

Governance and Audit Committee



SOUTH
KESTEVEN
DISTRICT
COUNCIL



Tuesday, 26 September 2023 at 10.00 am
Council Chamber - Council Offices,
St. Peter's Hill, Grantham. NG31 6PZ

Committee Members: Councillor Tim Harrison (Chairman)
Councillor Paul Wood (Vice-Chairman)

Councillor Patsy Ellis, Councillor Bridget Ley, Councillor Charmaine Morgan,
Councillor Rob Shorrocks, Councillor Peter Stephens, Councillor Ian Stokes and
Councillor Sue Woolley

Agenda Supplement

6. **External Audit Findings 2021-2022** (Pages 3 - 38)
11. **Counter Fraud Annual Report 2022-2023** (Pages 39 - 45)
One of the key areas for Governance and Audit Committee, as part of its terms of reference, is to monitor and review the counter fraud arrangements in place and the activities that are being undertaken to mitigate those risks.

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Audit Findings for South Kesteven District Council

Year ended 31 March 2022

September 2023

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This Audit Findings presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260. Its contents have been discussed with management and the Governance and Audit Committee.

Laurelin Griffiths
For Grant Thornton UK LLP
19 September 2023

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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1. Headlines

This table summarises the key findings and other matters arising from the statutory audit of South Kesteven District Council ('the Council') and the preparation of the group and Council's financial statements for the year ended 31 March 2022 for those charged with governance.

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Financial Statements

Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:

- the group and Council's financial statements give a true and fair view of the financial position of the group and Council and the group and Council's income and expenditure for the year; and
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.

We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS) and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Our audit work has been completed both on site and remotely during July 2022 – September 2023. Our findings are summarised on pages 5 to 17. Our audit is currently being finalised, however we have identified some adjustments, cumulatively material, which the Council have agreed to amend for in the final version of the financial statements.

We have also identified some unadjusted misstatements; however, these are cumulatively not material, therefore we are satisfied that the accounts are not materially misstated – these have been set out in Appendix B.

We have raised 7 recommendations for management as a result of our audit work, as set out in Appendix A.

Our work is substantially complete and there are no matters of which we are aware that would require modification of our audit opinion or material changes to the financial statements, subject to the following outstanding matters:

- final quality reviews by the Audit Manager and Engagement Lead;
- receipt and review of management's signed representation letter; and
- receipt and review of the final signed set of financial statements.

Our review of Other Information is complete, and no inconsistencies have been identified. Subject to the completion of this work, we plan to issue an unmodified opinion in this respect.

1. Headlines

Value for Money (VFM) arrangements

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are now required to report in more detail on the Council's overall arrangements, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

Auditors are required to report their commentary on the Council's arrangements under the following specified criteria:

- Improving economy, efficiency and effectiveness;
- Financial sustainability; and
- Governance

We have not yet completed all of our VFM work and so are not in a position to issue our Auditor's Annual Report. We expect to issue a combined Auditor's Annual Report by December 2023 which covers both the 2021/22 and 2022/23 periods.

As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. We have not identified any such risks to date.

Statutory duties

The Local Audit and Accountability Act 2014 ('the Act') also requires us to:

- report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and
- to certify the closure of the audit.

We have not exercised any of our additional statutory powers or duties.

We expect to certify the completion of the audit upon the completion of our work on the Council's VFM arrangements, which will be reported in our Auditor's Annual Report by December 2023.

Significant Matters

Our work in relation to the valuation of the Council's property assets (investment properties, council dwellings, and other land and buildings) is now complete. We encountered significant delays and difficulties in obtaining responses to our queries, along with information and evidence to support a sample of valuations, from the Council's external valuation expert.

We would like to thank management for their efforts in following up these requests on our behalf, however these delays have been significant, and have had a knock-on impact on the delivery of other areas of our audit.

2. Financial Statements

Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management and the Governance and Audit Committee.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

Audit approach

Our audit approach was based on a thorough understanding of the group's business and is risk based, and in particular included:

- An evaluation of the groups internal controls environment, including its IT systems and controls;
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks
- An evaluation of the components of the group based on a measure of materiality considering each as a percentage of the group's gross revenue expenditure to assess the significance of the component and to determine the planned audit response. From this evaluation we determined specified audit procedures for income and expenditure transactions for Leisure SK Limited was required, which was completed by Duncan and Toplis Ltd. We have also determined specified procedures for the PPE Assets Held for Sale balance for Gravitas Limited which was completed by our audit team.

Conclusion

We have substantially completed our audit of your financial statements. Subject to the receipt of final information, we anticipate issuing an unqualified audit opinion. These outstanding items are highlighted on page 3.

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff.

2. Financial Statements



Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Materiality levels remain the same as reported in our audit plan in September 2022.

We detail in the table below our determination of materiality for South Kesteven District Council and group.

	Group Amount (£)	Council Amount (£)	Qualitative factors considered
Materiality for the financial statements	1,250,000	1,190,000	We determined materiality for the audit of the Group's financial statements as a whole to be £1.25m in our audit plan, which equated to approximately 2% of the Council's gross operating expenses in 2020/21. This benchmark is considered the most appropriate because we consider users of the financial statements to be most interested in how the Council has expended its revenue and other funding.
Performance materiality	875,000	833,000	Performance materiality drives the extent of our testing and this was set at 70% of financial statement materiality. Our consideration of performance materiality is based upon a number of factors: <ul style="list-style-type: none"> We are not aware of a history of deficiencies in the control environment. Senior financial management and key reporting personnel have remained stable from the prior-year audit
Trivial matters	62,500	59,500	Triviality is the threshold at which we will communicate misstatements to the Governance and Audit Committee.
Materiality for senior officer's remuneration	15,000	15,000	In accordance with ISA 320 we have considered the need to set lower levels of materiality for sensitive balances, transactions or disclosures in the accounts. We consider the disclosures of senior officer's remuneration to be sensitive as we believe these disclosures are of specific interest to the reader of the accounts.

2. Financial Statements - Significant risks

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

This section provides commentary on the significant audit risks communicated in the Audit Plan.

Risks identified in our Audit Plan

Commentary

Management override of controls

Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Authority faces external scrutiny of spending and this could potentially place management under undue pressure in terms of how they report performance.

We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as significant risk, which was one of the most significant assessed risk of material misstatement.

We have:

- Evaluated the design effectiveness of management controls over journals
- Analysed the journals listing and determined the criteria for selecting high risk unusual journals
- Tested unusual journals recorded during the year and after the draft accounts stage for appropriateness corroboration
- Gained an understanding of the accounting estimates and critical judgements applied made by management and considered their reasonableness with regard to corroborative evidence
- Evaluated the rational for any changes in accounting policies, estimates or significant unusual transactions
- Evaluated judgements and estimates made in the consolidation of the Group accounts.
- Reviewed and tested transfers between the General Fund and HRA and inter group journals

We have reviewed the Council's material accounting estimates and have found these to be reasonable, with further details on pages 12 to 14.

From our review of the journals control environment, we have identified that there is no formal journals authorisation process in place for the posting of transactions onto the ledger. We would expect for each journal to be reviewed by someone other than the poster to ensure that this has been appropriately authorised. We have also noted 5 posters of journals who have super-user access, including members from within the finance team. As a result of this, we have increased our risk assessment of the posting of journals, which has resulted in an increased volume of items being selected for testing.

From our testing of 83 journals identified as being highest risk, we have not identified any instances of management override of control and all sampled items were appropriately processed, however have raised 2 recommendations, as outlined in Appendix A.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan

Commentary

Fraudulent revenue and expenditure recognition (rebutted)

Revenue £61.589m

Expenditure £77.080m

Having considered the risk factors set out in ISA 240 and their equivalent in PN10, and the nature of the revenue and expenditure streams at the Council, we determined that the risk of fraud arising from revenue recognition could be rebutted, and that there was not an equivalent risk in relation to expenditure recognition, because:

- there is little incentive to manipulate revenue recognition.
- opportunities to manipulate revenue recognition are very limited
- the culture and ethical frameworks of local authorities, including South Kesteven District Council, mean that all forms of fraud are seen as unacceptable.

Therefore, we did not consider this to be a significant risk for South Kesteven District Council.

Whilst we do not deem there to be a significant risk of material misstatement in the Council's income or expenditure, we have undertaken testing on samples of the Council's material income and expenditure streams as part of our audit.

No material issues have been noted, however we have identified one error within our testing of the Council's prepayments. The Council has recognised a prepayment in relation to housing benefit expenditure where the majority of the payment is in relation to the 2021/22 financial year and should therefore have been recognised as expenditure. Given that the Council receives a subsidy grant for its housing benefit spend we are satisfied that this has no impact on the net cost of services. For further information see the unadjusted misstatement in Appendix B.

