ended 31 March 2019. The purpose of this document is to summarise our audit conclusions.

The scope of our work, including identified significant audit risks and other areas of management judgement, was outlined in our Audit Strategy Memorandum which we presented on 29 March 2019. We have reviewed our Audit Strategy Memorandum and concluded that the original significant audit risks and other areas of management judgement remain appropriate.

We would like to express our thanks for the assistance of your team during our audit.

If you would like to discuss any matters in more detail then please do not hesitate to contact me on 0787 597 4291.

Yours faithfully

Mark Surridge
Mazars LLP

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We are registered to carry on audit work in the UK and Ireland by the Institute of Chartered Accountants in England and Wales. Details about our audit registration can be viewed at www.auditregister.org.uk under reference number C001139861.
VAT number: 839 8356 73

1. EXECUTIVE SUMMARY

Purpose of this report and principal conclusions

The Audit Completion Report sets out the findings from our audit of West Lindsey District Council ('the Council') for the year ended 31 March 2019, and forms the basis for discussion at the Governance and Audit Committee meeting on 23 July 2019.

The detailed scope of our work as your appointed auditor for 2018/19 is set out in the National Audit Office's (NAO) Code of Audit Practice. Our responsibilities and powers are derived from the Local Audit and Accountability Act 2014 and, as outlined in our Audit Strategy Memorandum, our audit has been conducted in accordance with International Standards of Auditing (UK) and means we focus on audit risks that we have assessed as resulting in a higher risk of material misstatement.

Sections 2 and 5 of this report outline the detailed findings from our work on the financial statements and our conclusion on the Council's arrangements to achieve economy, efficiency and effectiveness in its use of resources. Section 2 also includes our conclusions on the audit risks and areas of management judgement in our Audit Strategy Memorandum, which include:

Significant Audit Risks:

- Management override of controls
- Valuation of property, plant and equipment (PPE) and investment properties (IP)
- Valuation of net defined benefit liability

Key Judgement Areas:

- Provision for business rate appeals against the rating list
- Minimum revenue provision (MRP)
- Group Accounts

Status of our audit work

This first year audit carried out by Mazars has been challenging, given the tight timescale for us to complete the work and for management to respond to our audit queries, including the additional complications arising from the late notification of a national issue regarding potentially material adjustments to pension valuations, as described in Section 2. We have, though, substantially completed our work on the financial statements and Value for Money conclusion for the year ended 31 March 2019. At the time of preparing this report the matters outstanding, which we will continue to work on up to the date of the Committee's meeting, include:

- Finalising our work in testing the significant risk areas identified in our relating to the PPE and IP valuations, including clearing our queries with the Council's valuer and other officers
- Finalising our work in relation to the significant risk areas relating to the net Pensions liability, including reviewing assurances requested from the Lincolnshire PF auditor, reviewing the latest IAS19 valuation report and the disclosures in the final set of the financial statements and reviewing and acting on the latest PwC report (for NAO) on the Actuaries' work
- Receiving the outstanding requested 3rd party verifications for the Council's bank accounts and investments, and completing our testing of the Cash and Cash equivalents balances
- Clearing any remaining queries with officers
- Checking the amendments to the draft financial statements proposed by management to correct matters identified during the audit.
- Clearing any remaining quality control points and completing the remaining audit closure steps.

We will update the Governance and Audit Committee at its 23 July 2019 meeting on these and any other matters arising from the audit.

Our audit approach

We provided details of our intended audit approach in our Audit Strategy Memorandum presented to the Governance and Audit Committee in March 2019. We have not made any changes to our audit approach since we presented our Audit Strategy Memorandum.

Materiality

We set materiality at the planning stage of the audit at £889k using a benchmark of 2% of the Council's 2017/18 Gross Operating Expenditure. Our final assessment of materiality, based on the final financial statements and qualitative factors, was at to reduce materiality to £817k reflecting the fall in the benchmark in the year. We set our trivial threshold (the level under which individual errors are not communicated to the Governance and Audit Committee), at the planning stage of the audit at £27k (3% of materiality), and again our final assessment has been to reduce this threshold to £25k, reflecting the fall in the benchmark.



