



Auditor's Annual Report for East Lindsey District Council

Year-ended 31 March 2024

—

13 February 2025

Contents

Key Contacts

James Boyle

Director

James.Boyle@KPMG.co.uk

Rosie Kelly

Manager

Rosie.Kelly@KPMG.co.uk

Stanley Croall

Assistant Manager

Stanley.Croall@KPMG.co.uk

This report is addressed to East Lindsey District Council (the Council). We take no responsibility to any member of staff acting in their individual capacities, or to third parties.

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

| | Page |
|--|-------------|
| 01 Executive Summary | 4 |
| 02 Audit of the Financial Statements | 7 |
| 03 Value for Money | 10 |
| a) Financial Sustainability | |
| b) Governance | |
| c) Improving economy, efficiency and effectiveness | |

01

Executive Summary

Executive Summary

Purpose of the Auditor’s Annual Report

This Auditor’s Annual Report provides a summary of the findings and key issues arising from our 2023-24 audit of East Lindsey District Council (the ‘Council’). This report has been prepared in line with the requirements set out in the Code of Audit Practice published by the National Audit Office and is required to be published by the Council alongside the annual report and accounts.

Our responsibilities

The statutory responsibilities and powers of appointed auditors are set out in the Local Audit and Accountability Act 2014. In line with this we provide conclusions on the following matters:



Accounts - We provide an opinion as to whether the accounts give a true and fair view of the financial position of the Council and of its income and expenditure during the year. We confirm whether the accounts have been prepared in line with the CIPFA/LASSAC Code of Practice in Local Authority Accounting (‘the Code’).



Narrative report - We assess whether the narrative report is consistent with our knowledge of the Council.



Value for money - We assess the arrangements in place for securing economy, efficiency and effectiveness (value for money) in the Council’s use of resources and provide a summary of our findings in the commentary in this report. We are required to report if we have identified any significant weaknesses as a result of this work.



Other powers - We may exercise other powers we have under Local Audit and Accountability Act. These include issuing a Public Interest Report, issuing statutory recommendations, issuing an Advisory Notice, applying for a judicial review, or applying to the courts to have an item of expenditure declared unlawful.

In addition to the above, we respond to valid objections received from electors.

Findings

We have set out below a summary of the conclusions that we provided in respect of our responsibilities.

| | |
|-------------------------|--|
| Accounts | <p>We issued a disclaimed opinion on the Council accounts on 13 February 2025. This means we do not express an opinion on the financial statements. Due to the significance of the matters described in the Basis for disclaimer of opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.</p> <p>We have provided further details of the key risks we identified and our response on page 8.</p> |
| Narrative report | <p>Due to the significance of the matters described in the ‘Basis for Disclaimer of Opinion’ section of our audit report, and the possible consequential effect on the related disclosures in the other information, whilst in our opinion the other information included in the Statement of Accounts for the financial year is consistent with the financial statements, we are unable to determine whether there are material misstatements in the other information.</p> |
| Value for money | <p>We are required to give an opinion as to whether the Council has appropriate arrangements in place to secure economy, efficiency, and effectiveness in the use of resources.</p> <p>Our opinion is that the Council does not have appropriate arrangements in place. We identified one significant weaknesses in respect of arrangements to secure economy, efficiency, and effectiveness in the use of resources. Further details are set out on page 10.</p> |
| Other powers | <p>See overleaf.</p> |

Executive Summary

There are several actions we can take as part of our wider powers under the Local Audit and Accountability Act:

Public interest reports

We may issue a Public Interest Report if we believe there are matters that should be brought to the attention of the public.

If we issue a Public Interest Report, the Council is required to consider it and to bring it to the attention of the public.

We have not issued a Public Interest Report this year.

Judicial review/Declaration by the courts

We may apply to the courts for a judicial review in relation to an action the Council is taking. We may also apply to the courts for a declaration that an item of expenditure the Council has incurred is unlawful.

We have not applied to the courts this year.

Recommendations

We can make recommendations to the Council. These fall into two categories:

1. We can make a statutory recommendation under Schedule 7 of the Local Audit and Accountability Act. If we do this, the Council must consider the matter at a general meeting and notify us of the action it intends to take (if any). We also send a copy of this recommendation to the relevant Secretary of State.
2. We can also make other recommendations. If we do this, the Council does not need to take any action, however should the Council provide us with a response, we will include it within this report.

We made no recommendations under Schedule 7 of the Local Audit and Accountability Act.

Advisory notice

We may issue an advisory notice if we believe that the Council has, or is about to, incur an unlawful item of expenditure or has, or is about to, take a course of action which may result in a significant loss or deficiency.

If we issue an advisory notice, the Council is required to stop the course of action for 21 days, consider the notice at a general meeting, and then notify us of the action it intends to take and why.

We have not issued an advisory notice this year.

02

Audit of the financial statements

Audit of the financial statements

KPMG provides an independent opinion on whether the Council's financial statements:

- Give a true and fair view of the financial position of the Group and the Council as at 31 March 2024 and of the Group's and the Council's income and expenditure 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 2023/24.

We conduct our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. We also fulfil our ethical responsibilities under, and ensure we are independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard. We are required to ensure that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Our audit opinion on the financial statements

We have issued a disclaimed opinion on the Group financial statements on 13 February 2025. This means we do not express an opinion on the financial statements. Due to the significance of the matters described in the Basis for disclaimer of opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for disclaimer of opinion

The Accounts and Audit (Amendment) Regulations 2024 (the "Amendment Regulations") require the Council to publish its financial statements and our opinion thereon for the year ended 31 March 2024 by 28 February 2025 (the "Backstop Date").

We have been unable to obtain sufficient appropriate audit evidence over a number of areas of the financial statements as we have been unable to perform the procedures that we consider necessary to form our opinion on the financial statements ahead of the Backstop Date. These areas include, but were not limited to: cash, property, plant and equipment, both short-term and long-term borrowings and creditors, the comprehensive income and expenditure statement and the split between usable and unusable reserves, and the movements in usable and unusable reserves for the year ended 31 March 2024 in relation to both the Group and the Council.

In addition, we have been unable to obtain sufficient appropriate evidence over the disclosed comparative figures for the year ended 31 March 2023 due to the Backstop Date. Therefore, we were unable to determine whether any adjustments were necessary to the opening balances as at 1 April 2023 or whether there were any consequential effects on the Group's and the Council's income and expenditure for the year ended 31 March 2024.

Any adjustments from the above matters would have a consequential effect on the Group's and the Council's net assets and split between usable and unusable reserves, as at 31 March 2024 and 31 March 2023, the Collection Fund and on their income and expenditure and cash flows for the years then ended.

The full audit report is included in the Council's Annual Report and Accounts for 2023/24 which can be obtained from the Council's website.

Further information on our audit of the financial statements is set out overleaf.