Our work has not identified any matters that would indicate that our risk assessment was incorrect. There were no changes to our assessment as reported in the audit plan that we need to bring to your attention.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan

Commentary

Valuation of land and buildings

Council Dwellings £303.963m
Other Land and Buildings (OLB) £68.747m
Investment Properties £4.950m

The authority revalues its land and buildings on a rolling five yearly basis and investment properties annually. The valuations represent a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions.

Additionally, management will need to ensure the carrying value in the authority financial statements is not materially different from the current value or the fair value (for surplus assets and investment properties) at the financial statements date, where a rolling programme is used. We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement

We have:

- evaluated the processes, controls and assumptions put in place by management to ensure that the valuation of land and buildings and investment properties are not materially misstated and evaluated the design of these and whether they are sufficient to mitigate the risk of material misstatement;
- assessed the competence, capabilities and objectivity of management's experts (valuers) who carried out your PPE and investment property valuations; evaluated the instructions issued by management to their management expert (a valuer) for this estimate and the scope of the valuer's work;
- communicated with the valuer to confirm the basis on which the valuation was carried out to ensure that the requirements of the CIPFA code are met
- challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding, particularly around obsolescence of assets, build costs, floor areas for DRC assets and yields and rents/market values for non-specialised properties.
- tested revaluations made during the year to ensure they are consistent with the valuer's report and input correctly into the Council's asset register
- evaluated the assumptions made by management for those assets not revalued during the year and how management have satisfied themselves that these are not materially different to current value

Our findings include:

- We have encountered significant delays and difficulties in obtaining responses to our queries, along with information and evidence to support a sample of valuations, from the Council's external valuation expert. The Council had also misplaced some floorplans to support the valuation calculations, therefore it took longer for us to gain assurances.
- Upon receipt of the new floorplans, we identified some discrepancies between the floor sizes per the plans and those provided to the valuer, which resulted in differences in the actual valuations. For OLB assets, we have identified that the valuation of 6 assets has been overstated by £993k which had been agreed to be adjusted within the financial statements. We received the revised calculations for these assets and are satisfied that appropriate adjustments had been applied to the financial statements – these have been reported in Appendix B under the adjusted misstatements.
- For other assets within OLB, we have noted some smaller errors, where we estimate that the valuations are overstated by £396k. For Council Dwellings, we have noted an error to a beacon, where the valuations are understated by £135k. Therefore in combination we estimate that the PPE note is still overstated by £261k – this is not material and has been reported as an unadjusted misstatement in Appendix B.
- From our testing of Investment Properties, we have identified a small number of errors relating to the differences in the source data used. These errors cumulatively show that the valuation of investment properties is understated by £187k – this is not material and has been reported as an unadjusted misstatement in Appendix B.

Overall, following the adjustments made by management, we are satisfied that the valuation of land and buildings and investment properties are not materially misstated.

We have also considered the key judgements and estimates in relation to the valuations. Our findings can be found on pages 12 to 13.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan

Commentary

Valuation of pension fund net liability

£52.673m

The Council's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements.

The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£52.673m in the Council's balance sheet) and the sensitivity of the estimate to changes in key assumptions.

21 The methods applied in the calculation of the IAS 19 estimates are routine and commonly applied by all actuarial firms in line with the requirements set out in the Code of practice for local government accounting (the applicable financial reporting framework). We have therefore concluded that there is not a significant risk of material misstatement in the IAS 19 estimate due to the methods and models used in their calculation.

The source data used by the actuaries to produce the IAS 19 estimates is provided by administering authorities and employers. We do not consider this to be a significant risk as this is easily verifiable.

The actuarial assumptions used are the responsibility of the entity but should be set on the advice given by the actuary. A small change in the key assumptions (discount rate, inflation rate, salary increase and life expectancy) can have a significant impact on the estimated IAS 19 liability.

We have:

- relied, where appropriate, on work carried out by Mazars as auditors of the Lincolnshire Pension Fund;
- updated our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated and evaluate the design of the associated controls;
- evaluated the instructions issued to the management expert (actuary) for this estimate and the scope of the actuary's work;
- assessed the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation;
- assessed the accuracy and completeness of the information provided by the Authority to the actuary, through the Pension Fund, to estimate the liability;
- tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary;
- undertaken procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report; and documented and evaluated the controls surrounding the validity and accuracy of membership data;
- contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements.

Our work has identified a difference between the Actuary's assumption for the salary increase rate and the rate at which our auditor's expert states should be the salary increase rate. The Actuary have stated the rate used is 3.55%. Our expert has stated that this rate should be between CPI + (0.5 % - 2.5%) meaning at least 3.75%. We have challenged the actuary's use of this lower rate and have been provided with a reasonable explanation for this. The Actuary has included a sensitivity analysis within their report which shows that if the salary increase rate were to increase by 0.2%, the increase in the net liability would equate to approximately £990k. We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic.

From our initial testing, we had not identified any material issues in respect of the pension fund net liability.

The latest triennial valuation for Lincolnshire Pension Fund was published at the end of March 2023, prior to the completion of our audit. This valuation, which is at 31 March 2022, provides updated information for the net pension liability on the Council's balance sheet, particularly in respect of membership data and demographic assumptions. As a result, we requested that management obtain a revised report from their actuary, detailing what impact this updated information had on its net pension liability disclosures at 31 March 2022. This revised report showed that the impact was material and so management have adjusted the financial statements accordingly. As a result, the Council's share of the pension fund's assets has decreased by £150k and its share of the pension fund's liabilities has decreased by £4,496k. These have been recorded as an adjusted misstatement in Appendix B.

Additional audit work has been required in respect of this issue, including obtaining assurance in respect of updated membership data from Mazars, considering the reasonableness of revised assumptions and estimates and checking the accuracy of management's adjustments to the financial statements where no issues have been identified.

We have also considered the key judgements and estimates in relation to the pension fund liability. Our findings can be found on page 14.

2. Financial Statements – Key findings arising from the group audit

Component	Component auditor	Findings	Group audit impact
Leisure SK Limited	Duncan & Toplis Ltd	An unqualified audit opinion of Leisure SK Limited was issued by Duncan & Toplis Ltd on 20 December 2022. No significant issues were identified.	N/A
Gravitas Ltd	None Specific procedures performed by GT	We have focussed our testing on the Assets Held for Sale balance within the Gravitas Ltd financial statements, given that this is the only material figure to the group, at £1,298k at 31 March 2022. From testing performed, we challenged management on the classification of these assets as Assets Held for Sale in the group's balance sheet, as we were of the view that they should have been treated as Inventory. Management have agreed to amend the financial statements to reclassify these assets in the appropriate manner.	The group financial statements have been adjusted in 2021/22, and through a prior period adjustment within the 2020/21 comparators, to reflect the assets, and the transactions related to the asset sales, as Inventory. This is included at Appendix B as an adjusted misstatement.

2. Financial Statements – key judgements and estimates

This section provides commentary on key estimates and judgements inline with the enhanced requirements for auditors.

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Land, Building and Council Dwelling valuations – £372.71m	<p>Other land and buildings comprises £42.618m of specialised assets, which are required to be valued at depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent asset necessary to deliver the same service provision. £23.847m are not specialised in nature and are required to be valued at existing use in value (EUUV) at year end. The remainder of other land and buildings (£2.586m) are either additions in year or held at depreciated historic cost and therefore not subject to revaluation in 2021/22. The Council has engaged the Valuation Office Agency to complete the valuation of properties as at 31st March 2022 on a cyclical basis. 96% of assets were revalued during 2021/22, either by desktop review or formal valuation as part of the Council's rolling 5 year cycle.</p> <p>The total year end valuation of land and buildings was £68.747m, a net decrease of £1.080m from 2020/21 (£69.827m).</p> <p>The Council owns 5,915 dwellings and is required to revalue these properties in accordance with DCLG's Stock Valuation for Resource Accounting guidance. The guidance requires the use of beacon methodology, in which a detailed valuation of representative property types is then applied to similar properties. The Council has engaged the Valuation Office Agency to complete the valuation of these properties.</p> <p>The year end valuation of Council Housing was £303.963m, a net increase of £37.617mm from 2020/21 (£266.346m).</p>	<p>We have:</p> <ul style="list-style-type: none"> evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to the valuation expert and the scope of their work. This provided us with assurance over the completeness and accuracy of the underlying information used to determine the estimate evaluated the competence, capabilities and objectivity of the valuation expert written to the valuer to confirm the basis on which the valuations were carried out tested on a sample basis revaluations of the Council's land and buildings during the year to ensure they have been input correctly into the Council's asset register and financial statements considered the appropriateness of the source data and key assumptions including comparable rental income and yields for the properties. <p>Our findings include:</p> <ul style="list-style-type: none"> We identified some discrepancies between the floor sizes per the plans and those provided to the valuer, which resulted in differences in the actual valuations. For OLB assets, we have identified that the valuation of assets has been overstated by £993k which had been agreed to be adjusted within the financial statements. We received the revised calculations for these assets and are satisfied that appropriate adjustments had been applied to the financial statements – these have been reported in Appendix B under the adjusted misstatements. For other assets within OLB, we have noted some smaller errors, where we estimate that the valuations are overstated by £396k. For Council Dwellings, we have noted an error to a beacon, where the valuations are understated by £135k. Therefore, in combination, we estimate that the PPE note is still overstated by £261k – this is not material and has been reported as an unadjusted misstatement in Appendix B. <p>We have satisfied ourselves in respect of the reasonableness of:</p> <ul style="list-style-type: none"> the Council's valuations of land and buildings of the increase in the estimate the adequacy of the disclosure of estimate in the financial statements 	<p>We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic</p>

