

# Auditor's Annual Report

West Lindsey District Council – year  
ended 31 March 2021

January 2022



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Our reports are prepared in the context of the 'Statement of responsibilities of auditors and audited bodies' issued by Public Sector Audit Appointments Ltd. Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the Council. No responsibility is accepted to any member or officer in their individual capacity or to any third party.

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# 01

## Section 01: **Introduction**

# 1. Introduction

## Purpose of the Auditor's Annual Report

Our Auditor's Annual Report (AAR) summarises the work we have undertaken as the auditor for West Lindsey District Council ('the Council') for the year ended 31 March 2021. Although this report is addressed to the Council, it is designed to be read by a wider audience including members of the public and other external stakeholders.

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



### Opinion on the financial statements

We issued our audit report on 17 November 2021. Our opinion on the financial statements was unqualified.



### Value for Money arrangements

In our audit report issued on the 17 November 2021 we reported that we had not completed our work on the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources and had not issued recommendations in relation to identified significant weaknesses in those arrangements at the time of reporting. Section 3 confirms that we have now completed this work and provides our commentary on the Council's arrangements. No significant weaknesses in arrangements were identified and there are no recommendations arising from our work.



### Wider reporting responsibilities

We have not yet received group instructions from the National Audit Office confirming their requirements in relation to the Council's Whole of Government Accounts. We are unable to issue our audit certificate until this is formally confirmed.

The 2014 Act requires us to give an elector, or any representative of the elector, the opportunity to question us about the accounting records of the Council and to consider any objection made to the accounts. We did not receive any questions or objections in respect of the Council's financial statements.

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# 02

Section 02:

**Audit of the financial statements**

# 2. Audit of the financial statements

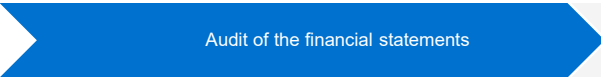
## The scope of our audit and the results of our opinion

Our audit was conducted in accordance with the requirements of the Code, and International Standards on Auditing (ISAs).

The purpose of our audit is to provide reasonable assurance to users that the financial statements are free from material error. We do this by expressing an opinion on whether the statements are prepared, in all material respects, in line with the financial reporting framework applicable to the Council and whether they give a true and fair view of the Council's financial position as at 31 March 2021 and of its financial performance for the year then ended. Our audit report, issued on 17 November 2021 gave an unqualified opinion on the financial statements for the year ended 31 March 2021.

Our Audit Completion Report 2020/21, presented to the Council's Governance and Audit Committee on the 9 November 2021, provides further details of the findings of our audit of the Council's financial statements. This includes our conclusions on the identified audit risks and areas of management judgement, internal control recommendations and audit misstatements identified during the course of the audit. There are no matters raised in our Audit Completion Report 2020/21 that we need to repeat in this report.

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# 03

Section 03:

**Commentary on VFM arrangements**

# 3. VFM arrangements – Overall summary

## Approach to Value for Money arrangements work

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

- **Financial sustainability** - How the Council plans and manages its resources to ensure it can continue to deliver its services
- **Governance** - How the Council ensures that it makes informed decisions and properly manages its risks
- **Improving economy, efficiency and effectiveness** - How the Council uses information about its costs and performance to improve the way it manages and delivers its services

At the planning stage of the audit, we undertake work so we can understand the arrangements that the Council has in place under each of the reporting criteria; as part of this work we may identify risks of significant weaknesses in those arrangements.

Where we identify significant risks, we design a programme of work (risk-based procedures) to enable us to decide whether there is a significant weakness in arrangements. Although we describe this work as planning work, we keep our understanding of arrangements under review and update our risk assessment throughout the audit to reflect emerging issues that may suggest there are further risks of significant weaknesses.

Where our risk-based procedures identify actual significant weaknesses in arrangements, we are required to report these and make recommendations for improvement.

The table below summarises the outcomes of our work against each reporting criteria. We did not identify any risks of significant weakness, or actual significant weakness, in the Council’s arrangements. On the following pages we outline further detail of the work we have undertaken against each reporting criteria, including the judgements we have applied.

Reporting criteria	Commentary page reference	Risks of significant weaknesses in arrangements identified?	Actual significant weaknesses in arrangements identified?
Financial sustainability	9	No	No
Governance	11	No	No
Improving economy, efficiency and effectiveness	14	No	No



# 3. VFM arrangements – Financial Sustainability

## Overall commentary on the Financial Sustainability reporting criteria

### Background to the Council’s operating environment in 2020/21

The Council entered 2020/21 at the start of the national lockdown, and faced a significant operational impact from the effects of the pandemic. In response to the Covid-19 pandemic, central government made a series of policy announcements, a number of which have impacted on local authorities such as West Lindsey. During the 2020/21 year the Council dealt with a wide range of issues to support local residents and businesses.