Audit of the financial statements

The table below summarises the key financial statement audit risks that we identified to our audit opinion as part of our risk assessment and how we responded to these through our audit.

| Significant financial statement audit risk | Procedures undertaken | Findings |
|--|--|---|
| <p>Valuation of post retirement benefit obligations</p> <p>The valuation of the post retirement benefit obligations involves the selection of appropriate actuarial assumptions, most notably the discount rate applied to the scheme liabilities, inflation rates, pension increase rates and mortality rates. The selection of these assumptions is inherently subjective and small changes in the assumptions and estimates used to value the Council's pension liability could have a significant effect on the financial position of the Council.</p> <p>The effect of these matters is that, as part of our risk assessment, we determined that post retirement benefits obligation has a high degree of estimation uncertainty. The financial statements disclose the assumptions used by the Council in completing the year end valuation of the pension deficit and the year-on-year movements.</p> <p>We have identified this risk in relation to the following pension scheme memberships: Local Government Pension Scheme</p> <p>Also, recent changes to market conditions have meant that more Councils are finding themselves moving into surplus in their Local Government Pension Scheme (or surpluses have grown and have become material). The requirements of the accounting standards on recognition of these surpluses are complicated and requires actuarial involvement.</p> | <p>We have performed the following procedures :</p> <ul style="list-style-type: none"> • Evaluated the competency, objectivity and independence of the actuaries to confirm their qualifications and the basis for their calculations; • Performed inquiries of the actuaries to assess the key assumptions made; • Evaluated the design and implementation of controls in place for the Council to determine the appropriateness of the assumptions used by the actuaries in valuing the liability; • Challenged, with the support of our own actuarial specialists, the key assumptions applied, being the discount rate, inflation rate, pension increase rate and mortality/life expectancy against externally derived data where possible; • Considered the adequacy of the Council's disclosures in respect of the sensitivity of the deficit/surplus to these assumptions; and • Where applicable, assessed the level of surplus that should be recognised by the entity. | <p>We did not identify any material misstatements relating to this risk.</p> <p>We utilised our own KPMG Actuaries to assess the aforementioned key assumptions. We have received the results from our Actuaries who have evaluated the assumptions, and all assumptions are deemed to be balanced and fall within KPMG's acceptable range.</p> <p>The results of our testing was satisfactory.</p> |

03

Value for Money

Value for Money

Introduction

We are required to consider whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources or 'value for money'. We consider whether there are sufficient arrangements in place for the Council for the following criteria, as defined by the National Audit Office (NAO) in their Code of Audit Practice:



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

Approach

We undertake risk assessment procedures in order to assess whether there are any risks that value for money is not being achieved. This is prepared by considering the findings from other regulators and auditors, records from the organisation and performing procedures to assess the design of key systems at the organisation that give assurance over value for money.

Where a significant risk is identified we perform further procedures in order to consider whether there are significant weaknesses in the processes in place to achieve value for money.

We are required to report a summary of the work undertaken and the conclusions reached against each of the aforementioned reporting criteria in this Auditor's Annual Report. We do this as part of our commentary on VFM arrangements over the following pages.

We also make recommendations where we identify weaknesses in arrangements or other matters that require attention from the Council. We make performance improvement observations where we identify opportunities to improve in areas where we have not identified any weaknesses.

Summary of findings

| | Financial sustainability | Governance | Improving economy, efficiency and effectiveness |
|--|-------------------------------------|---------------------------------|---|
| Commentary page reference | 21-22 | 23-26 | 27-28 |
| Identified risks of significant weakness? | ✘ No | ✔ Yes | ✘ No |
| Actual significant weakness identified? | ✘ No | ✔ Yes | ✘ No |
| 2022-23 Findings | No significant weakness identified. | Significant weakness identified | No significant weakness identified |
| Direction of travel | ↔ | ↔ | ↔ |

Significant Value for Money Risk

A significant weakness was identified by the previous auditor for the year-ended 31 March 2023 relating to the Council's governance arrangements associated with INVEST East Lindsey Ltd. Due to the recent reporting of this weakness to Audit and Governance Committee in November 2024, there is a significant risk that the weakness was not remedied in year-ended 31 March 2024. Commentary is on page 12 to 16.

Value for Money

National context

We use issues affecting Councils nationally to set the scene for our work. We assess if the issues below apply to this Council.

Financial performance

Over recent years, Councils have been expected to do more with less. Central government grants have been reduced, and the nature of central government support has become more uncertain in timing and amount. This has caused Councils to cut services and change the way that services are delivered in order to remain financially viable.

Some Councils have initiated innovative plans to raise new funds, such as through increasing commercial activity. Examples have included purchasing commercial assets such as shops and offices with a view to generate rental income, others have set up novel joint ventures to deliver regeneration schemes. Some have questioned whether commercialisation activities open Councils to excessive risk or could be a poor use of taxpayer monies.

Some Councils have issued what are known as “section 114” notices, in this instance a declaration that they cannot generate sufficient resources to meet the costs they need to incur. In some instances, this has resulted in a need for exceptional financial support from central government (such as approval to sell council buildings to meet costs) and severe cutbacks to services.

Local context

The Council did not publish their unaudited financial statements for the year ended 31 March 2024 in line with the statutory deadline of 31 May 2024; they were published on 19 November 2024. We note that the delays in producing the 2023-24 financial statements were due to the delayed resolution to significant difficulties faced during the 2021-22 audit of the financial statements, as described by Forvis Mazars in their Auditor’s Annual Report covering the financial years 2021-22 and 2022-23, which then had a knock-on impact on the timely production the 2022-23 and 2023-24 financial statements.

Financial position

The financial statements show a £30.9m surplus in the Council’s total comprehensive income and expenditure for the year ended 31 March 2024. Against the General Fund, the Council has delivered an outturn under-spend against budget of £914k.

Use of reserves

The published financial statements for the year ended 31 March 2024 show the Council had general reserves at the start of the year of £1.8m. In the year, the general fund reserves have increased by £12.3m. This has been transferred to earmarked reserves, leaving the balance of general reserves as at 31 March 2024 of £1.8m. Total usable reserves increased from £53m to £72.7m.

Decision making

The Council made a key finance decision in 2023/24 to repay their loan of £20m from the Public Work Loan Board (PWLB), which allowed them receive a discount of £8.3m. This means the Council has no borrowings as at 31 March 2024, and means they have some flexibility to borrow in advance of its immediate capital needs.

Follow up review of the significant weakness in arrangements identified in 2021-22 and 2022-23

For the year ended 31 March 2022 and 2023, the external auditor, Forvis Mazars, identified a significant weakness in the entity's governance arrangements associated with INVEST East Lindsey Ltd.

We will:

- Follow-up on the progress made by the Council against the recommendations made by the previous auditor for the year ended 31 March 2023;
- Understand the governance and reporting arrangements that have been in place during 2023/24 between the Council and INVEST East Lindsey Ltd; and
- Review the Council's governance arrangements in place over the loans with INVEST East Lindsey Ltd.

Background

- The external auditors of East Lindsey District Council, Forvis Mazars, for the years ended 31 March 2022 and 2023, identified a significant weakness in the entity's arrangements associated with the governance arrangements relating to INVEST East Lindsey Ltd.
- The significant weakness identified within the Auditor's Annual Report by Forvis Mazars for the year ended 31 March 2022 and 2023, was split into three main findings:
 1. Modified audit reports for INVEST East Lindsey Ltd;
 2. Work of internal audit; and
 3. Group financial reporting.
- We have followed up on the progress made by the Council against the recommendations under these three headings made by the previous auditor on pages 13 to 16. Through the work we have performed relating to this area, we have also understood the governance and reporting arrangements that have been in place during 2023/24 between the Council and INVEST East Lindsey Ltd.
- We have commented on the Council's governance arrangements in place over the loans with INVEST East Lindsey Ltd on pages 17 to 19.

Follow up review of the significant weakness in arrangements identified in 2021-22 and 2022-23 (cont.)

1. Modified Audit Reports

Background

Forvis Mazar's obtained the audited accounts of INVEST East Lindsey for the years ended 31 March 2022 and 31 March 2023 which included a modified audit report in respect of the company's failure to comply with the requirements of the Companies Act. The wording within the audit reports, "In our opinion, the Company has failed to comply with the Companies Act 2006, section 386, within their duty to keep adequate accounting records".

From the work performed, including review of relevant committee reports, the only reporting of this to the Audit and Governance Committee was within Internal Audit's report into INVEST East Lindsey in September 2023. The external auditor's findings report also reported a significant number of control deficiencies. As the financial statements of the company are incorporated into the Council's group financial statements, we would expect these modifications to be presented as a standalone item to the Audit & Governance Committee.