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Investment Property Valuation - £4.950m	<p>Council has engaged the Valuation Office Agency to complete the valuation of properties as at 31st March 2022. Investment Properties must be included in the balance sheet at fair value (the price that would be received in an orderly transaction between the market participant at the measurement date).</p> <p>All investment property assets were revalued during 2021/22.</p> <p>The total year end valuation of investment property was £4.950m, a net decrease of £0.248m from 2020/21 (£5.198m).</p>	<p>We have:</p> <ul style="list-style-type: none"> evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to the valuation expert and the scope of their work. This provided us with assurance over the completeness and accuracy of the underlying information used to determine the estimate evaluated the competence, capabilities and objectivity of the valuation expert written to the valuer to confirm the basis on which the valuations were carried out tested on a sample basis revaluations of the Council's investment properties during the year to ensure they have been input correctly into the Council's asset register and financial statements considered the appropriateness of the source date and key assumptions including comparable rental income and yields for the properties. <p>From our testing of Investment Properties, we have identified a small number of errors relating to the differences in source data. Both errors cumulatively show that the valuation of investment properties is understated by £187k – this is not material and has been reported as an unadjusted misstatement in Appendix B.</p> <p>We have satisfied ourselves in respect of the reasonableness of:</p> <ul style="list-style-type: none"> the Council's valuations of investment properties of the decrease in the estimate the adequacy of the disclosure of estimate in the financial statements 	<p>We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious.</p>
Provisions – NNDR Appeals Provision – £2.084m.	<p>The Council is responsible for repaying a proportion of successful rateable value appeals. Management use historic data relating to appeal success rates and the latest information about outstanding rates appeals provided by the Valuation Office Agency (VOA) to calculation the level of provision required.</p>	<p>We have not identified any issues with completeness and accuracy of the underlying information used to determine the estimate.</p> <p>Disclosure of the estimate in the financial statements is considered adequate.</p> <p>The Council has used a national estimated percentage to calculate the provision, which reflected the estimated impact of the new appeals process when it was first implemented. The Council have then adjusted this to be more specific to the Council.</p> <p>Management have not provided us with any supporting evidence for the adjustment that was made to the national average, and have also not been able to demonstrate that this approach to setting the provision has been reconsidered since its implementation to assess whether it remains the most appropriate estimate. We recommend that the Council gives this some consideration for future years, however we have considered the calculation of the provision and are satisfied that there is not a risk that this balance is materially misstated.</p>	<p>We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic</p>

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment																					
Net pension liability – £52.673m	<p>The Council's net pension liability at 31 March 2022 is £52.673m (PY £62.732m) comprising the Lincolnshire Local. The Council uses Barnett Waddingham LLP to provide actuarial valuations of the Council's assets and liabilities derived from this scheme. A full actuarial valuation is required every three years.</p> <p>The latest full actuarial valuation was completed in 2019. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £14.059m net actuarial gain during 2021/22.</p>	<p>We have:</p> <ul style="list-style-type: none"> Undertaken an assessment of management's expert Reviewed and assessed the actuary's approach taken and detailed work undertaken to confirm reasonableness of approach Used an auditors expert (PWC) to assess the actuary and assumptions made by the actuary. This led to further detailed discussions with the Pension Fund and Actuary whereby we challenged the assumptions and calculation methods applied Identified no issues with the completeness and accuracy of the underlying information used to determine the estimate Confirmed there have been no changes to the valuation method since the previous year, other than the updating of key assumptions 	<p>We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic</p>																					
		<table border="1"> <thead> <tr> <th>Assumption</th> <th>Actuary Value</th> <th>PwC range</th> <th>Assessment</th> </tr> </thead> <tbody> <tr> <td>Discount rate</td> <td>2.60%</td> <td>2.55 – 2.60%</td> <td>●</td> </tr> <tr> <td>Pension increase rate</td> <td>3.25%</td> <td>3.05 – 3.45%</td> <td>●</td> </tr> <tr> <td>Salary growth</td> <td>3.55% (CPI+0.3%)</td> <td>CPI+ 0.5 - 2.5%</td> <td>●</td> </tr> <tr> <td>Life expectancy – Males currently aged 45 / 65</td> <td>22.1 / 21.2</td> <td>21.9 – 24.4 / 20.5 – 23.1</td> <td>●</td> </tr> <tr> <td>Life expectancy – Females currently aged 45 / 65</td> <td>25.1 / 23.7</td> <td>24.9 – 26.4 / 23.4 – 25.0</td> <td>●</td> </tr> </tbody> </table> <p>As identified above, the assumption used for salary growth is considered to be optimistic and is lower than our auditors expert's range. This leads to a lower net liability. We have challenged the actuary's use of this lower rate, and have been provided with a reasonable explanation for this. The Actuary has included a sensitivity analysis within their report which shows that if the salary increase rate were to increase by 0.2%, the increase in the net liability would equate to approximately £990k.</p> <p>As highlighted on page 10, the latest triennial valuation for Lincolnshire Pension Fund was published at the end of March 2023 so we requested that management obtain a revised report from their actuary, detailing what impact this updated information had on its net pension liability disclosures at 31 March 2022. This revised report showed that the impact was material and so management have adjusted the financial statements accordingly. As a result, the Council's share of the pension fund's assets has decreased by £150k and its share of the pension fund's liabilities has decreased by £4,496k. These have been recorded as an adjusted misstatement in Appendix B.</p> <p>Overall, following the adjustment to the accounts, we have not identified any material issues with the estimate.</p>		Assumption	Actuary Value	PwC range	Assessment	Discount rate	2.60%	2.55 – 2.60%	●	Pension increase rate	3.25%	3.05 – 3.45%	●	Salary growth	3.55% (CPI+0.3%)	CPI+ 0.5 - 2.5%	●	Life expectancy – Males currently aged 45 / 65	22.1 / 21.2	21.9 – 24.4 / 20.5 – 23.1	●	Life expectancy – Females currently aged 45 / 65
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2. Financial Statements - other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

Issue	Commentary
Matters in relation to fraud	We have previously discussed the risk of fraud with the Governance and Audit Committee. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.
Matters in relation to related parties	We have raised a recommendation in relation to the Council's process for identifying related parties – this is shown within Appendix A.
Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
Written representations	A letter of representation has been requested from the Council, including representations for the Group. This also includes representations in relation to three material prior period errors in relation to the Group's inventories balance, financial instruments and operating lease's disclosure notes.
Confirmation requests from third parties	We requested from management permission to send a confirmation request to your bank. This permission was granted and the requests were sent and the appropriate confirmation was obtained.
Accounting practices	We have evaluated the appropriateness of the Council's accounting policies, accounting estimates and financial statement disclosures. Our review found no material omissions in the financial statements.
Audit evidence and explanations/ significant difficulties	As set out earlier in this report, we have encountered significant difficulties and delays with receiving responses and sufficient supporting evidence from the Council's external valuation expert. Although we have now received sufficient responses, this has caused delays in us issuing our audit opinion.

2. Financial Statements - other communication requirements



Our responsibility

As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern” (ISA (UK) 570).