Some of the Government’s initiatives in response to the Covid-19 pandemic have been backed by additional funding, and the Council received a range of government grants during 2020/21 to either support local businesses/individuals or meet the Council’s own costs. The Council received around £1.5m of Covid-19 Response funding to cover the Council’s extra costs. The Council also received around £0.4m relating to the income compensation scheme for the sales, fees and charges income lost during the lockdown periods.

### 2020/21 Financial statement performance

We have carried out a high level analysis of the audited financial statements, including the Comprehensive Income and Expenditure Statement, the Balance Sheet and Movement in Reserves Statement.

The Council’s financial position as reported in the balance sheet does not give us cause for concern relating to financial stability. Net current assets have increased from £1.7m to £4.2m, with cash and cash equivalents increasing by £3.1m. Short term creditors have increased from £5.5m to £12.4m, which as at other councils this year is largely due to deferred Covid-19 government grants.

The most significant change in the balance sheet relates to movements in the Council’s share of the pension fund net liability (being a deficit position) of £47.4m, up from £37.8m in the prior year. It is not unusual to see material movements in the net pension liability and this is consistent with our experience at other local authorities. The deficit position is not unusual and is a recognised area of financial challenge for local authorities.

The Council’s useable reserves have increased from £24.0m to £29.1m in 2020/21, with:

- General Fund and Earmarked Reserves of £25.5m, up from £20.0 in 2019/20; and
- Capital Receipts and Grants Reserves of £3.6m, a little lower than the £4.0m in 2019/20.

These reserves provide some mitigation against future financial challenges, and include specific reserves (Budget Smoothing Reserve £4.1m, Contingencies Reserve £1.9m and Investment for Growth Fund Reserve £6.3m) to address future volatility and support investment plans. The Council will need to continue to ensure that any use of reserves to smooth the financial position over the next few years is properly planned and the use of reserves cannot be relied on to provide a long term solution to funding gaps. Notwithstanding this, our work has not highlighted a risk of significant weakness in the Council’s arrangements for ensuring financial sustainability.

### Financial planning and monitoring arrangements

In March 2020 the Council set a balanced General Fund budget for the 2020/21 financial year. During the year the Council reported its financial position through the quarterly financial performance reports, and carried out a thorough mid-year review before agreeing the revised budget in November 2020. We reviewed a sample of reports presented for 2020/21, which contain detail on any significant variances to budget and an update on performance against savings targets. The reports also contain information on progress against the approved capital programme and reasons for over or underspends against the budget profile to provide adequate scrutiny and oversight.

The Council reported the final revenue outturn position for the 2020/21 year as a surplus of £1.4m, after approved £1.4m for carried forward budgets. The main savings were in relation to staff (£234k) and lower than expected provision for housing benefits bad debts (£237k), and an additional £111k support through the Cultural Recovery Fund. We have considered the arrangements in place in respect of budget management as part of the Governance criteria on page 11 and not identified any significant weaknesses.

# 3. VFM arrangements – Financial Sustainability

## Overall commentary on the Financial Sustainability reporting criteria (continued)

### Arrangements for the identification, management and monitoring of funding gaps and savings

The Medium Term Financial Plan (MTFP) is a current plus four year plan which sets out the Council's commitment to provide services that meet the needs of people locally and that represent good value for money within the overall resources available to it. A key part of the strategy is to highlight the budget issues that will need to be addressed by the Council over the coming financial years, by forecasting the level of available resources from all sources and budget pressures relating to both capital and revenue spending as well as assessing sufficient reserves and provisions are held for past and unknown events which may impact on the Council's resources. The MTFP is prepared alongside other plans and strategies (for example the workforce planning and Capital and Investment Strategies). There is a process in place for challenging any growth items and agreeing the achievability of planned savings.

### Arrangements and approach to 2021/22 financial planning

The arrangements for the 2021/22 budget setting process have largely followed the arrangements in place for 2020/21 but with a better understanding based on the experiences during the year of the impact of Covid-19 on the Council's services. There were still though a number of unavoidable uncertainties regarding likelihood and impact of any future lifting of restrictions or lockdowns, and the availability of any further government support.