1. EXECUTIVE SUMMARY

Key findings of our work

As we outline below, our work is substantially complete. Subject to the satisfactory completion of the outstanding work, at the time of issuing this report we have the following conclusions:

Opinion on the financial statements

We anticipate issuing, subject to completing the remaining audit procedures, an unqualified opinion, without modification, on the amended financial statements. Our proposed audit opinion is included in the draft auditor's report in Appendix B.

Value for Money conclusion

We anticipate concluding that the Council had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources. Our draft auditor's report, including proposed conclusion, is provided in Appendix B.

Whole of Government Accounts (WGA)

We anticipate completing our work on your WGA submission, in line with the group instructions issued by the NAO, by the deadline of 13 September 2019. We anticipate reporting that the WGA submission is consistent with the audited financial statements

Wider powers

The 2014 Act requires us to give an elector, or any representative of the elector, the opportunity to question us about the accounting records of the Council and to consider any objection made to the accounts. We have received no such objections or questions from local electors.

Misstatements and internal control recommendations

At Section 3 we have confirmed that, based on the audit work completed to date, there are no identified significant control deficiencies we are required to report to the Governance and Audit Committee..

At Section 4 we have summarised the audit misstatements identified from the audit work to date that we are required to report to the Governance and Audit Committee.

2. SIGNIFICANT FINDINGS

Set out below are the significant findings from our audit that include:

- our audit conclusions regarding significant risks and key areas of management judgement outlined in the Audit Strategy Memorandum;
- our comments in respect of the accounting policies and disclosures that you have adopted in the financial statements. On page 9 we have concluded that the financial statements have been prepared in accordance with the financial reporting framework and provide commentary on any significant accounting policy changes that have been made during the year; and
- any significant difficulties we experienced during the audit.

Significant risks and key areas of management judgement

As part of our planning procedures we considered the risks of material misstatement in the Council's financial statements that required special audit consideration and reported these to you in our Audit Strategy Memorandum. Our risk assessment is a continuous process and we regularly consider whether new significant risks have arisen and how we intend to respond to these risks. No new risks have been identified since we issued our Audit Strategy Memorandum.

Significant risk

Management
override of controls

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. Due to the unpredictable way in which such override could occur there is a risk of material misstatement due to fraud on all audits.

How we addressed this risk

We addressed this risk by:

- Documenting our understanding of the processes and controls in place to mitigate the risks identified, and walk through those processes and controls to confirm our understanding;
- Testing the appropriateness of journal entries recorded in the general ledger and other material adjustments made in the preparation of the financial statements;
- Evaluating the business rationale for any significant transactions outside the course of the business;
- Understanding the oversight given by those charged with governance of management process over fraud;
- Making enquiries of management and Internal Audit regarding actual or any suspicions of fraud;
- Considering whether the Council's accounting policies are consistent with industry standards;

Clarification from the Audit Strategy Memorandum

In our Audit Strategy Memorandum we also said we would:

- Review the calculation of management's material accruals, estimates and provisions for evidence of management bias;
- Sample test accruals and provisions based on established testing thresholds; and
- Review material aspects of capital expenditure on property plant and equipment to ensure it meets the relevant accounting requirements to be capitalised.

This work has been performed, with no issues arising. However, we wish to clarify that this testing was not to address this Significant Risk, they formed part of our standard audit procedures.

Audit conclusion

Our audit procedures have not identified any material errors or uncertainties in the financial statements, or other matters that we wish to bring to Members' attention in relation to management override of controls.

2. SIGNIFICANT FINDINGS (CONTINUED)

Significant risk

Valuation of property, plant and equipment and investment properties

Description of the risk

The Council's accounts contain material balances and disclosures relating to its holding of property, plant and equipment, investment properties and assets held for sale, with the majority of land and building assets required to be carried at valuation. Due to high degree of estimation uncertainty associated with those held at valuation, we have determined there is a significant risk in this area.