Work Performed

- We have read the report of the independent auditors to the members of INVEST East Lindsey for the year ended 31 March 2024. The opinion confirms the financial statements:
 - Give a true and fair view of the state of the company's affairs as at 31 March 2024 and of its loss for the year then ended;
 - Have been properly prepared in accordance with the IFRSs as adopted by the UK; and
 - Have been prepared in accordance with the requirements of the Companies Act 2006."
- The audit report has identified a material uncertainty relating to going concern. The following is a quote from the audit report by Duncan & Audit Topilis Limited "We draw attention to Note 12 in the financial statements which shows the company incurred a deficit of £473,897 during the year ended 31 March 2024 and, as of that date, the company's current liabilities exceeded its total assets by £957,738. The entity has continued support in relation to funding already advances from the Shareholder and continues to meet, or agree arrangements, for all liabilities as they fall due". Management has put in place a plan aiming to address profitability concerns along with sufficient cash reserves to support the going concern basis of preparation. The continued losses incurred by the entity, however, indicates that a material uncertainty exists that may cast significant doubt on the company's ability to continue as a going concern. Our opinion is not modified in respect of this matter."
- We have made a recommendation for management to consolidate Group performance into the quarterly finance reports presented within the Council's governance structure. Management's response to this recommendation pointed to the treasury reports where the loans to the company are included in the capital programme, and the revenue interest received is included in the treasury reports. However, in our view, oversight of the profit or loss incurred by the Company, at a given date, could be improved, especially considering the fact the Council is supporting the increasing losses accumulated by INVEST East Lindsey.

Conclusion

As a result of the findings above, we believe the significant weakness in the governance arrangements remains for the year ended 31 March 2024. The financial performance of the subsidiary has not been reported within the Governance structure throughout the year-ended 31 March 2024 and a material uncertainty relating to going concern exists within the subsidiary's audit opinion. We recommend the Council implements consolidated Group performance reporting into the quarterly finance reports presented in the Governance structure, which includes the forecasted profit or loss for the subsidiary.

Follow up review of the significant weakness in arrangements identified in 2021-22 and 2022-23 (cont.)

2. Work of Internal Audit

Background

- The Head of Internal Audit reported in July 2022 that improvements were required over the governance of INVEST East Lindsey, with a more detailed report presented in September 2023.
- Forvis Mazars reviewed this report and whilst the action plan showed many of the recommendations had been implemented, those actions not implemented by September 2023 included no arrangements to ensure there was effective oversight of the Shareholder Supervisory Board or arrangements to be assured over the effectiveness of risk management in the Company. Forvis Mazar's attended the private meeting of the September 2024 Audit and Governance Committee where a follow-up report against those actions was presented. This report did not reference the non-compliance with the Companies Act.

Work Performed

- We have read the Internal Audit report that was presented to the Audit and Governance Committee in September 2023. Appendix B to the Internal Audit report identified 19 recommendations. 14 of these were marked as completed and 1 partially complete in the Internal Audit report. The remaining 4 recommendations had agreed actions and job titles of the responsible officers, however, not all had implementation due dates.
- We observed through attendance at the Audit and Governance Committee meeting on 24 January 2024, which outlined the four outstanding actions, that management provided a response to them as noted on the 'Lessons Learned Audit Review'. These outlined the agreed actions, however, did not have responsible officers or implementation dates assigned to them. The agreed actions taken are:
 1. The Council has agreed with the Shareholder Supervisory Board that an update will be provided each July to the Executive Board;
 2. A separate document detailing the formal process for the payment of dividends will be agreed between the Council and the Company. This is currently being drafted and will be taken for approval in early 2024;
 3. The Council has agreed with the Shareholder Supervisory Board that there will be updates to the Audit and Governance Committee every 6 months, to be agreed in line with the Audit and Governance work programme, and to include company activity, governance updates and risk register review.
 4. The Council will update the Terms of Reference of the Shareholder Supervisory Board to ensure they remain fit for purpose.
- As part of our audit procedures, we have followed up on the progress made against the above outstanding actions. These are outlined below and on the following page.
 1. From review of the Internal Audit Action Plan updated 24 September 2024, presented to the Audit and Governance Committee, it was noted that due to a delay the first report would go to the Executive Board on 18 September 2024, and be presented each September to provide further and relevant updates. From review of the agenda items for the Executive Board on 18 September 2024, we confirmed there was an agenda item for an update of INVEST East Lindsey Limited.
 2. We obtained a copy of the Changes in Articles of Association presented to the Audit and Governance Committee of the Council of 24 September 2024 and a copy of the INVEST East Lindsey Ltd's formal procedure for the payment of dividends.

Follow up review of the significant weakness in arrangements identified in 2021-22 and 2022-23

2. Work of Internal Audit (Cont.)

Background

- The Head of Internal Audit reported in July 2022 that improvements were required over the governance of INVEST East Lindsey, with a more detailed report presented in September 2023.
- Forvis Mazars reviewed this report and whilst the action plan showed many of the recommendations had been implemented, those actions not implemented by September 2023 included no arrangements to ensure there was effective oversight of the Shareholder Supervisory Board or arrangements to be assured over the effectiveness of risk management in the Company. Forvis Mazar's attended the private meeting of the September 2024 Audit and Governance Committee where a follow-up report against those actions was presented. This report did not reference the non-compliance with the Companies Act.

Work Performed (continued from the previous page)

3. From review of agenda items, and attendance at the Audit and Governance meetings since January 2024, we identified one report on INVEST East Lindsey Limited that went to the Committee in September 2024, and confirmed the next one will be taken to the March 2025 meeting, as per the Committee's work programme. Through review of the relevant September 2024 Committee papers, we confirmed these included an overview of company activity, governance updates and a copy of the risk register. However, we noted:
 - This update did not include any financial information, such as the budgeted level of revenue and expenditure for the year compared with actual performance to date – which would be expected given the Company had a material uncertainty regarding the going concern in their audit report for the year ended 31 March 2024. We would expect transparency of the subsidiary's financial position to be reported to the Council on a regular basis.
 - Both reports fall within the 2024-25 financial year cycle. Therefore, whilst improvements have been made in 2024-25 to cover reporting of INVEST East Lindsey, this was not effective in 2023-24.
4. The Council presented the updated Terms of Reference to Audit and Governance Committee in September 2024. The Terms of Reference was dated July 2023.
 - We confirmed from our minute review throughout 2023-24 that there is no evidence of reporting of subsidiary performance within the minutes for the meetings we have reviewed (Audit and Governance, Executive Board and the Council).

Conclusion

As a result of the findings above, we believe the significant weakness in the governance arrangements remains for the year ended 31 March 2024. The recommendations raised by Internal Audit were not in place throughout the year-ended 31 March 2024; the financial year on which we base our conclusion. We recommend the Council implements consolidated Group performance into the quarterly finance reports presented in the Governance structure, which includes the forecasted profit or loss for the subsidiary.

Follow up review of the significant weakness in arrangements identified in 2021-22 and 2022-23

3. Group Financial Reporting

Background

- Forvis Mazars first reported issues over the lack of information available from the company to prepare the consolidated financial statements to the Audit and Governance Committee in March 2023. Subsequent progress reports were presented in November 2023 and March 2024 where key information to prepare Group financial statements, including the valuation of the caravan park remained outstanding. Through our work on the financial statements, the main reasons for these delays were due to a lack of available expertise to value the caravan park and lack of appropriate protocol to enable information to be shared on a timely basis between INVEST East Lindsey and PPS Ltd.
- Consolidated financial statements for 2021/22 were received in October 2024 and a summary of key findings from the audit were included in our Audit Completion Report presented to the Audit & Governance Committee on 30 October 2024, which is also where the 2022/23 draft financial statements were presented.