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Issue	Commentary
Going concern	<p>In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies.</p> <p>Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities:</p> <ul style="list-style-type: none"> the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the entity's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entities for many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting. Our consideration of the Council's financial sustainability is addressed by our value for money work, which is covered elsewhere in this report. <p>Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the Council meets this criteria, and so we have applied the continued provision of service approach. In doing so, we have considered and evaluated:</p> <ul style="list-style-type: none"> the nature of the Council and the environment in which it operates the Council's financial reporting framework the Council's system of internal control for identifying events or conditions relevant to going concern management's going concern assessment. <p>On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that:</p> <ul style="list-style-type: none"> a material uncertainty related to going concern has not been identified management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

2. Financial Statements - other responsibilities under the Code

Issue	Commentary
Other information	<p>We are required to give an opinion on whether the other information published together with the audited financial statements including the Annual Governance Statement and Narrative Report, is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p> <p>Our review of Other Information is complete, and no material inconsistencies have been identified. We plan to issue an unmodified opinion in this respect.</p>
Matters on which we report by exception	<p>We are required to report on a number of matters by exception in a number of areas:</p> <ul style="list-style-type: none"> • if the Annual Governance Statement does not comply with disclosure requirements set out in CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit, • if we have applied any of our statutory powers or duties. • where we are not satisfied in respect of arrangements to secure value for money and have reported [a] significant weakness/es. <p>We have nothing to report on these matters.</p>
Specified procedures for Whole of Government Accounts	<p>We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions.</p> <p>Note that work is not required as the Council does not exceed the reporting threshold.</p>
Certification of the closure of the audit	<p>We intend to delay the certification of the closure of the 2021/22 audit of South Kesteven District Council in the audit report, as our work on VFM is still to be completed.</p>



3. Value for Money arrangements

Approach to Value for Money work for 2021/22

The National Audit Office issued its guidance for auditors in April 2020. The Code require auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under the three specified reporting criteria.



Improving economy, efficiency and effectiveness

Arrangements for improving the way the body delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.



Financial Sustainability

Arrangements for ensuring the body can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years)



Governance

Arrangements for ensuring that the body makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the body makes decisions based on appropriate information

20 Potential types of recommendations

A range of different recommendations could be made following the completion of work on the body's arrangements to secure economy, efficiency and effectiveness in its use of resources, which are as follows:



Statutory recommendation

Written recommendations to the body under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the body to discuss and respond publicly to the report.



Key recommendation

The Code of Audit Practice requires that where auditors identify significant weaknesses in arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the body. We have defined these recommendations as 'key recommendations'.



Improvement recommendation

These recommendations, if implemented should improve the arrangements in place at the body, but are not made as a result of identifying significant weaknesses in the body's arrangements

We have not yet completed all of our VFM work and so are not in a position to issue our Auditor's Annual Report. An audit letter explaining the reasons for the delay has been shared with management and the Chair of the Governance and Audit Committee. We expect to issue our Auditor's Annual Report by March 2023. This is in line with the National Audit Office's revised deadline, which requires the Auditor's Annual Report to be issued no more than three months after the date of the opinion on the financial statements.

As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. We have not identified any such risks to date.

4. Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Audit and non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The following non-audit services were identified which were charged from the beginning of the financial year to September 2023, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

Service	2020/21 Fees £	2021/22 Fees £	2022/23 Fees £	Threats identified	Safeguards
Audit related					
Pooling of Capital Receipts	3,500	6,000	TBC	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is low in comparison to the total fee for the audit and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
Certification of Housing Benefit Claim	9,750	12,000	30,000	Self review (because GT provides audit services)	
CFO Insights Subscription	3,950	3,950	N/A	Management (because findings are shared with management)	To mitigate against the self review threat, the timing of certification work is done after the audit has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants.
There were no non-audit related services					

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix C.

Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see [Transparency report 2020 \(grantthornton.co.uk\)](https://www.grantthornton.co.uk/transparency-report-2020)

Appendices

A. Action plan – Audit of Financial Statements

Controls

- High – Significant effect on financial statements
- Medium – Limited Effect on financial statements
- Low – Best practice

Our work is ongoing, however to date, we have identified 7 recommendations for the group as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2021/22 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
High	<p>Super-user access to the ledger</p> <p>We have noted that there are 5 posters of journals who have super-user access. This access allows the individuals to create new users or to alter existing roles. From our testing, we have not identified any instances of management override of control, however we would not expect any members of the finance team who post journals to have this level of access. This is as there is the risk that new users could be created, who could then post inappropriate journals to the ledger.</p>	<p>The Council should review which individuals have super-user access to the ledger and ensure that this is not held by anyone within the finance team who can post journals.</p> <p>Management response A review will be undertaken to reduce the number of superusers.</p>
Medium	<p>Lack of journals authorisations</p> <p>From our review of the journals control environment, we have identified that there are no formal journals authorisation process in place for the posting of transactions onto the ledger. We would expect for each journal to be reviewed by someone in a senior position to the poster to ensure that this has been appropriately authorised. Although journals are reviewed in totality as part of the Council's monthly budget monitoring, there is the risk journals could be inappropriately input onto the ledger.</p>	<p>The Council should introduce controls to ensure that each journal posted to the ledger is appropriately authorised by someone more senior to the poster.</p> <p>Management response A monthly report will be produced to review the journals that have been posted.</p>
Medium	<p>Valuation of Heritage Assets</p> <p>The Council received a new Heritage Asset in 2021/22 which has been included within the balance sheet at £0.3m, based on the value provided by the donor. The Council does not have any evidence to support the valuation of this asset.</p> <p>Within the Council's accounting policies, it states 'where no market exists or the assets is deemed to be unique, and it is not practical to obtain a valuation, the asset is not recognised in the Balance Sheet but disclosed in the notes to the accounts'. This accounting policy has not been consistently applied.</p>	<p>The Council should obtain a proper valuation for this asset and where this is not possible, the item should be removed from its balance sheet, so that it is consistently applying its accounting policy.</p> <p>Management response The Council will review whether it is possible for a formal valuation to be completed for this asset and if this is not available the accounting treatment will be reviewed to ensure it is consistent with the accounting policy for Heritage Assets.</p>

A. Action plan – Audit of Financial Statements

Controls

- High – Significant effect on financial statements
- Medium – Limited Effect on financial statements
- Low – Best practice

Assessment	Issue and risk	Recommendations
Medium	<p>Completeness of declaration of interests</p> <p>Our testing of related parties via a search of Companies House identified numerous interests and directorships of senior management and councillors that were not declared or disclosed. Although we are satisfied that no transactions took place with the Council, incomplete declarations of interest lead to the risk that the Council does not understand its related parties.</p>	<p>We recommend that at least once per year, the Council should undertake a completeness review of related parties including:</p> <ul style="list-style-type: none"> • Ensuring all disclosure returns are received from senior management and councillors, including nil declarations and from those that leave their role during the year. • Undertaking searches on Companies House to identify any undeclared directorships. <p>Management response</p> <p>Management undertake every effort to ensure all declarations are received. For 2022/23 a search has been undertaken on Companies House to identify any undeclared directorships.</p>
Medium	<p>Service organisation assurance</p> <p>The Council (via the payroll service outsourced to North Kesteven District Council) uses iTrent as a service organisation for its HR and payroll software and has not obtained a service auditor report for these services for 2021/22. We understand that iTrent are requesting a fee for this report. The Council should ensure that it has appropriate checks and controls in place to have assurance over these transactions.</p> <p>We are satisfied that this would not lead to a material issue in the financial statements.</p>	<p>The Council should ensure that it has appropriate procedures in place to gain assurance that the iTrent systems are working effectively.</p> <p>Management response</p> <p>The Council seeks to ensure that it receives assurance from its supplier of payroll software services are working effectively and is in discussion with the supplier accordingly.</p>
Low	<p>Depreciation policy</p> <p>We have identified that the Council has several assets within its asset register which are held at a nil net book value. The gross book value of these assets is £6.3m and whilst there is no impact on the balance sheet, this does increase the gross book value and accumulated depreciation in note 19.</p> <p>From the work that we have performed we have assurance that these assets are not materially misstating the financial statements. However, a significant balance of assets being held at nil net book value may indicate that these assets were depreciated prematurely.</p>	<p>The Council should consider whether its depreciation policy remains appropriate.</p> <p>Management response</p> <p>The Council will review the assets held at nil value to determine whether the depreciation policy needs amending. This review will be undertaken before the closure of the 2022/23 accounts.</p>
Low	<p>Presentation of the Earmarked Reserves note</p> <p>From our review of the accounts, we have noted movements in the Earmarked Reserves note that we would not expect to be presented within this disclosure. Although the requirements from the Code are technically met within Note 34 of the financial statements, this is not to the level of detail that we would expect to see.</p>	<p>The Council should review the presentation of the Earmarked Reserves note to ensure that it is in sufficient detail to provide information to users of the accounts.</p> <p>Management response</p> <p>The Council will review this note for the 2022/23 accounts.</p>

B. Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2022.

Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £' 000	Impact on total net expenditure £'000
<p>Gravitas Ltd As per page 11, the Group accounts incorrectly record assets as Assets Held for Sale however we consider that the assets should be recorded as Inventories. A prior period adjustment for the 2020/21 figure would also be required for £2,574k, and the presentation in the CIES has also changed.</p>		Debit Inventories 1,298 Credit Assets Held for Sale 1,298	None
<p>Note 5 – Prior Period Adjustment Accounting standards state that a prior period adjustment (PPA) should only be made if the figure is materially misstated. The Council have made a PPA relating to revaluation gains to the value of £892k. This figure is not material so the Council have agreed to reverse this out the note has been removed.</p>			Note – this has no impact on the Balance Sheet given that this is simply presenting the impact on the CIES in 2021/22 rather than 2020/21.
<p>Pension Liability The latest triennial valuation for Lincolnshire Pension Fund has recently been published. This valuation, which is at 31 March 2022, provides updated information for the net pension liability on the Council's balance sheet, particularly in respect of membership data and demographic assumptions. As a result, the Council's share of the pension fund's assets has decreased by £150k and its share of the pension fund's liabilities has decreased by £4,496k.</p>	Credit - Remeasurement of Defined Pension Liability 4,347	Debit – Pension Liability 4,347	Increase by 4,347
<p>OLB revaluations From our testing of the source data, we identified that the incorrect floor sizes had been used in the valuers' calculations, compared to the floorplans. The Council have had 6 items revalued which has resulted in a downwards revaluation of £993k that has been processed in the ledger.</p>	Debit - Revaluation of non-current assets 993	Credit PPE 993	Decrease by 993
Overall impact	3,353	3,353	Increase by 3,353

B. Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Disclosure omission	Auditor recommendations	Adjusted?
Note 1 – Accounting standards that have been issued but not yet adopted	We have requested some minor amendments to the note to provide more clarity to users of the accounts.	✓
Note 2 – Critical judgements in applying accounting policies	The Council had disclosed critical judgements in the draft financial statements that we did not consider the definition as set out in the accounting standards. Management have agreed to amend this note.	✓
Note 3 – Assumptions made about the future and other major sources of uncertainty	From our review of the accounts, we do not believe this disclosure is fully compliant with the accounting standard. The narrative should refer to specific estimates/assumptions used, and how any changes may have a material impact on the figures within the financial statements. The Council has not amended.	X
Note 4 – Events after the reporting period	As mentioned on page 10, as a result of the 2022 triennial pension valuation, the Council has updated their accounts due to the material events after the reporting period. Note 4 has also been updated accordingly to document the reason for the movements.	✓
Note 13 – Officer Remuneration	From our testing, we have identified that the Council had omitted the disclosure of a member of staff who was paid within the £50,000-54,999 banding. The disclosure has been agreed to be updated by management to reflect 5 individuals in total for this banding rather than the previous 4.	✓
Note 13 – Officer Remuneration	The Council has identified that the remuneration figure for the Chief Executive was incorrect for 2021/22, which has now been updated to £195k.	✓
Note 18 - Transfers to/from Earmarked Reserves	The Council has incorrectly disclosed the 'Amounts set aside to provide for future expenditure' general fund surplus figure as £4,587k, whereas in their working papers, it has been correctly disclosed as £3,268k. This has been agreed to be updated by management.	✓
Note 19 – Property, Plant and Equipment	A disclosure had been made in relation to the impairment loss of an asset of £3.472m. The Council accepts that this relates to a downwards revaluation rather than an impairment and have agreed to remove this disclosure from the note.	✓

B. Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Disclosure omission	Auditor recommendations	Adjusted?
Note 22 – Investment Properties	Within Note 22, there is a line which states ‘Additions – Purchases’ for £247k. From our testing, it was established that this was a transfer from assets under construction, rather than an addition. We have requested for the Council to update the wording for consistency within the accounts.	✓
Note 24 – Financial Instruments	We have identified a significant number of amendments to the note to ensure that the Council is disclosing the correct figures for financial assets/liabilities. The Council had identified that the Long-term Debtors figure was incorrectly stated as £0.877m in which does not agree to Balance Sheet figure of £0.48m. This was due to a loan with Gravitas being reclassified post-year end however this was not updated within the Financial Instruments disclosure note. The Council has agreed to amend this note.	✓
Note 31 - Operating Leases	The Council has incorrectly disclosed the future minimum lease payments with regards to one of its operating leases. The Council have also identified another lease which has been omitted from their register for many years, which also requires a prior period adjustment to their operating leases note as this would impact the prior year comparator figures for 2020/21. The correct disclosure for 2021/22 should read ‘No later than one year’ £685k, ‘Between 1 and 5 years’ £1,965k, ‘Later than 5 years’ £3,717k and Total £6,363k. A total difference of £1,863k. This has been agreed to be updated by management.	✓
Note 31 - Finance Leases	Within the disclosure relating to the Council’s finance leases as a lessor, the figures had not been updated from those within the prior year. These have now been correctly updated within the disclosure note.	✓
Note 33 - Pensions Liability	The Council has disclosed that the ‘Rate of increase in salaries’ is 2.6% in 2021/22, however this did not agree to the actuary report which stated that this is 3.6%. This has been agreed to be updated by management.	✓
Group Accounts – Movement in Reserves Statement	From our review of the group MIRS, we have noted that the statement is not fully compliant with the Code. We have reperformed the compilation of the statement from the underlying records and are satisfied that this is not materially misstated, however the statement should be updated to meet all requirements of the Code. The Council has not amended.	✗
Accounting Policies	From our testing, we have identified that a full year’s depreciation is charged in the year an asset is acquired, and none in the year of its disposal – this is not disclosed within their accounting policy in note XVI, which should be updated to reflect this. This has been agreed to be updated by management.	✓

B. Audit Adjustments

Impact of unadjusted misstatements

The table below provides details of adjustments identified to date during the 2021/22 audit which have not been made within the final set of financial statements. The Governance and Audit Committee is required to approve management's proposed treatment of all items recorded within the table below.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
Prepayments				
The Council made a housing benefits payment in March 2022, which was deferred into 2022/23 by recognising this as a prepayment. The Council's rationale for this treatment is that it follows the requirements of the housing benefits subsidy grant.	Credit – Expenditure (71)	Credit – Prepayments (666)	No impact	Not considered material
While we agree that the treatment is correct for subsidy purposes, the Council's financial statements should be prepared on an accruals basis, recognising expenditure in the year to which it relates. In this case, the payment related to the 4 week period beginning 7 March 2022, meaning that 25 of the 28 days that the expenditure related to were in 2021/22.	Debit – Income 71	Debit – Debtors 666		
It is our view that the correct treatment would have been to recognise this expenditure in 2021/22 (with a possible adjustment for the last 3 days if it were not de minimis). The Council should also have accrued for the amount of subsidy grant that they expect to receive in relation to this payment in order to offset the impact on the cost of services and the general fund.				
The same prepayment was made in the 2020/21 accounts, with a value of £737k, reducing the in-year impact on the Council's CIES.				
Council Dwellings				
From our testing of Council Dwelling beacons, we identified that the incorrect value has been applied to a beacon, which shows that dwellings were undervalued by £135k	Credit – Revaluation of non-current assets 135	Debit – PPE 135	Increase by 135	Not considered material
Investment Properties				
Whilst testing the source data used in the valuations of Investment Properties, we had noted that the floor areas provided to the valuer were different to the floorplans held by the Council, which shows that the assets were understated by £187k	Credit – Income & Expenditure and Movement in Fair Value of Investment Property 187	Debit – Investment Properties 187	Increase by 187	Not considered material

Continued on page 27.

B. Audit Adjustments

Impact of unadjusted misstatements

The table below provides details of adjustments identified to date during the 2021/22 audit which have not been made within the final set of financial statements. The Governance and Audit Committee is required to approve management's proposed treatment of all items recorded within the table below.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
<p>Other Land and Building (OLB) revaluations</p> <p>From our testing of the source data, we identified that the incorrect floor sizes had been used in the valuers' calculations, compared to the floorplans. From the testing of 6 key items, we have identified that OLB is overstated by £87,820.</p> <p>From our testing on the residual sample, we have identified errors where we estimate that OLB is overstated by £308,984.</p> <p>In total, we estimate that OLB is overstated by £396,264 in addition to the adjusted misstatements on page 23.</p>	Debit - Revaluation of non-current assets 396	Credit PPE 396	Decrease by 396	Not considered material
Overall impact	Debit 74	Credit 74	Decrease by 74	

B. Audit Adjustments

Impact of prior year unadjusted misstatements

The table below provides details of adjustments identified during the prior year audit which had not been made within the final set of 2020/21 financial statements

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
The Council have recognised the full cost of the annual insurance policies in the year instead of spreading the cost equally across the period the policy covers	(79)	79	(79)	Officers believe this approach is in line with common Local Government practise. The value of the misstatement was immaterial.
Overall impact	(79)	79	(79)	

C. Fees

We confirm below our final fees charged for the audit

Audit fees	Actual Fee 2020/21	Proposed fee 2021/22	Final fee 2021/22
Council Audit	£65,400	£66,750	£99,500
Total audit fees (excluding VAT)	£65,400	£66,750	£99,500

31

Fees per the draft financial statements in note 40 is £38k. These have been agreed to be amended by management to correctly reflect the proposed audit fee of £99.5k. See our detailed analysis of the audit fee on the following page – this has been agreed with the S151 officer.