Relevant account balances

Where relevant, Cost of Services (Expenditure) for any impairment charges

Those items of Property, Plant and Equipment held at fair value as described in Note 10, being Other Land & Buildings and Surplus Assets

Investment Properties

How we addressed this risk

There has been no change in our planned audit strategy. We do however, wish to clarify our approach, which results in minor changes of how the tests performed are described versus our Audit Strategy Memorandum.

We addressed this risk through performing the following audit work:

- Reconciling valuations from the valuer's report had been recorded in the Fixed Asset Register
- Testing a sample of assets valued during the year to valuation reports
- Where material, testing the basis for impairment of assets, the value and correct accounting treatment
- Critically assessing the Council's valuer's scope of work and methodology used
- Considering the impact of any assets not valued during the year

In our Audit Strategy Memorandum we also said we would test a sample of capital expenditure in 2018/19 where material to confirm that the additions are appropriately valued in the financial statements. This work has been performed, with no issues arising. However, we wish to clarify that this testing was not to address this Significant Risk, it formed part of our standard audit procedures.

Audit conclusion

Our work to date has not identified any material errors in the financial statements.

Our work, however, is ongoing and we will provide an update to the Governance and Audit Committee on the day of the meeting.

2. SIGNIFICANT FINDINGS (CONTINUED)

Significant risk

Valuation of net defined pension liability

Description of the risk

The Council's accounts contain material liabilities relating to the Local Government Pension Scheme (LGPS). 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.

Relevant account balances

Net defined pension liability

How we addressed this risk

There has been no change in our planned audit strategy. We do however, wish to clarify our approach, which results in minor changes of how the tests performed are described versus our Audit Strategy Memorandum. We addressed this risk through performing the following audit work:

- Reviewing the appropriateness of the Pension Asset and Liability valuation methodologies applied by the Pension Fund Actuary, and the key assumptions included within the valuation. This included comparing them to expected ranges, utilising information provided by PWC, the consulting actuary engaged by the National Audit Office; and
- Agreeing the data in the IAS 19 valuation report provided by the Fund Actuary for accounting purposes to the pension accounting entries and disclosures in the Council's financial statements.

In addition, we

- Critically assessed the competency, objectivity and independence of the Leicestershire Pension Fund's Actuary, Hymans Robertson;
- Liaised with the auditors of the Pension Fund to gain assurance that the controls in place at the Pension Fund are operating effectively. This included the processes and controls in place to ensure data provided to the Actuary by the Pension Fund for the purposes of the IAS 19 valuation is complete and accurate;
- Performed a walkthrough of payroll transactions at the Council to understand how pension contributions which are deducted and paid to the Pension Fund by the Council (note, our Audit Strategy Memorandum implied we would perform detailed tests, which was an incorrect transposition from our Audit file);

Audit conclusion

The procedures we have undertaken to date have not identified any material errors or uncertainties in the financial statements, or other matters that we wish to bring to Members' attention. Our audit work is however in progress and we will update the Governance and Audit Committee on any significant matters which affect our audit conclusion.

All local authorities have been affected by an accounting issue that impacts the value of pension liabilities. Two on-going legal cases (Guaranteed Minimum Pensions and McCloud/Sergeant) have created uncertainty over whether pension liabilities are fairly stated. The Council's actuary (via the Pension Fund) did not make an allowance in its actuarial valuation for either of these cases and early guidance given to councils was that the impact would not be material. The Council, as with nearly all local authorities in England, prepared the financial statements on this basis. In our view, these cases give rise to at least a constructive obligation, which is required to be recognised under IAS 19. As a result the Council obtained a revised valuation from the Pension Fund via its actuarial expert incorporating these two issues.