Work Performed

- The Council did not publish their unaudited financial statements for the year ended 31 March 2024 in line with the statutory deadline of 31 May 2024. They were published on 19 November 2024.
- We note that the delays in producing the 2023-24 financial statements were as a result of the delayed resolution to significant difficulties faced during the 2021-22 audit of the financial statements, as described by Forvis Mazars in their VFM Progress Report, which then had a knock-on impact on the timely production the 2022-23 and 2023-24 financial statements.
- The financial statements are prepared by the Council's outsourced finance function, Public Sector Partnership Services Ltd (PPSP), who are responsible for preparing the financial statements for the three Council's in the South-East Lincolnshire Partnership. PPS has demonstrated their ability to produce financial statements for the other two Council's in the Partnership and engaged in an effective way with the audit process. For this reason, we have not identified a significant risk of significant weakness associated with Group financial reporting for 2023-24.

Conclusion

As a result of the findings above, we do not believe the significant weakness in the governance arrangements remains for the late preparation of the Group Financial Reporting for the 2023-24 consolidated financial statements.

Follow up review of the significant weakness in arrangements identified in 2021-22 and 2022-23

For the year ended 31 March 2022 and 2023, the external auditor, Forvis Mazars, identified a significant weakness in the entity's governance arrangements associated with INVEST East Lindsey Ltd.

We will:

- Follow-up on the progress made by the Council against the recommendations made by the previous auditor for the year ended 31 March 2023;
- Understand the governance and reporting arrangements that have been in place during 2023/24 between the Council and INVEST East Lindsey Ltd; and
- Review the Council's governance arrangements in place over the loans with INVEST East Lindsey Ltd.

The Council's governance arrangements over the loans with INVEST East Lindsey Ltd

- INVEST East Lindsey is a wholly owned subsidiary of the Council. The operations of the Company include operating a caravan hire fleet, effecting caravan sales at the Kingfisher Caravan Park in Ingoldmells, and completion of a 28 unit housing scheme in Chapel St Leonards. The company reported a loss of £474k for the year-ended 31 March 2024. The Company also made losses in 2023 of £209k, and 2022 of £68k. The Company has negative total equity of £955k, meaning the Company's total liabilities are greater than its total assets as at 31 March 2024.
- The Audit and Governance Committee receives a quarterly treasury report which provides oversight of the total borrowings made to the subsidiary from the Council. At the start of the year, the Council had £4.1m of loans to INVEST East Lindsey. This reduced to £3.89m by the end of the year.
- The £3.89m as at 31 March 2024 was made up of 5 loans (10 tranches). The housing development loan (£1m) and one tranche of the cash flow loan (£500k), totalling £1.5m, had a redemption date on or before 31 March 2024. These should have been repaid to the Council during 2023-24. We have commented on the governance arrangements on the non-repayment of these loans below.
- We have confirmed there is a formal loan agreement in place between INVEST East Lindsey Ltd and East Lindsey District Council dated 12 February 2021. The loan agreement allows a total loan value of £4.8m for purposes defined within the agreement, such as; expanding the caravan hire fleet, delivery of a Housing Development Scheme in Chapel St Leonards and the establishment of an Eco Lodge Park in Skegness, all with associated costs. The interest rate to be charged is 4%. Therefore, INVEST East Lindsey Ltd has drawdown 81% of the maximum loan value.

Housing Development Loan

- The loan agreement states the repayment date to be two years from 1 April 2021 or the loan drawdown date (whichever is later). The loans were drawn down in two tranches of £500k on 30 June 2021 and 16 November 2021 respectively, therefore the maturity dates based on the original loan agreement was 30 June 2023 and 16 November 2023. These maturity dates were included within the Mid-Term Treasury Report presented to the Audit and Governance Committee on 22 November 2023.
- We have obtained an email dated 17 October 2023 which evidences a formal request from INVEST East Lindsey Ltd to the Council to defer the repayment of £1m Housing Development Loan from 31 March 2024 to 31 March 2025. This was approved by the Chief Executive of East Lindsey District Council on 24 October 2023. From review of the Audit and Governance minutes from 22 November 2023, a member queried if the subsidiary had repaid the housing development loan. Members were advised repayment was phased in accordance with the disposal of properties and management confirmed there were no current concerns. We did not identify communication of the extended deadline to 31 March 2025 to members during this meeting despite the agreement being made before this meeting took place.

Follow up review of the significant weakness in arrangements identified in 2021-22 and 2022-23

For the year ended 31 March 2022 and 2023, the external auditor, Forvis Mazars, identified a significant weakness in the entity's governance arrangements associated with INVEST East Lindsey Ltd.

We will:

- Follow-up on the progress made by the Council against the recommendations made by the previous auditor for the year ended 31 March 2023;
- Understand the governance and reporting arrangements that have been in place during 2023/24 between the Council and INVEST East Lindsey Ltd; and
- Review the Council's governance arrangements in place over the loans with INVEST East Lindsey Ltd.

- We did not identify a formal repayment plan between INVEST East Lindsey and the Council when extension of the repayment dates were approved in October 2023.
- In the quarter three treasury management update report up to 31 December 2023, the maturity dates were updated to 31 March 2024. However, based on reviewed email evidence from 19 October 2023, formal approval was granted for extension to 31 March 2025 from the Chief Executive of East Lindsey District Council.
- As at January 2025, the agreed payment plan between INVEST East Lindsey is to make a single loan payment of £200,000 no later than 31 March 2025. As £1m was originally due to be repaid by 31 March 2025, this does not indicate full repayment will be made by the extended deadline date.

Cash Flow Loan

- We inquired with management whether the loan agreement covers the cash flow loans. Management confirmed the cash flow loans were made in respect of the Company's housing scheme and housing loan. The loans were drawn down in four tranches between January and September 2022 totalling £1.25m. The loan agreement states the repayment date to be two years from 1 April 2021 or the loan drawdown date (whichever is later). There was only one tranche of the loan for £500k that had a repayment date within the year ended 31 March 2024. This was drawn down on 20 January 2022 therefore the maturity date based on the original loan agreement was 20 January 2024. This maturity date was included within the Mid-Term Treasury Report up to 30 September 2023 presented to the Audit and Governance Committee on 22 November 2023.
- In the quarter three treasury management update report up to 31 December 2023, the maturity date was updated to 31 March 2024. We did not obtain any evidence that supported this extended date that could be clearly attributed to the cash flow loan of £500k.
- Since 31 March 2024 to date, three more tranches of cash flow loans have passed their original maturity dates between May 2024 and September 2024. Within the quarter one treasury management update report for 2024/25 up to 30 June 2024, the maturity dates have been updated to 31 March 2025.
- We have confirmed with management no payments have been made against the outstanding loan balance post year end up to and including 21 January 2025.
- The mid-term treasury management update up to 30 September 2024 shows six tranches of loans which mature on 31 March 2025 totalling £2.25m. This paper was presented to the Audit and Governance Committee on 30 October 2024.
- We note INVEST East Lindsey Ltd will continue to pay 4% interest on the loans owed to the Council. This interest rate was agreed when the loan agreements were drawn up in 2021. The Bank of England interest rate as at 31 March 2024 was 5.25%.

Follow up review of the significant weakness in arrangements identified in 2021-22 and 2022-23

For the year ended 31 March 2022 and 2023, the external auditor, Forvis Mazars, identified a significant weakness in the entity's governance arrangements associated with INVEST East Lindsey Ltd.

We will:

- Follow-up on the progress made by the Council against the recommendations made by the previous auditor for the year ended 31 March 2023;
- Understand the governance and reporting arrangements that have been in place during 2023/24 between the Council and INVEST East Lindsey Ltd; and
- Review the Council's governance arrangements in place over the loans with INVEST East Lindsey Ltd.