Non-audit fees for other services	Actual Fee 2020/21	Proposed fee 2021/22
Audit Related Services:		
Pooling of Capital Receipts	£3,500	£6,000
Certification of Housing Benefit Claim	£9,750	£12,000
CFO Insights	£3,950	£3,950
Total non-audit fees (excluding VAT)	£17,200	£21,950

C. Audit fees – detailed analysis

Scale fee published by PSAA 2019	£38,400
Increased FRC challenge	£3,125
Additional work on Value for Money (VfM) under new NAO Code	£9,000
Increased audit requirements of revised ISAs 540 / 240 / 700	£2,100
Enhanced audit procedures on journals testing (not included in the Scale Fee)	£3,000
Enhanced audit procedures on valuations testing (not included in the Scale Fee)	£1,188
Enhanced audit procedures on the pension liability testing (not included in the Scale Fee)	£1,188
Additional work around the issues found within the Group accounts	£8,500
<i>Specific issues within the 2021/22 audit</i>	
Issues and amendments relating to OLB property valuations	£11,500
Issues and amendments relating to Council Dwelling property valuations	£5,750
Additional work around the 2022 triennial actuarial valuations	£6,000
Other issues	£9,750
Total proposed audit fees 2022/23 (excluding VAT)	£99,500

All variations to the scale fee will need to be approved by PSAA

D. Management Letter of Representation

Grant Thornton UK LLP
17th Floor
103 Colmore Row
Birmingham
B3 3AG

Dear Sirs

South Kesteven District Council
Financial Statements for the year ended 31 March 2022

This representation letter is provided in connection with the audit of the financial statements of South Kesteven District Council and its subsidiary undertakings, Gravitas Housing Ltd and LeisureSK Ltd for the year ended 31 March 2022 for the purpose of expressing an opinion as to whether the group and Council financial statements are presented fairly, in all material respects in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 and applicable law.

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Financial Statements

- i. We have fulfilled our responsibilities for the preparation of the group and Council's financial statements in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 ("the Code"); in particular the financial statements are fairly presented in accordance therewith.
- ii. We have complied with the requirements of all statutory directions affecting the group and Council and these matters have been appropriately reflected and disclosed in the financial statements.
- iii. The Council has complied with all aspects of contractual agreements that could have a material effect on the group and Council financial statements in the event of non-compliance. There has been no non-compliance with requirements of any regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.
- iv. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.
- v. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable. Such accounting estimates include Revaluation of Council Dwelling, Other Land and Buildings, Investment Properties and the Net Pension Liability. We are satisfied that the material judgements used in the preparation of the financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements. We understand our responsibilities includes identifying and considering alternative methods, assumptions or source data that would be equally valid under the financial reporting framework, and why these alternatives were rejected in favour of the estimate used. We are satisfied that the methods, the data and the significant assumptions used by us in making accounting estimates and their related disclosures are appropriate to achieve recognition, measurement or disclosure that is reasonable in accordance with the Code and adequately disclosed in the financial statements.
- vi. We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme assets and liabilities for IAS19 Employee Benefits disclosures are consistent with our knowledge. We confirm that all settlements and curtailments have been identified and properly accounted for. We also confirm that all significant post-employment benefits have been identified and properly accounted for.

vii. Except as disclosed in the group and Council financial statements:

- a. there are no unrecorded liabilities, actual or contingent
- b. none of the assets of the Group and Council has been assigned, pledged or mortgaged
- c. there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.

viii. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the Code.

ix. All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the Code require adjustment or disclosure have been adjusted or disclosed.

x. We have considered the adjusted misstatements, and misclassification and disclosures changes schedules included in your Audit Findings Report. The group and Council financial statements have been amended for these misstatements, misclassifications and disclosure changes and are free of material misstatements, including omissions.

xi. We have considered the unadjusted misstatements schedule included in your Audit Findings Report. We have not adjusted the financial statements for these misstatements brought to our attention as they are immaterial to the results of the Council and its financial position at the year-end. The financial statements are free of material misstatements, including omissions.

xii. Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.

xiii. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

xiv. The three prior period adjustments disclosed in the financial statements in relation the Group inventories balance, financial instruments and operating leases disclosure note are accurate and complete. There are no other prior period errors to bring to your attention.

xv. We have updated our going concern assessment. We continue to believe that the group and Council's financial statements should be prepared on a going concern basis and have not identified any material uncertainties related to going concern on the grounds that :

a. the nature of the group and Council means that, notwithstanding any intention to cease the group and Council operations in their current form, it will continue to be appropriate to adopt the going concern basis of accounting because, in such an event, services it performs can be expected to continue to be delivered by related public authorities and preparing the financial statements on a going concern basis will still provide a faithful representation of the items in the financial statements

b. the financial reporting framework permits the entry to prepare its financial statements on the basis of the presumption set out under a) above; and

c. the group and Council's system of internal control has not identified any events or conditions relevant to going concern.

We believe that no further disclosures relating to the group and Council's ability to continue as a going concern need to be made in the financial statements

D. Management Letter of Representation

xvi. We have considered whether accounting transactions have complied with the requirements of the Local Government Housing Act 1989 in respect of the Housing Revenue Account ring-fence.

xvii. The group and Council has complied with all aspects of ring-fenced grants that could have a material effect on the group and Council's financial statements in the event of non-compliance.

Information Provided

xviii. We have provided you with:

- a. access to all information of which we are aware that is relevant to the preparation of the group and Council's financial statements such as records, documentation and other matters;
- b. additional information that you have requested from us for the purpose of your audit; and
- c. access to persons within the Council via remote arrangements, from whom you determined it necessary to obtain audit evidence.

xix. We have communicated to you all deficiencies in internal control of which management is aware.

xx. All transactions have been recorded in the accounting records and are reflected in the financial statements.

xxi. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

xxii. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the group and Council, and involves:

- a. management;
- b. employees who have significant roles in internal control; or
- c. others where the fraud could have a material effect on the financial statements.

xxiii. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, analysts, regulators or others.

xxiv. We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

xxv. We have disclosed to you the identity of the group and Council's related parties and all the related party relationships and transactions of which we are aware.

xxvi. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

Annual Governance Statement

xxvii. We are satisfied that the Annual Governance Statement (AGS) fairly reflects the Council's risk assurance and governance framework and we confirm that we are not aware of any significant risks that are not disclosed within the AGS.

Narrative Report

xxviii. The disclosures within the Narrative Report fairly reflect our understanding of the group and Council's financial and operating performance over the period covered by the financial statements.

Approval

The approval of this letter of representation was minuted by the Council's Governance and Audit Committee at its meeting on 26 September 2023.

Yours faithfully

E. Audit opinion

Our audit opinion is included below.

We anticipate we will provide the Group with an unmodified audit report

Independent auditor's report to the members of South Kesteven District Council

Report on the Audit of the Financial Statements

Opinion on financial statements

We have audited the financial statements of South Kesteven District Council (the 'Authority') and its subsidiaries (the 'group') for the year ended 31 March 2022, which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement, the Collection Fund Account, the Group Movement in Reserves Statement, the Group Comprehensive Income and Expenditure Statement, the Group Balance Sheet and the Group 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 2021/22.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the group and of the Authority as at 31 March 2022 and of the group's expenditure and income and the Authority's expenditure and income for the year then ended;
- have been properly prepared in accordance with the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2021/22; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law, as required by the Code of Audit Practice (2020) ("the Code of Audit Practice") approved by the Comptroller and Auditor General. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the group and the Authority 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, 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 are responsible for concluding on the appropriateness of the Chief Finance Officer's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Authority or group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor's opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Authority or the group to cease to continue as a going concern.

In our evaluation of the Chief Finance Officer's conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2021/22 that the Authority and group's financial statements shall be prepared on a going concern basis, we considered the inherent risks associated with the continuation of services provided by the group and the Authority. In doing so we had regard to the guidance provided in Practice Note 10 Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2020) on the application of ISA (UK) 570 Going Concern to public sector entities. We assessed the reasonableness of the basis of preparation used by the group and Authority and the group and Authority's disclosures over the going concern period.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Authority's or the group's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the Chief Finance Officer's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

The responsibilities of the Chief Finance Officer with respect to going concern are described in the 'Responsibilities of the Authority, the Chief Finance Officer and Those Charged with Governance for the financial statements' section of this report.