The updated IAS19 valuation report received 5 July 2019, to take into account the implications of the GMP and McCloud judgments and changes to the Pension Fund's asset values at 31 March 2019, included significant but non-material differences to the original report used to prepare the draft financial statements. Management is not proposing to amend the draft financial statements for these differences. We have summarised the unadjusted amendments at page 12.

2. SIGNIFICANT FINDINGS (CONTINUED)

Key area of management judgment

Provision for business rate appeals against the rating list

Description of the judgment

The issue of a new rating list and a change in the appeals process has created delays in appeals being notified to the Council. Consequently management need to make an assumption over the likely level of appeals that will be successful based on their rating knowledge.

How we addressed this management judgement

We addressed this judgment through by:

- Reviewing the basis of the Council's calculation of its provision by recalculating the provision, evaluating the key assumptions of the provision, vouching movements in the provision and confirming completeness of entries;
- Assessing whether the provision has been calculated and recorded in accordance with the Council's accounting policy; and
- Assessing whether the amount provided at the period end is appropriate, taking into account the Council's anticipated actual liability.

Audit conclusion

Our audit procedures relating to the Council's provision for business rate appeals have not identified any material errors or uncertainties in the financial statements, or other matters that we wish to bring to members' attention.

Key area of management judgment

Minimum Revenue Provision (MRP)

Description of the judgment

Local authorities are normally required each year to set aside some of their revenues as provision for debt in respect of capital expenditure financed by borrowing or long term credit arrangements, by reference to the prior year's closing Capital Financing Requirement. The Council has borrowed £11m in 2018/19 and expects to borrow further in 2019/20.

The amount to be set aside each year is not prescribed although an overarching principle of prudence is expected to be adopted. This is supported by statutory guidance as to how this could be achieved and the Council is required to have regard to this in setting its MRP policy. Management judgement is therefore exercised in determining the level of its prudent provision.

How we addressed this management judgement

We addressed this judgment through performing the following audit work:

- Reviewing the Council's MRP policy to ensure that it has been developed with regard to the statutory guidance;
- Assessing whether the provision has been calculated and recorded in accordance with the Council's policy;
- Assessing whether the amount provided for the period is appropriate, taking into account the Council's Capital Financing Requirement; and
- Confirming that any charge has been accounted for in accordance with the Code.

Audit conclusion

Our audit procedures have not identified any material errors or uncertainties in the 2018/19 financial statements in relation to the Council's MRP. We have though commented at page 14 on the importance of the Council keeping its current policy under review and ensuring it can continue to be justified in the context of MHCLG Statutory Guidance and any further revisions.

2. SIGNIFICANT FINDINGS (CONTINUED)

Key area of management judgment

Group Accounts

Description of the judgment

The Council has interests in companies and other entities that have the nature of subsidiaries, associates and joint ventures and require it to prepare group accounts. In the Council's own 2017/18 single-entity accounts, the interests in companies and other entities are recorded as financial assets at cost, less any provision for losses. Management's judgement was that there was no material impact on the Statement of and Group Accounts were not prepared. It is expected that a similar line is to be followed for the Council's 2018/19 accounts.

The Council's 2017/18 financial statements disclosed that it owned 100% Surestaff Lincs Ltd and WLDC Staffing Services Ltd, and that it was a shareholder in Market Street Renewal Ltd.

How we addressed this management judgement

We addressed this by reviewing the assessment carried out by management for 2018/19 and challenging the reasonableness of judgments management has made.

Audit conclusion

We consider Management's assessment of the accounting treatment and disclosure of its companies and joint venture to be reasonable.

2. SIGNIFICANT FINDINGS (CONTINUED)

Qualitative aspects of the Council's accounting practices

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

Draft accounts were received from the Council in advance of the 31 May 2019 deadline and were complete. We also received the requested working papers ahead of our audit visit and officers have responded to audit queries and requests for additional information as the audit has progressed.

Significant difficulties during the audit

We have had the full co-operation of management and staff during the course of our audit. The working papers were comprehensive and of good quality. We will meet with officers ahead of the 2019/20 audit to explore any improvement opportunities next year's accounts production and audit processes.