- For the Group, there is no evidence of regular financial monitoring of the subsidiary's profit or loss throughout the year. There is greater exposure of losses at the year-end if the Council does not have sufficient oversight throughout the year. This is particularly important considering the subsidiary's financial position and performance – the Council has had to confirm their support to INVEST East Lindsey for the company to continue trading as a Going Concern for 2023/24.
- The level of losses made by INVEST East Lindsey in 2023-24 are not individually significant to the Council. Therefore, we have not identified a significant risk to the Council's financial sustainability. However, total borrowings made to the subsidiary by the Council stand at £3.89m, as at 31 March 2024, which is material to the Group. Based on the repayment of specific aspects of the loans during 2023-24 such as the interest payments (£157k paid to the Council in 2023-24 compared to annual budget of £198k) we have not identified a significant weakness in relation to financial sustainability associated with the risk of non-recoverability of these intercompany loans. Note: We have relied on the quarterly treasury reports presented to the Audit and Governance Committee during the period and we have not audited that balance.

Conclusion

As a result of the findings above, we believe the significant weakness in the governance arrangements remains for the year ended 31 March 2024. The financial performance and position of the subsidiary (including in relation to the status of intercompany loans) has not been reported in a sufficient, appropriate or timely way within the Governance structure throughout the year-ended 31 March 2024.

Financial Sustainability

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

We have considered the following in our work:

- How the Council ensures that it identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds these into them;
- How the Council plans to bridge its funding gaps and identifies achievable savings;
- How the Council plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities;
- How the Council ensures that its financial plan is consistent with other plans such as workforce, capital, investment, and other operational planning which may include working with other local public bodies as part of a wider system; and
- How the Council identifies and manages risks to financial resilience, e.g. unplanned changes in demand, including challenge of the assumptions underlying its plans.

Setting the 2023/24 financial plan

- The budget setting report for 2023/24 comprises a five year financial strategy. The foreword to the budget sets out the challenges the Council is facing, including inflationary pressures and significant changes in resident, customer and business needs. The spending plan shows budgeted gross expenditure of £128m. To meet a balanced budget, the Council identified an efficiency requirement of £1.6m for the year.
- The Council involves relevant stakeholders, from across the Council, as part of the budget setting process via budget setting meetings and meetings with Members.
- The Council also completed a Budget Consultation for 2023/24, this was published on 13/02/2023. The report details the responses received for the residents' view on the proposed budgets and the proposed Council Tax increase. The consultations received a total of 68 responses and provided an opportunity for residents to comment. This was presented to the Full Council alongside the 2023-24 budget paper for consideration.
- Budget assumptions are clearly outlined within the budget setting report. These assumptions are subject to challenge at the Audit and Governance Committee, and Executive Board before they are presented to Council for approval. The capital programme is also reviewed alongside the budgets to ensure it is consistent with the wider-budget setting process. For 2023-24, this was approved by the Council on 1 March 2023.
- From our minute review, it was noted when presenting the quarter one finance report to the Executive Board in September 2023, management made the Board aware that, due to a volatile and inflationary financial environment, the budgeted and forecasted figures were susceptible to change.
- Management updates the budgets via reforecasts at the end of each quarter, based on the actuals-to-date, to present the most accurate position in the quarterly finance updates and thus providing assurance that key financial assumptions, upon which the original budget was based, are monitored and revised throughout the year, with any changes reported into the governance structure accordingly.
- Through our document review of the papers presented to the Full Council as part of the budget setting process, we noted this did not include Group figures so does not include the financial performance of its subsidiary INVEST East Lindsey.

Financial Sustainability

Developing the 2023/24 efficiency plan

- The Council identified an efficiency target of £1.6m in the approved budget.
- For the financial year ended 31 March 2024, the Council did not have a formal efficiency programme in place. The Council did have an efficiency long list that was presented to the Senior Leadership Team (SLT) monthly. This is a long list of potential efficiencies to be explored which are allocated to lead officers. This has been used to identify and report efficiencies during 2023-24, and forward planning into 2024-25. However, for the period of audit, there was not a formal programme in place to effectively identify, RAG rate and monitor efficiencies. This also means there are no action logs prepared and monitored by the Council in relation to achieving the efficiencies within the long list.
- A significant challenge to the Council's budget is the Drainage Board Levy. The levy has risen 24% in 2023-24 to £4.8m. The Council has forecasted a steady increase in these costs rising to £5.6m by 2027-28. We confirmed via inquiry the Council is liaising with the local Internal Drainage Boards to work towards limiting future increases where possible.
- As described on the previous page, management updates the budgets and forecasts through the quarterly finance reports. As part of this exercise, when management identifies certain budgets are not required, these are offset against the savings target. During quarter one, the Council had identified £1.2m of potential savings against the savings target of £1.6m. They secured £927k from the Government for the IDB uplift plus they identified an adjustment for capitalisation of salaries of £228k.
- The Council has an Innovation, Transformation and Efficiency Board. This is chaired by the Section 151 Officer. There is a Terms of Reference dated May 2023 in place which outlines that the purpose of the Board is to develop, coordinate and manage innovation, transformation and efficiency activity across the Council and to ensure that service improvements and savings are delivered in line with the Delivery Plan and Medium-Term Financial Plan.
- At the end of quarter one efficiencies still to be identified were £453k. In December 2023, the quarter three finance report includes efficiencies still to be identified of £453k, showing no movement from the end of quarter one. However, the Council forecasted a surplus in quarters one, two and three of £1.5m, £861k and £522k respectively, hence less pressure on identifying and delivering these efficiencies in the year. As at 31 March 2024, the Council made a surplus of £914k on their full year outturn compared to their budget.

Consistency between the financial plan for 2023/24 and workforce and operational plans

- The budget setting report is presented to the Audit and Governance Committee, Executive Board and the Full Council alongside other key strategies for the entity such as the: Capital Strategy, Treasury Management Policy Statement, Treasury Management Strategy, MRP Policy and Annual Investment Strategy, Medium Term Financial Plan (5 years) and the Annual Delivery Plan.

| Key financial and performance metrics: | 2023-24 £'000 | 2022-23 £'000 |
|--|------------------|------------------|
| Actual surplus/(deficit) *against general fund budget | 914 | (370) |
| Planned gross expenditure | 128,044 | 116,361 |
| Actual gross expenditure* | 113,024 | 114,028 |
| Planned capital budget | 48,081 | 69,532 |
| Actual capital expenditure | 27,207 | 17,265 |
| Usable reserves | 72,781 | 53,158 |
| Year-end borrowings | - | 20,000 |
| Capital financing requirement | 17,825 | 19,120 |
| Gross debt compared to the capital financing requirement | - | 1.04:1 |
| Year-end cash position | 2,887 | 3,701 |

**Actual gross expenditure cannot be directly compared with the planned gross expenditure. The actual gross expenditure includes technical adjustments such as revaluation movements and other technical accounting entries that are not required to be budgeted for by the Council.*

Gross debt compared to the capital financing requirement: Authorities are expected to have less debt than the capital financing requirement (i.e. a ratio of under 1 : 1) except in the short term, else borrowing levels may not be considered prudent.

Financial Sustainability

These are all developed, challenged and approved at the same time to ensure all the activities of the Council are aligned prior to the start of the financial year.

Assessing risks to financial sustainability

- The Council has a Risk Management Framework in place. The Council has a strategic risk register, and a risk management report is presented to the Audit and Governance Committee on a quarterly basis. The Council has identified a strategic risk relating to the long-term balancing of the budget and related constraints.
- As part of the budget setting process, the budget includes the Medium Term Financial Plan (5 years). As such the projected budgets allows management and the full Council to assess the risk to achieving a balanced budget in the immediate, short and medium term. From the approved budget, the savings requirement of the Council is £1.4m in 2024-25 and £1.9m in 2025-26, £2.0 in 2026-27 and £1.7m in 2027-28, outlining the challenges the Council continues to face in the upcoming years in relation to the identification of recurrent efficiency savings.
- The Governance relating to risk management, and assessing risks is detailed on page 27.