Other information

The Chief Finance Officer is responsible for the other information. The other information comprises the information included in the Statement of Accounts, 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 the other information, we are required to report that fact.

We have nothing to report in this regard.

Other information we are required to report on by exception under the Code of Audit Practice

Under the Code of Audit Practice published by the National Audit Office in April 2020 on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with 'delivering good governance in Local Government Framework 2016 Edition' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

E. Audit opinion

Matters on which we are required to report by exception

Under the Code of Audit Practice, we are required to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

We have nothing to report in respect of the above matters.

Responsibilities of the Authority, the Chief Finance Officer and Those Charged with Governance for the financial statements

As explained in the Statement of Responsibilities, set out on page 1, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Chief Finance Officer. The Chief Finance Officer 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 2021/22, for being satisfied that they give a true and fair view, and for such internal control as the Chief Finance Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Chief Finance Officer is responsible for assessing the Authority's and the group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the Authority and the group will no longer be provided.

The Governance and Audit Committee is Those Charged with Governance. Those Charged with Governance are responsible for overseeing the Authority's financial reporting process.

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.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the group and Authority and determined that the most significant, which are directly relevant to specific assertions in the financial statements, are those related to the reporting frameworks (international accounting standards as interpreted and adapted by the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2021/22, the Local Audit and Accountability Act 2014, the Accounts and Audit Regulations 2015 and the Local Government Act 2003.
- We enquired of senior officers and the Governance and Audit committee concerning the group and Authority's policies and procedures relating to:
 - the identification, evaluation and compliance with laws and regulations;
 - the detection and response to the risks of fraud; and
 - the establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations.
- We enquired of senior officers, internal audit and the Governance and Audit committee, whether they were aware of any instances of non-compliance with laws and regulations or whether they had any knowledge of actual, suspected or alleged fraud.
- We assessed the susceptibility of the Authority and group's financial statements to material misstatement, including how fraud might occur, by evaluating officers' incentives and opportunities for manipulation of the financial statements. This included the evaluation of the risk of management override of controls. We determined that the principal risks were in relation to:
 - Journals
 - Management bias in significant accounting estimates
- Our audit procedures involved:
 - evaluation of the design effectiveness of controls that the Chief Finance Officer has in place to prevent and detect fraud;
 - journal entry testing, with a focus on material, post year-end and unusual journals
 - challenging assumptions and judgements made by management in its significant accounting estimates in respect of land and buildings council dwellings, investment property and defined benefit pensions liability valuations;
 - assessing the extent of compliance with the relevant laws and regulations as part of our procedures on the related financial statement item.

E. Audit opinion

- These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error and detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.

- The team communications in respect of potential non-compliance with relevant laws and regulations, including the potential for fraud in revenue and expenditure recognition, and the significant accounting estimates related to land and buildings council dwellings, investment property and defined benefit pensions liability valuations.

- Our assessment of the appropriateness of the collective competence and capabilities of the group and Authority's engagement team included consideration of the engagement team's and component auditor's:

- understanding of, and practical experience with audit engagements of a similar nature and complexity through appropriate training and participation

- knowledge of the local government sector

- understanding of the legal and regulatory requirements specific to the Authority and group including:

- the provisions of the applicable legislation

- guidance issued by CIPFA, LASAAC and SOLACE

- the applicable statutory provisions.

- In assessing the potential risks of material misstatement, we obtained an understanding of:

- the Authority and group's operations, including the nature of its income and expenditure and its services and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement.

- The Authority and group's control environment, including the policies and procedures implemented by the Authority and group to ensure compliance with the requirements of the financial reporting framework .

- For components at which audit procedures were performed, we requested component auditors to report to us instances of non-compliance with laws and regulations that gave rise to a risk of material misstatement of the group financial statements. No such matters were identified by the component auditors.

Report on other legal and regulatory requirements – the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Matter on which we are required to report by exception – the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Under the Code of Audit Practice, we are required to report to you if, in our opinion, we have not been able to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2022.

Our work on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources is not yet complete. The outcome of our work will be reported in our commentary on the Authority's arrangements in our Auditor's Annual Report. If we identify any significant weaknesses in these arrangements, these will be reported by exception in a further auditor's report. We are satisfied that this work does not have a material effect on our opinion on the financial statements for the year ended 31 March 2022.

Responsibilities of the Authority

The Authority is responsible for putting in place proper arrangements for securing 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.

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

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We undertake our review in accordance with the Code of Audit Practice, having regard to the guidance issued by the Comptroller and Auditor General in December 2021. This guidance sets out the arrangements that fall within the scope of 'proper arrangements'. When reporting on these arrangements, the Code of Audit Practice requires auditors to structure their commentary on arrangements under three specified reporting criteria:

- Financial sustainability: how the Authority plans and manages its resources to ensure it can continue to deliver its services;

- Governance: how the Authority ensures that it makes informed decisions and properly manages its risks; and

- Improving economy, efficiency and effectiveness: how the Authority uses information about its costs and performance to improve the way it manages and delivers its services.

We document our understanding of the arrangements the Authority has in place for each of these three specified reporting criteria, gathering sufficient evidence to support our risk assessment and commentary in our Auditor's Annual Report. In undertaking our work, we consider whether there is evidence to suggest that there are significant weaknesses in arrangements.

Report on other legal and regulatory requirements – Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate for South Kesteven District Council for the year ended 31 March 2022 in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have completed:

- our work on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources and issued our Auditor's Annual Report ,

- the work necessary to issue our Whole of Government Accounts (WGA) Component Assurance statement for the Authority for the year ended 31 March 2022.

We are satisfied that this work does not have a material effect on the financial statements for the year ended 31 March 2022.

Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 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 Authority's members 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 Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.





SOUTH
KESTEVEN
DISTRICT
COUNCIL



Governance and Audit Committee

26 September 2023

Report of Councillor Philip Knowles,
Cabinet Member for Corporate
Governance and Licensing

Counter Fraud Annual Report 2022/23

Report Author

Tracey Elliott, Governance & Risk Officer

 tracey.elliott@southkesteven.gov.uk

Purpose of Report

One of the key areas for Governance and Audit Committee, as part of its terms of reference, is to monitor and review the counter fraud arrangements in place and the activities that are being undertaken to mitigate those risks.

Recommendations

That the Committee approves the contents of this report including the proposed action plan for 2023/24.

Decision Information

Does the report contain any exempt or confidential information not for publication?

No

What are the relevant corporate priorities?

High performing Council

Which wards are impacted?

All

1 Implications

Taking into consideration implications relating to finance and procurement, legal and governance, risk and mitigation, health and safety, diversity and inclusion, safeguarding, staffing, community safety, mental health and wellbeing and the impact on the Council's declaration of a climate change emergency, the following implications have been identified:

Finance and Procurement

- 1.1 These are contained within the report where appropriate.

Completed by: Alison Hall-Wright, Assistant Director of Finance and Deputy S151 Officer

Legal and Governance

- 1.2 The report, including the action plan for 2023/24, are to be welcomed from a governance and legal perspective as they represent effective ways of identifying and dealing with counter fraud. Members should note the performance and scrutinise any elements to assist the role of the Governance and Audit Committee.

Completed by: Mandy Braithwaite, Legal Executive

2 Background to the Report

- 2.1 In accordance with the terms of reference of the Committee it is a requirement to produce an annual report on the counter fraud arrangements in place and the activities undertaken. The report being presented covers the financial year 2022/23 and details the various aspects of work delivered during the year. Counter fraud is fundamental to the Council's achievement of its strategic objectives.
- 2.2 The Council is committed to the highest standards of quality, probity, openness, and accountability. As part of the Committee's terms of reference, counter fraud is one of the key areas of focus being an essential element of delivering good governance. To develop and promote greater awareness, and in line with best practice, a review of the Council's counter fraud arrangements has been undertaken, culminating in this Annual Report for 2022/23. This report sets out the key outcomes from the counter fraud work delivered during the year relating to both welfare/benefit fraud and non-welfare/benefit fraud.
- 2.3 Like any organisation South Kesteven District Council is inherently vulnerable to the risk of fraud and corruption and, with reducing Government funding and the current economic position, it is vital that robust arrangements for the prevention and detection of fraud are maintained, and best use of information and knowledge is made to ensure effective fraud prevention procedures are in place.