The actuarial valuation of the Pension Liability and, as explained on page 7, impacted all local authorities and participants in a local government pension scheme. The Council prepared the draft financial statements based on guidance that had been issued at the time, however our view was that the actuarial valuations should have taken into account both the McCloud and GMP judgements. We raised our concerns at an early stage, however this is a complex area, required third party input, and within compressed reporting deadlines meant that the work performed presented some challenges for all parties. In the event the updated IAS19 valuation report was not materially different from the valuation used to prepared the financial statements and management does not propose to amend the statements for the new amounts.

Wider responsibilities

Our powers and responsibilities under the 2014 Act are broad and include the ability to:

- issue a report in the public interest;
- make statutory recommendations that must be considered and responded to publicly;
- apply to the court for a declaration that an item of account is contrary to law; and
- issue an advisory notice under schedule 8 of the 2014 Act.

We have not exercised any of these powers as part of our 2018/19 audit.

The 2014 Act also gives rights to local electors and other parties, such as the right to ask questions of the auditor and the right to make an objection to an item of account.

We have not received any questions or objections.

3. INTERNAL CONTROL RECOMMENDATIONS

The purpose of our audit is to express an opinion on the financial statements. As part of our audit we have considered the internal controls in place relevant to the preparation of the financial statements. We do this in order to design audit procedures to allow us to express an opinion on the financial statement and not for the purpose of expressing an opinion on the effectiveness of internal control, nor to identify any significant deficiencies in their design or operation.

The matters we report are limited to those deficiencies and other control recommendations that we have identified during our normal audit procedures and that we consider to be of sufficient importance to merit being reported. If we had performed more extensive procedures on internal control we might have identified more deficiencies to be reported or concluded that some of the reported deficiencies need not in fact have been reported. Our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.

At this stage, based the audit work carried out, we have not identified any significant control deficiencies that we are required to report to you. We will update the Governance and Audit Committee at its 23 July 2019 meeting if there are any matters arising from that work that we are required to report.



4. SUMMARY OF MISSTATEMENTS

We set out below, based on the work completed to date, the unadjusted misstatements above the level of trivial threshold of £25k identified during the course of the audit.

No material misstatements have been identified during our audit.

We will update the Governance and Audit Committee if any further reportable misstatements are identified from the remaining audit work in progress. The Management Letter of Representation (Appendix A) will need to provide specific reference to any unadjusted misstatements referred to below or in our update to the 23 July 2019 Committee meeting.

Unadjusted misstatements 2018/19

	Before £'000	If Adjustment was applied £'000
1 Balance Sheet - Net Pension Liability	42,609	42,941
Comprehensive Income and Expenditure Statement – Cost of Services: Service Costs	2,547	2,875
Comprehensive Income and Expenditure Statement – Financing and Investment Income and Expenditure: Net interest expense	1,000	1,004
<p>Updated figures as a result of a revised actuarial valuation, taking into account assumptions for the potential impact of Guaranteed Minimum Pension equalisation and the outcome of the 'McCloud' judgement relating to the 2014 reforms of the LGPS benefit structure. There are also additional consequential changes to the Pension Fund note, but none of these items impact the Council's General Fund.</p> <p>Management have not made these adjustments on the basis that they believe the impact is not material and does not detract from a true and fair view of the financial statements.</p> <p>The Governance and Audit Committee needs to formally consider whether or not to support management's assertion.</p>		

5. VALUE FOR MONEY CONCLUSION

Introduction

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

The overall criterion is that, 'in all significant respects, the Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.' To assist auditors in reaching a conclusion on this overall criterion, the following sub-criteria are set out by the NAO:

- Informed decision making
- Sustainable resource deployment
- Working with partners and other third parties

Our Approach

Our overall approach is set out in our Audit Strategy Memorandum and involves a detailed risk assessment at the planning stage to identify whether or not a Value for Money (VFM) exists. Risk, in the context of our VFM work, is the risk that we come to an incorrect conclusion rather than the risk of the arrangements in place at the Council being inadequate. As set out in our Audit Strategy Memorandum, for the 2018/19 financial year, we did not identify any significant risks to our VFM conclusion.