Processes in place for managing identified financial sustainability risks

- At quarter three, the budget has a risk score of 15 (High) which remains unchanged throughout the year. The Council is tolerating this risk so the target risk score is also 15 (High). The Council will continue operating financial controls, monitoring and reporting, however there are no additional actions to be taken to mitigate this risk. In the quarter four risk report, this has reduced to a score of 12 however it is still classified as a high risk.
- The Governance relating to budget monitoring is detailed on page 31.

Performance for the year to date against the financial plan

- The quarter three finance report up to 31 December 2023 showed the Council was forecasting a surplus of £522k, largely due to increased investment income. This is offset with other income streams behind budget such as car parking income (due to seasonal variances and reduced visitor numbers) and planning income (due to reduced planning applications for both individuals and property developers). The surplus increased to £914k as at the year-end.

- We have confirmed through our minute review, the financial performance of the entity is reported consistently in the format of a finance report that is presented to the Audit and Governance Committee, Executive Board and Full Council during the year.
- As at quarter three, the Council was behind their capital plan, reporting capital spend at the end of quarter three of £16m against a full year budget of £48m. The Town's Fund projects represent 53% of the total revised capital budget for 2023-24. However, a number of these projects have been delayed due to initial tenders being over budget. The Council is forecasting capital expenditure to pick up in the final quarter of the year. Re-forecasting of the capital plan is allowing slippage of £24m into future years. Reporting on the capital plan is included in the quarterly finance reports. By the financial year end, it was reported by the Council the total capital spend against the approved budget was £27m, which is an underspend of £20.7m.
- Overall, the Council has delivered an underspend of £914k and as at 31 March had cash balances of £2.8m (unaudited). The Council has prepared a budget and associated financial strategies 2024/25 – 2028-29 which was approved by the Council on 28 February 2024.
- The net budget for 2024/25 is £35.2m (£33.5m in 23/24). The net budget requirement increases steadily to £38m in 2028/29. This is all fully funded, however, the budgets include an efficiency target of £1.37m for 2024/25, rising significantly to £3.7m in 2025/26.
- The quarter one finance report was presented to the Executive Board on 18 September 2024. This shows a forecast revenue outturn position of a £660k underspend for 2024/25.

Conclusion

We have not identified a weakness in the Council's arrangements for financial sustainability.

Governance

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

We have considered the following in our work:

- how the Council monitors and assesses risk and how the body gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud;
- how the Council approaches and carries out its annual budget setting process;
- how the Council ensures effective processes and systems are in place to ensure budgetary control; to communicate relevant, accurate and timely management information (including non-financial information where appropriate); supports its statutory financial reporting requirements; and ensures corrective action is taken where needed, including in relation to significant partnerships;
- how the Council ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency; and
- how the Council monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of management or Board members' behaviour.

Identification, monitoring and management of risk

- The Council has a Risk Management Framework in place. This has well-documented processes in place to identify, monitor and manage risk. This outlines the Council's overriding attitude to risk: to operate in a culture that is open to all potential options in which all risks are identified, understood and proportionately managed, rather than avoided.
- The Council manages risk at three governance levels: strategic, operational and project management. Each has their own risk management responsibilities as outlined in the Risk Management Framework. In March 2024 the entity held risk workshops to review strategic, operational, partnership and fraud risks for quarter four reporting.
- The Council maintains a Strategic Risk Register to identify and assess the severity of risks using a matrix model which takes into account the impact and likelihood of the risk. A risk management report covering the strategic risks is presented to the Audit and Governance Committee quarterly and is attended by the s151 Officer. The minutes of the Audit and Governance meetings are presented to the Council meetings and is attended by the Chief Executive and s151 Officer.
- In the risk management report, each strategic risk has a lead risk owner, with a current risk score and a target risk score. Where planned actions/mitigations are documented in the report, these are general rather than specific, with no due dates. We found four new risks identified in the quarter two report that had no actions documented in the report despite the current risk score being higher than the target.
- From our minute review, in November 2023, a member from the Audit and Governance Committee requested more specific information to be included in the risk management report such as target dates on planned mitigations. Within the same minutes management confirmed work was underway with a planned audit of strategic risks to follow. Our review of the quarter three report showed this had not yet been implemented in the report presented to Audit and Governance Committee in March 2024. In the quarter four risk report presented to the Committee June 2024, the appendix has been expanded to include the target risk score against the current risk score.

Controls in place to prevent and detect fraud

- The Council has relevant policies in place e.g. Whistleblowing, and Preventing Fraud and Corruption section in their Financial Procedures.
- The Council has commissioned an external review of arrangements. The Council undertook a counter-fraud mapping exercise in quarter four of 2023/24 with Internal Audit which is detailed further on the next page.

Governance

Internal audit

- At the time of writing the indicative audit plan, we understood Internal Audit was undertaking counter-fraud mapping in three key areas: Procurement, Assets and Revenues and Benefits for quarter four reporting, as at the end of March 2024. From attendance at the Audit and Governance Committee on 19 June 2024, we note this is now complete. Fraud risk registers have been created and internal audit has advised on updating and reviewing the Council's counter fraud policies. Therefore we expect fraud risks to be monitored as business as usual from 2024/25.
- The Council engages Lincolnshire County Council as their internal auditors. They are independent to the Council and provide assurance over their internal controls, including core financial controls. We note for the Head of Internal Audit (HoIA) opinion 2022-23, financial control improvement was needed. The Head of Internal Audit (HoIA) opinion 2023-24 was adequate. Therefore, this does not give rise to an indication of significant weakness in the Council's arrangements.
- From our inquiries with Internal Audit in December 2023, we became aware an internal investigation was underway following suspected fraud at one of the Council's in the South East Lincolnshire Council Partnership (SELCP). We acknowledge fraud was not suspected at East Lindsey District Council. As a result, an internal audit report was commissioned by management which resulted in a 'No Assurance' opinion being provided in relation to the Financial Procedures and Procurement Card Policy over the use of Procurement cards (P-cards) across the SELCP. At the time of the report, East Lindsey had 52 registered cardholders with an average spend of £1k per card per year, therefore the maximum estimated error for the use of P-Cards being approximately £52k.
- The report was received by the Audit and Governance Committee in March 2024 along with a substantial management response. The report identifies required actions management has agreed to implement, the actions have due dates and responsible officers. These actions are followed up and reported to the Audit and Governance Committee by Internal Audit as part of their follow-up review thus providing sufficient action taken on a report of significant weakness in internal control.
- Since this review we have assurances from attendance at the Audit and Governance Committee meeting in March 2024 that the partnership is implementing a new P-card solution that is more accessible and easier for colleagues to use – along with updated communications, guidance and training.
- Due to the action we have seen from management in response to this issue, the immaterial total value of annual estimated P-Card expenditure (£52k) and evidence of sufficient reporting through the governance structure, we have not identified a significant weakness to our VFM opinion.
- Internal audit performed a Procurement Card Audit follow-up that completed in August 2024. The audit report found that P-card Governance has improved since the 'No Assurance' report was issued. The follow-up report gives an adequate assurance opinion.

Review and approval of the 2023-24 financial plan

- The budget had appropriate scrutiny and approval within the Committee structure. We confirmed via minute review that the budget was presented to the Audit and Governance Committee (1 February 2023), the Executive Board (15 February 2023) and approved by the Council (1 March 2023) before the start of the 2023-24 financial year.
- The approved budget has a section for Risk and Sensitivity (Section 11) which outlines the key risks to achieving the balanced budget. There is a corresponding strategic risk on their register called Budget (ELDC01). The risk is around the long term balancing of the budget and related constraints. This risk is monitored and reported through the Audit and Governance Committee.