3 Whistleblowing

3.1 Assurance Lincolnshire manages the Confidential Reporting Line on behalf of the Lincolnshire Counter Fraud Partnership and acts as a central point of contact.

3.2 An analysis of district related referrals made to the Reporting Line during 2022/23 identified that 52 referrals were received (56 in 2021/22, 63 in 2020/21).

3.3 Of the 52 district referrals received by the Confidential Reporting Line, 20 (38%) were for South Kesteven District Council. This is the same as the previous year of 20.

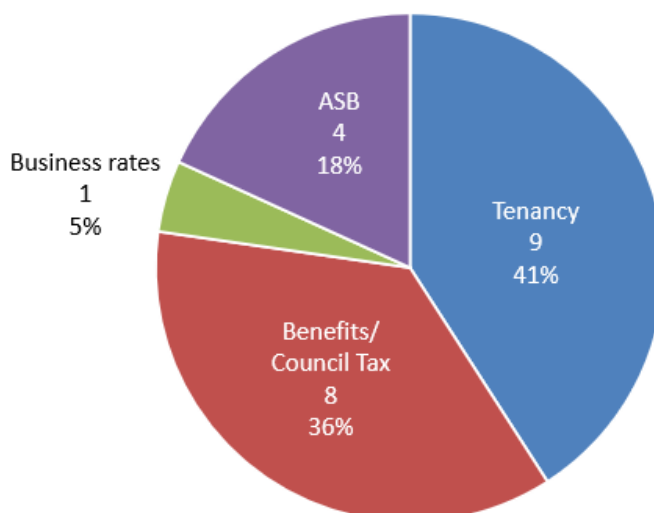
3.4 Summary of referrals by Authority:

Authority	Number 2022/23	Number 2021/22	Number 2020/21
Boston	4	2	3
City of Lincoln	22	25	20
East Lindsey	0	0	1
North Kesteven	3	3	3
South Holland	2	1	1
South Kesteven	20	20	31
West Lindsey	1	5	4
Total	52	56	63

3.5 The main type of district referrals in 2022/23 related to benefits/council tax and housing tenancy.

3.6 In addition to the 20 whistleblowing allegations to the Confidential Reporting Line, the Council received two allegations that were reported direct – these were in relation to benefits. All 22 whistleblowing allegations have been investigated and action taken where appropriate.

3.7 Breakdown by category of allegation received for South Kesteven 2022/23:



4 Fraud elearning

- 4.1 The Lincolnshire Counter Fraud Partnership had developed a bespoke elearning module but have not had the capacity to adapt this for districts. The Council is therefore now looking at alternative providers.

5 Housing Benefit and Council Tax Support Fund

- 5.1 Fraud cases are identified in numerous different ways with referrals coming from various sources. A primary channel is through joint working with the Department of Work and Pensions (DWP). The Council is currently undertaking joint working arrangements on several cases where there has been an allegation of fraud against a claimant within the district that is claiming Housing Benefit and/or Council Tax Discount. Fraud cases can also be referred from other departments within the Council. This could include, but is not limited to, the Income Recovery Team, Visiting Officers, or Housing Officers. It is also possible for referrals to come from other authorities. Whistleblowing from members of the public also plays a crucial part in combatting fraud within the Housing Benefit system. Referrals can be made online, via email and via the phone.
- 5.2 Summary of Housing Benefit Overpayments for 2022/23:

	Number of invoices raised	Amount of debt	Amount recovered*
2022/23	283	£227,305	£322,440
2021/22	313	£272,797	£340,409
2020/21	386	£329,937	£310,687

*the amount recovered includes prior year debt

6 Single Person Discount (SPD)

- 6.1 For Council tax purposes residents can apply for Single Person Discount (SPD) should they be the sole adult occupier of a property. Residents who wish to apply for SPD are asked to complete a declaration confirming that they are the only adult resident in the property and that they are eligible to claim the discount.
- 6.2 The Council's primary approach for checking SPD entitlement is to participate biennially in a county wide counter fraud review alongside all Lincolnshire authorities. The process for this includes taking a data extract from the Council Tax records of accounts in receipt of SPD. This data is then put through a screening process to identify accounts which may be claiming SPD, where they are not entitled to, highlighting accounts where contact is needed. The next review is due to take place in 2023, with discussions currently being undertaken with prospective suppliers.
- 6.3 Partnership resource is currently being reviewed which will include the consideration of the business case proposals for alternative approaches to the current bi-annual SPD bulk review. This is driven by opportunity for further reductions in the levels of Council Tax revenue, lost to fraud or error, when SPDs

are incorrectly granted or not cancelled following a change in household circumstances.

- 6.4 Under current arrangements, and with a rolling review, intelligence, and experience of other local authorities, shows that some of the SPD removals will continue to be paid, or be subsequently re-instated, following contact from claimants where it was shown they had deliberately lied, upon review, in order to maintain their discount.
- 6.5 In addition to the proposed continuous review, the business proposal will include cost/benefit analysis of further options to use a fraud referrals service to identify historic cases for revenue collection and options to pursue sanctions, including prosecution. Use of such a fraud referrals service provides all the information needed to demonstrate strong grounds to challenge those claimants who appear to have deliberately lied to maintain their discount or exemption. Local Authority information it holds about claimants is cross-matched with other data sources – highlighting anomalies (such as evidence of other adults living at the property) and pinpointing cases to be investigated further. Whilst this could increase collection rates, and sanctions would act as a future fraud deterrent, pursuing such cases does have the potential to cause reputational damage and prosecution success is not guaranteed.

7 Business Rates Relief – Retail Discount

- 7.1 At the Budget on 27 October 2021 the Chancellor announced a new business rates relief scheme for retail, hospitality, and leisure properties for 2022/23 with 50% relief, up to a cash cap of £110,000 per business. Under the cash cap, no ratepayer can in any circumstances exceed the £110,000 cash cap across all of their hereditaments in England
- 7.2 Where a ratepayer had a qualifying connection with another ratepayer then those ratepayers should be considered as one ratepayer for the purposes of the cash caps. The RHL relief scheme guidance provided local authorities with information about the intended operation and delivery of the policy. The Government anticipated that local authorities would include details of the relief to be provided to eligible ratepayers for 2022/23 in their bills for the beginning of the 2022/23 billing cycle.
- 7.3 The Government published guidance setting out the eligibility criteria for the scheme. This guidance can be found here: [Business rates guidance: 2022/23 Retail, Hospitality and Leisure Relief Scheme - GOV.UK \(www.gov.uk\)](https://www.gov.uk/guidance/business-rates-guidance-2022-23-retail-hospitality-and-leisure-relief-scheme)
- 7.4 The Council applied the relief when the annual business rates bill was raised in March 2022. Included in the bill was a letter, requesting the ratepayer to complete an online form, either opting-in or opting-out of the relief scheme – responses were required by 31 March 2022.
- 7.5 For those businesses who opted-out or did not complete the form, their relief was removed and amended bills issued from 1 May 2022.

7.6 As of 31 March 2023, the Council awarded business rates relief during 2022/23 of £3,772,287

7.7 Business Rates support has been provided for previous financial years as a result of the coronavirus pandemic:

2021/22 £8,186,370

2020/21 £20,838,703

8 Counter Fraud Action Plan 2023/24

Action	By when	Owner
<p>1) Fraud risk assessment</p> <p>Understand the fraud risks that public bodies and other organisations face and conduct a fraud risk assessment across the Council. Facilitated workshops to take place during the autumn with the output being presented in January 2024</p>	January 2024	Governance & Risk Officer and Service Areas
<p>2) Housing Benefit Investigations</p> <p>Continue to support DWP Housing Benefit investigations</p>	Ongoing	Head of Revenues, Benefits and Customer Service
<p>3) Single Person Discount Review</p> <p>Review eligibility for reliefs</p>	August 2024	Head of Revenues, Benefits and Customer Service
<p>4) Business Rates Empty Properties and Small Business Rate Review</p>	January 2024	Head of Revenues, Benefits and Customer Service
<p>5) Fraud awareness including elearning</p> <p>Continue to raise awareness amongst staff, stakeholders, and partners about the risk of fraud in all areas of the Council's business.</p>	March 2024	Governance & Risk Officer

3. Key Considerations

3.1 The Committee should monitor and review the counter fraud arrangements currently in place and the activities that are being undertaken to mitigate those risks.

4. Other Options Considered

4.1 None.

5. Reasons for the Recommendations

5.1 Governance and Audit Committee, as part of its terms of reference, 9.1 (xx) Approve the Counter Fraud, Bribery and Corruption Framework, including Whistleblowing Policy and Anti-Money Laundering Policy, should monitor and review the counter fraud arrangements currently in place and the activities that are being undertaken to mitigate those risks.

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