Matters kept under review

We identified in our Audit Strategy Memorandum the following significant VFM risk:

- Commercialisation - The Council has a significant commercialisation programme in progress, and under its Commercial Plan 2015-2020 set itself an income target of £1m. £0.6m of this target was forecast to come from commercial property investments. There is an approved £30m for these investments, with around £16m spent to date. This is largely funded by internal and external borrowing. Under the Council's current MRP policy it proposes that the Council will not be making MRP provision for investment property expenditure.

We also identified the following matter which we needed to keep under close review:

- Financial sustainability – the opening MTFS identified a likely funding gap of over £600k by 2022/23. The Council has continued to work on updating forecasts and modelling its funding requirements. We needed to consider the progress made and update our assessment of this risk area before forming our final VFM conclusion.

Before drawing our conclusion, we have:

- Reviewed the 2018/19 financial performance and forecasts during the year and considered the Council's financial outturn position as presented in the financial statements.
- Reviewed the 2019/20:
 - Revenue and Capital budgets and Medium Term Financial Plan
 - Treasury Management Strategy, incorporating the Minimum Revenue Provision Policy and Capital and Investment Strategies
- Considered the Council's latest financial monitoring information and its updated medium term outlook
- Reviewed the governance supporting the commercial investment decisions, the financing arrangements and the risk management arrangements. We have reviewed the Commercial Strategy and the Commercial Portfolio Strategy, progress reports to members and evaluation reports and decision making documentation relating to specific investments made.
- Considered the basis for the Council's MRP policy.
- Updated our overall risk assessment for any new or emerging issues through discussions with management and updating our review of committee reports
- Reviewed the Council's Annual Governance Statement for any significant issues
- Considered the general findings from our audit work in other areas.

5. VALUE FOR MONEY CONCLUSION

Findings

- Commercialisation – The Commercial Portfolio Strategy is approved and there are well established arrangements in place underpinning its delivery and for managing the investment properties. Annual progress reports are made and the Council is forecasting it will exceed its returns target for the investments made. There is a formal assessment and evaluation model in place and appropriate project management arrangements. The process is supported by the use of relevant specialist advisors and other relevant staff. The delegated decision making process includes appropriate safeguards and justifications.
- MRP Policy – under its current policy the Council does not commit to set aside a MRP for commercial investment properties where the asset is expected to be held for a set period, at the end of which a capital receipt is expected to be realised and therefore funds will be available to repay borrowing. The Statutory Guidance issued by MHCLG states that there is a requirement to make MRP on capital expenditure financed by borrowing on investment properties. The potential amounts of MRP not made for 2018/19 (£64k) and 2019/20 (£354k) are not material for our audit opinion, and the Council has set up mitigating arrangements including establishing a Valuation Volatility Reserve regarding potential fall in the assets' values. It is important though that the Council continues to ensure that, in departing from Statutory Guidance, it is able to demonstrate that it is continuing to act reasonably, that Members understand the implications, and that its approach is prudent. We have discussed this aspect with management and will follow it up as part of our 2019/20 audit work.
- Financial sustainability - The Council recognises the key issues are continuing to achieve efficiencies and generate income to balance its medium term financial plan, in the face of demand and cost pressures. A balanced budget was set for 2019/20 and the Medium Term Financial Plan (MTFP) sets out the key assumptions on both income and expenditure as well as the savings required over the period. The budget gaps in 2020/21 onwards are regarded by management as manageable, although there is continuing uncertainty regarding the impact of the government's expected Fair Funding Review and future settlements. The Council needs to continue with the work in hand.

From the work performed, no new significant VFM risks were identified and we have no matters to report.