Governance

Budget Monitoring

- Financial performance is monitored against budget. As part of our risk assessment, we have reviewed the quarterly Finance Reports and Treasury Management updates reported to the Audit and Governance Committee and Council in 2023-24.
- At quarter three the Council was reporting a surplus of £522k. This is largely due to a forecast overachievement of £1.6m on Investment income. However, this is offset by adverse variances in other income streams such as planning income and car parking income forecasts of £367k and £274k respectively. The total surplus increased to £914k at the end of quarter four.
- Budget managers must complete a quarterly monitoring action plan for the budgets they are responsible for. This is a standard proforma detailing concerns/issues raised by their business partner plus standard required checks on grants, reserves and contracts. Any required actions are listed with a responsible officer and deadline. This should be signed by the business partner and the budget manager. For our planning and risk assessment, we obtained two of the monthly budget monitoring plans for December 2023. These were dated 12 January 2024. These were both completed, explained variances and included actions with due dates. The reports are completed with sufficient detail to explain the variances, but these were not signed.

Monitoring compliance with laws and regulations

- The Council has a legal service who is responsible for regularly reviewing regulatory change. Service areas are also responsible for being aware of new regulatory changes in their area and these are communicated for implementation as appropriate.
- Furthermore, all papers in relation to key decisions such as plans, proposals and procurements for senior officer groups or member committees are required to consider the implications of constitutional and legal, corporate priorities, reputation, equality/human rights/safeguarding and environmental legislation as standard. We have seen this proforma is used consistently as part of our minute review of the Audit and Governance Committee, Executive Board and Council. Management inquiries have confirmed there have been no breaches of legislation or regulatory standards that has led to an investigation by any legal or regulatory body during the year.

- Our risk assessment is yet to be completed on the accounting and governance arrangements of INVEST East Lindsey Ltd. We note the financial statements produced for the year-ended 31 March 2023 were given an unqualified opinion. However, it was reported by exception that the company failed to comply with the Companies Act 2006 with regards to their duty to complete adequate accounting records.
- We have read the report of the independent auditors to the members of INVEST East Lindsey for the year ended 31 March 2024. The opinion confirms the financial statement have been prepared in accordance with the requirements of the Companies Act 2006. Therefore, no further considerations required for 2023-24 outside those highlighted as part of our identified as part of our commentary as seen on page 19.

Monitoring officer compliance with expected standards of behaviour

- All councillors are bound by the Constitution which is derived from statute and decisions of the Council. All councillors are required to agree to the Constitution and the Monitoring Officer, as the delegated official, is responsible for overseeing training, awareness and complaints surrounding the Code of Conduct.
- The Council's Code of Conduct communicates values and expected behaviours of staff. This is communicated to staff as part of the recruitment process and is available on the staff intranet. This also covers requirements with regards to gifts and hospitality and conflicts of interests.
- The Council has a Whistleblowing policy in place to raise concerns of behaviour that do not meet the Code of Conduct. This sets out the actions the Council will take in the event of a whistleblowing incident.

Ensuring decisions receive appropriate scrutiny

- The Council clearly outlines the rules of procedure within Part Four of the Constitution. This also includes the definition of, and requirements to be followed for key decisions.
- Our risk assessment procedures and management inquiries confirm that the Council has appropriate arrangements in place to ensure scrutiny, challenge and transparency of decision making.

Governance

- Key decision making is subject to discussion and scrutiny at Executive Board level and relevant sub-committees, followed by formal approval by the Council. All key decision records are available to view on the Council's website (unless restricted due to sensitive nature). We have reviewed evidence of this through a review of meeting minutes and corresponding papers for the early repayment of the Public Works Loan Board (PWLB) of £20m that required payment of £11.65m to receive a discount of £8.3m. The business case relating to this decision was sufficiently detailed, including commentary on economic considerations, financial impact and overall benefits. This was presented to the Audit and Governance Committee on 22 November 2023 and the Executive Board on 29 November 2023.

Conclusion

Based on the findings outlined on pages 13 to 20, we have concluded a significant weakness in the Council's governance arrangements over INVEST East Lindsey Ltd continues to exist. See page 29 for the recommendation we have made to management.

| | 2023-24 | 2022-23 |
|--|----------|----------|
| Significant governance issues reported in the Annual Governance Statement | 2 | 6 |
| Head of Internal Audit Opinion | Adequate | Adequate |
| Local Government Ombudsman findings (*upheld in the financial year) | 4 | 1 |

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

We have considered the following in our work:

- how financial and performance information has been used to assess performance to identify areas for improvement;
- how the Council evaluates the services it provides to assess performance and identify areas for improvement;
- how the Council ensures it delivers its role within significant partnerships and engages with stakeholders it has identified, in order to assess whether it is meeting its objectives; and
- where the Council commissions or procures services, how it assesses whether it is realising the expected benefits.

Assessing the level of VFM being achieved and improvement opportunities

- On 1 October 2021, the Council formed the South & East Lincolnshire Councils Partnership (SELCP) with Boston Borough Council and South Holland District Council.
- For 2023-24, the SELCP has an Annual Delivery Plan (ADP) that was approved alongside the budget by the Council on 1 March 2023. The activities flow from the Partnerships three-year work programme, agreed by each Council. This includes strategic ambition, corporate and local priorities. Minutes from the Council meeting on 1 March 2023 show the budget setting process considered using the SELCP as a driver for innovation and efficiency.
- The first SELCP sub-regional strategy has been approved by each of the three Councils in 2023-24. This covers 2024-25 to 2028-29 which reflects the original business case of the Partnership, which identified opportunities to increase the efficiency and effectiveness across each of the three Councils.

Performance of services

- The Council has a Performance and Governance Framework in place. Quarterly monitoring reports are presented to the Executive Board. The report is a standard template that is updated for each quarter including key performance indicators (KPIs) with commentary to support performance and rating based on the achievement of targets (red/amber/green). The report also includes risks with scores and any changes since the last report within the appendices.
- The Council has a section on their website where the public can have their say through the “compliments, complaints & feedback section” that highlight areas performing well and areas that require improvement. The Council has a Public Engagement Charter that states they will publish annually how public feedback has influenced or changed the way they deliver their services. On review of the website in April 2024, the page noted the Council was in the process of gathering the feedback and will be available on the website shortly. We confirmed as at November 2024, this webpage had not been updated. We have fed this back to management, however, we have not included it as a formal recommendation.
- There is no evidence of reporting of subsidiary performance within the minutes for the meetings we have reviewed throughout the period 2023-24 (A&G, Executive Board and the Council). We note one of the outstanding recommendations in January 2024 is to provide updates to the A&G every six months.

Improving economy, efficiency and effectiveness

Engagement with other stakeholders and wider partners

- The Council works closely with other organisations locally to support delivering economy, efficiency and effectiveness, namely with Boston Borough Council and South Holland District Council as part of the SELCP.
- The Council has a Public Engagement Charter setting out the types of public engagement activity, such as consultations on changes to policies or the way services are provided, seeking feedback and localism initiatives.

Performance of partnerships

- The Council's largest partnership is the South & East Lincolnshire Partnership. The Council has an annual delivery plan that is monitored by the Joint Strategy Board to support the Partnership in delivering on its priorities, as well as sovereign Council ambitions.
- The Council receives a six monthly update on the South & East Lincolnshire Partnerships Performance report. We confirmed through minute review this was presented to the Council in October 2023 and February 2024. Within the February update, of the 226 activities in the ADP for the year, 78% are complete or on plan. Where an action is off-plan in terms of delivery, mitigations are put in place, with some actions rolled forward to the 2024-25 where required.

Monitoring of outsourced services

- The Council outsources their finance function to PSPS, a local authority trading company owned by the three Council's in the SELCP. An independent review of the finance service delivery arrangements provided by PSPS for the delivery to the three Councils comprising the South & East Lincolnshire Partnership was prepared by CIPFA in October 2023, commissioned by PSPS. An action plan has been put in place to continue to improve efficiency and effectiveness of arrangements.

- As part of the scoping, PSPS identified four main areas of focus for the review: Client Service Delivery, Client Relationship and Engagement, Resourcing Skills Recruitment and Retention, and Technology. The findings were categorised under these headings and 13 recommendations were made. We have confirmed all recommendations made in the review were included on the Improvement Action Plan. Recommendations were not given priority ratings (e.g. high/medium/low) but they have been assigned an owner and implementation date. We have seen evidence of a Review Action Plan completed in January and April 2024.
- There was a focus on the lack of any formal Service Level Agreement (SLA) in place to outline responsibilities, with a recommendation made for one to be drafted and put in place. The April 2024 action plan confirms the SLA is now complete and is in place for 2024/25.
- Due to the action we have seen from management in regard to commissioning of an external report and creating an action plan covering all recommendations made, we are satisfied this does not result in a significant weakness for VFM arrangements. We also note, in the budget setting report for 2023-24, the Council identified a key risk to the entity was that PSPS may be unable to deliver an effective service within the agreed price. The likelihood rated as low, and impact medium. This risk remains unchanged in the 24-25 budget indicating the risk is ongoing.
- The Council has outsourced their services for the installation of payment entry systems and the external management of Public Conveniences for an estimated annual contract value £627k (as per January 2024 contract register). The Council has set up a scrutiny panel for the public convenience provision in East Lindsey. We will comment on the performance monitoring of such services in the Auditor's Annual Report.

Conclusion

We have not identified a weakness in the Council's arrangements for improving economy, efficiency and effectiveness.

Value for Money: Recommendations

The recommendations raised as a result of our work in respect of significant value for money weaknesses in the current year are as follows:

| # | Grading | Issue, Impact and Recommendation | Management Response/Officer/Due Date |
|---|---------|---|---|
| 1 | Other | <p>Inappropriate Governance arrangements over INVEST East Lindsey Ltd</p> <p>The Council published its unaudited financial statements for the year ended 31 March 2024 on 19 November 2024, after the statutory deadline of 31 May 2024. The delays in producing the financial statements were due to the delayed resolution of significant difficulties faced during the 2021/22 financial statements audit, as a result of the Council needing to prepare Group accounts and there being no sufficient and/or appropriate protocol to enable relevant information to be shared on a timely basis between INVEST East Lindsey Ltd and the Council's outsourced finance function, PSPS Ltd.</p> <p>INVEST East Lindsey Ltd reported a loss of £474k and negative total equity of £955k for the year-ending and as at 31 March 2024, including loans provided to INVEST East Lindsey by the Council of £3.89m. The audit report for INVEST East Lindsey Ltd, for the year ended 31 March 2024, included a material uncertainty relating to its going concern and the Council provided a letter of parental support to INVEST East Lindsey as part of its audit process.</p> <p>An Internal Audit report, presented to Audit and Governance Committee in September 2023, considered the Council's governance arrangements regarding INVEST East Lindsey Ltd. This report recommended that updates to the Council's Audit and Governance Committee should be made every six months, which would include information pertaining to the INVEST East Lindsey's activity as well as governance updates and a risk register review. The first report was presented to the Audit and Governance Committee in September 2024 but did not include any financial information.</p> <p>There is a lack of sufficient, appropriate and timely reporting with the Council's governance structure associated with the loans provided to INVEST East Lindsey Limited by the Council</p> <p>As a result of the findings above, we believe the significant weakness in the governance arrangements remains for the year ended 31 March 2024. The financial performance and position of the subsidiary (including in relation to the status of intercompany loans) has not been reported in a sufficient, appropriate or timely way within the Governance structure throughout the year-ended 31 March 2024.</p> <p>Risk</p> <p>There is a risk that the Council does not have sufficient oversight of the financial performance of the Group as a whole, on a regular basis. This reduces the Council's opportunity to react to adverse financial performance and directly impacts the quality of decision making to deliver a sustainable financial plan for the Group.</p> <p>Recommendation</p> <p>We recommend the Council should implement consolidated Group performance and position statements into the quarterly finance reports presented in the Governance structure, which includes forecasted profit or loss for the subsidiary as well the financial position, including the status of intercompany loans.</p> | <p>Management Response:</p> <p>Quarterly Finance reports to Executive Board will be enhanced to provide reporting on the Company's financial status. Treasury Management Reports will be enhanced to provide additional detail regarding loan arrangements and changes agreed</p> <p>Officer: Deputy Chief Finance Officer – Corporate (PSPSL)</p> <p>Due Date: 31 August 2025</p> |

Value for Money: Recommendations

Below we have set out our findings from following up recommendations raised in respect of significant weaknesses identified in prior periods:

*The below are recommendations made by Forvis Mazars, your auditors for the year ended 31 March 2023. These were reported to you in the Auditor's Annual Report for the year ended 31 March 2022 and 31 March 2023 dated December 2024.

| # | Issue and Impact | Management Update as at January 2025 |
|---|---|---|
| 1 | <p>Accounting and Governance Arrangements of INVEST East Lindsey Ltd.</p> <p>The external auditor's report on the financial statements for INVEST East Lindsey for the financial year ended 31 March 2022 (signed December 2022) and 2023 (signed December 2023) cited non-compliance with the Companies Act regarding the duty to keep accounting records. The Audit & Governance Committee were informed of the matter on the 2021/22 financial statements in a report from the Council's Internal Auditors in September 2023. The Council's 2021/22 financial statements presented for audit did not include group financial statements. There were delays in obtaining sufficient and appropriate information to produce the consolidated financial statements. These delays were not resolved until October 2024 when the 2021/22 accounts were presented as a final version and draft 2022/23 accounts were produced and presented to the 30 October Audit Committee.</p> <p>In our view, these are indicative of a significant weakness in arrangements for the financial year ended 31 March 2022 and 31 March 2023 under the theme of "Governance: how the body ensures that it makes informed decisions and properly manages its risks, including, how the Council ensures effective processes and systems are in place to support its statutory financial reporting requirements and how the body monitors and assesses risk and how the body gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud" that leads to – or could reasonably be expected to lead to – significant impact on the quality or effectiveness of the Council's reputation.</p> <p>The Council should ensure:</p> <ol style="list-style-type: none"> 1. There is a clear protocol for the provision of information from Invest East Lindsey, on a timely basis, to support the preparation of the consolidated financial statements; 2. All recommendations raised from Internal Audit's review from September 2023 have been implemented; 3. The Audit & Governance Committee is provided with details on why proper accounting records were not maintained and the actions that have been taken to address this. 4. The Audit & Governance Committee receives regular assurance reports over the governance and risk management of the Council's subsidiaries to ensure it is clear on how the Council gains assurance to inform the Annual Governance Statement and Consolidated financial statements. | <ol style="list-style-type: none"> 1. INVEST East Lindsey are aware of the requirement to complete the consolidated financial statements for East Lindsey District Council 24/25 by 30 June 2025, and the required information, with deadlines, for group accounts will be requested in advance of the year end. 2. A paper was presented to the Audit and Governance Committee in September 2024 that confirmed all outstanding actions are now complete. 3. For year ending 2022/23, Invest East Lindsey's external auditors determined that whilst its annual accounts were 'unqualified' it was not satisfied that Directors had ready access to up to date financial management information; as a consequence, the Company reviewed all of its financial systems, policies and processes to return that unqualified opinion and procured an independent book keeper to maintain the Company's financial system in order to provide the up to date, replicable financial management information required by the Board. 4. The Invest Shareholder Supervisory Board provide twice yearly updates to A&G committee, including updates on company activity, governance and risk. |



kpmg.com/uk

© 2025 KPMG LLP, a UK limited liability partnership and a member firm of the KPMG global organisation of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

Document Classification: KPMG Public