Our overall Value for Money conclusion

We have completed our procedures and, as set out in our draft auditor's report included at Appendix B, we intend to issue an unqualified Value for Money conclusion for the 2018/19 financial year.



APPENDIX A

DRAFT MANAGEMENT REPRESENTATION LETTER

Mazars LLP
45 Church Street
Birmingham
B2 3RT

23 July 2019

Dear Sirs

West Lindsey District Council - audit for year ended 31 March 2019

This representation letter is provided in connection with your audit of the financial statements of West Lindsey District Council (the Council) for the year ended 31 March 2019 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 (the Code) and applicable law.

I confirm that the following representations are made on the basis of enquiries of management and staff with relevant knowledge and experience (and, where appropriate, inspection of supporting documentation) sufficient to satisfy ourselves that I can properly make each of the following representations to you.

My responsibility for the financial statements and accounting information

I believe that I have fulfilled my responsibilities for the true and fair presentation and preparation of the financial statements in accordance with the Code and applicable law.

My responsibility to provide and disclose relevant information

I have provided you with:

- access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other material;
- additional information that you have requested from us for the purpose of the audit; and
- unrestricted access to individuals within the Council you determined it was necessary to contact in order to obtain audit evidence.

I confirm as Executive Director of Resources that I have taken all the necessary steps to make me aware of any relevant audit information and to establish that you, as auditors, are aware of this information.

As far as I am aware there is no relevant audit information of which you, as auditors, are unaware.

Accounting records

I confirm that all transactions that have a material effect on the financial statements have been recorded in the accounting records and are reflected in the financial statements. All other records and related information, including minutes of all Council and committee meetings, have been made available to you.

Accounting policies

I confirm that I have reviewed the accounting policies applied during the year in accordance with Code and International Accounting Standard 8 and consider these policies to faithfully represent the effects of transactions, other events or conditions on the Council's financial position, financial performance and cash flows.

Accounting estimates, including those measured at fair value

I confirm that any significant assumptions used by the Council in making accounting estimates, including those measured at current or fair value, are reasonable.

APPENDIX A

DRAFT MANAGEMENT REPRESENTATION LETTER (CONTINUED)

Contingencies

There are no material contingent losses including pending or potential litigation that should be accrued where:

- information presently available indicates that it is probable that an asset has been impaired or a liability had been incurred at the balance sheet date; and
- the amount of the loss can be reasonably estimated.

There are no material contingent losses that should be disclosed where, although either or both the conditions specified above are not met, there is a reasonable possibility that a loss, or a loss greater than that accrued, may have been incurred at the balance sheet date.

There are no contingent gains which should be disclosed.

All material matters, including unasserted claims, that may result in litigation against the Council have been brought to your attention. All known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to you and accounted for and disclosed in accordance with the Code and applicable law.

Laws and regulations

I confirm that I have disclosed to you all those events of which I am aware which involve known or suspected non-compliance with laws and regulations, together with the actual or contingent consequences which may arise therefrom.

The Council has complied with all aspects of contractual agreements that would have a material effect on the accounts in the event of non-compliance.

Fraud and error

I acknowledge my responsibility as Executive Director of Resources for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

I have disclosed to you:

- all the results of my assessment of the risk that the financial statements may be materially misstated as a result of fraud;
- all knowledge of fraud or suspected fraud affecting the Council involving:
 - management and those charged with governance;
 - employees who have significant roles in internal control; and
 - others where fraud could have a material effect on the financial statements.

I have disclosed to you all information in relation to any allegations of fraud, or suspected fraud, affecting the Council's financial statements communicated by employees, former employees, analysts, regulators or others.

Related party transactions

I confirm that all related party relationships, transactions and balances, have been appropriately accounted for and disclosed in accordance with the to you the requirements of the Code and applicable law.

I have disclosed identity of the Council's related parties and all related party relationships and transactions of which I am aware.

Future commitments

I am not aware of any plans, intentions or commitments that may materially affect the carrying value or classification of assets and liabilities or give rise to additional liabilities.

Subsequent events

I confirm all events subsequent to the date of the financial statements and for which the Code and applicable law, require adjustment or disclosure have been adjusted or disclosed.

Should further material events occur after the date of this letter which may necessitate revision of the figures included in the financial statements or inclusion of a note thereto, I will advise you accordingly.

APPENDIX A

DRAFT MANAGEMENT REPRESENTATION LETTER (CONTINUED)

Going concern

To the best of my knowledge there is nothing to indicate that the Council will not continue as a going concern in the foreseeable future. The period to which I have paid particular attention in assessing the appropriateness of the going concern basis is not less than twelve months from the date of approval of the accounts.

Unadjusted misstatements

I confirm that the effects of the uncorrected misstatements identified at the appendix to this letter are immaterial, both individually and in aggregate, to the financial statements as a whole.

Yours faithfully

Executive Director of Resources

Independent auditor's report to the members of West Lindsey District Council

Report on the financial statements

Opinion

We have audited the financial statements of West Lindsey District Council for the year ended 31 March 2019, which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement and 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 the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

In our opinion, the financial statements:

- give a true and fair view of the financial position of West Lindsey District Council as at 31st March 2019 and of its expenditure and income for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities section of our report. We are independent of the Council in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applicable to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Executive Director of Resources's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Executive Director of Resources has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Council's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The Executive Director of Resources is responsible for the other information. The other information comprises the Annual Governance Statement and information included in the Financial Report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

APPENDIX B

DRAFT AUDITOR'S REPORT (CONTINUED)

Responsibilities of the Executive Director of Resources for the financial statements

As explained more fully in the Statement of the Executive Director of Resources's Responsibilities, the Executive Director of Resources is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19, and for being satisfied that they give a true and fair view. The Executive Director of Resources is also responsible for such internal control as the Executive Director of Resources determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Executive Director of Resources is required to comply with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 and prepare the financial statements on a going concern basis, unless the Council is informed of the intention for dissolution without transfer of services or function to another entity. The Executive Director of Resources is responsible for assessing each year whether or not it is appropriate for the Council to prepare its accounts on the going concern basis and disclosing, as applicable, matters related to going concern.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Matters on which we are required to report by exception under the Code of Audit Practice

We are required by the Code of Audit Practice to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make a recommendation under section 24 of the Local Audit and Accountability Act 2014; or
- we exercise any other special powers of the auditor under sections 28, 29 or 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

Conclusion on West Lindsey District Council's arrangements for securing economy, efficiency and effectiveness in the use of resources

Conclusion

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2018, we are satisfied that, in all significant respects, West Lindsey District Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

Basis for conclusion

We have undertaken our review in accordance with the Code of Audit Practice issued by the Comptroller and Auditor General, having regard to the guidance on the specified criterion issued in November 2017, as to whether the Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider in satisfying ourselves whether the Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Responsibilities of the Council

The Council is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

APPENDIX B

DRAFT AUDITOR'S REPORT (CONTINUED)

Auditor's responsibilities for the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We are required under section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice requires us to report to you our conclusion relating to proper arrangements. We are not required to consider, nor have we considered, whether all aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Use of the audit report

This report is made solely to the members of West Lindsey District Council, as a body, in accordance with part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 44 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the members of the Council those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the members of the Council, as a body, for our audit work, for this report, or for the opinions we have formed.

Certificate

We certify that we have completed the audit of West Lindsey District Council in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

Mark Surridge

For and on behalf of Mazars LLP

45 Church Street
Birmingham
B3 2RT

July 2019

APPENDIX C INDEPENDENCE

As part of our ongoing risk assessment we monitor our relationships with you to identify any new actual or perceived threats to our independence within the regulatory or professional requirements governing us as your auditors.

We can confirm that no new threats to independence have been identified since issuing the Audit Strategy Memorandum and therefore we remain independent.

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