A balanced General Fund budget for 2021/22 was approved at the March 2021 Council meeting with any required savings confidently expected to be covered by actions in hand. There was an acknowledgement in preparing the MTFP that the roll over of the Local Government Funding Settlement meant that some of the expected changes from the Fair Funding Review and in relation to New Homes Bonus and any Business Rates reset were not enforced. Changes in these areas were regarded as a risk through expected loss of funding so their deferral represented a gain to the Council's immediate financial position. The continuing uncertainty does make though strategic financial planning difficult for Councils, particularly in relation to its General Fund services.

The MTFP approved in February 2021 forecast a balanced budget for 2021/22 but shortfalls for 2022/23 onwards rising to £0.9m in 2025/26. To mitigate any losses caused by funding changes and to balance its budget the Council has, as described above, established reserves to support its planned transformation and savings process and to address volatility in funding.

The Corporate Policy and Resources Committee reviewed the budget position in November 2021 as part of its Q2 budget monitoring process. The Committee confirmed that few significant changes were required to the original estimates, with most new growth items being accommodated within existing budgets.

**Based on the above considerations we are satisfied there are no significant weaknesses in the Council's arrangements in relation to financial sustainability.**

# 3. VFM arrangements – Governance

## Overall commentary on the Governance reporting criteria

### Risk management and monitoring arrangements

The Council has an established risk management framework and systems in place which are built into the governance structure of the organisation. There is an approved Risk Management Strategy which includes the Council's approach, guidance, the Council's risk appetite and roles and responsibilities. The Governance and Audit Committee receives quarterly reports on the Council's Strategic Risks and provides oversight on the risk management arrangements in place and the adequacy of the controls and proposed actions. These arrangements are consistent with what we would expect at a local authority and are adequate for the Council's purposes.

In order to provide assurance over the effective operation of internal controls the Council has engaged Assurance Lincolnshire to provide its internal audit service. Assurance Lincolnshire's Audit and Risk Manager acts as Head of Internal Audit and the service has been externally assessed as meeting the Public Sector Internal Audit Standards. The annual Internal Audit plan is agreed with management at the start of the financial year and is reviewed by the Governance and Audit Committee prior to final approval.

The audit plan is based on an assessment of risks the Council faces and is designed to ensure there is assurance on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control. The planned work can be supplemented if necessary by ad hoc reviews in respect of suspected irregularities and other work commissioned by Officers and Members of the Council where relevant to respond to emerging risks and issues. We have reviewed the Internal Audit plans for 2020/21 and 2021/22 and confirmed they are consistent with the risk based approach.

Internal Audit progress reports are presented to Governance and Audit Committee meetings including follow up reporting on recommendations from previous Internal Audit reports. From our attendance at meetings, we are satisfied this allows the Committee to effectively hold management to account. At the end of each financial year the Head of Internal Audit provides an Annual Report including an opinion on the Council's governance, risk and control framework based on the work completed during the year. For 2020/21 the Head of Internal Audit concluded that the Council's arrangements for Governance, Risk and Financial Control were 'performing well' (with no significant concerns identified that significantly affected the framework) and the Internal Controls arrangements 'performing adequately'. We have reviewed the Annual Report and are satisfied that the Head of Internal Audit's opinion does not indicate any significant weaknesses in the Council's governance arrangements.

The Council is part of the County Fraud Partnership, has an anti-fraud and corruption policy and a whistle blowing policy. The Council carries out proactive anti-fraud work, such as the regular Council Tax Single person discount reviews, and partakes in the bi-annual National Fraud Initiative. An annual fraud report is taken to Governance and Audit Committee. We have reviewed the Annual Fraud Report 2020/21 and have not identified any significant concerns with these arrangements.

Throughout the year we have attended Governance and Audit Committee meetings. Through attendance at these meetings we have confirmed that the committee receive regular updates on both internal audit progress and risk management in the form of risk registers. We have seen active Member engagement from the Committee who challenge the papers and reports which they receive from officers, internal audit and external audit.

### Arrangements for budget setting and budgetary control

The Council has an established set of arrangements in place for budget setting and control. The process is set out and approved through the Constitution, which encompasses the Budgetary and Policy Framework Procedure rules. The framework includes:

- Clear responsibilities, including the role of the Section 151 Officer in leading the budget setting process and providing professional advice, and the reservation of the approval of the Budget to the Council based on the Corporate Policy and Resources recommendation.
- Budget setting guidance to managers, with the process ensuring an early understanding of the key relevant factors and future budget requirements. Although existing budgets are in most cases used as a basis for determining the next year's estimates, they are not merely rolled forward. There is early challenge to, amongst other things, staff number assumptions and growth and savings proposals.
- Close working between the finance team and with external advisors and neighbouring councils to determine the key budget assumptions, which are challenged and agreed through the budget review process by Management, Corporate Policy and Resources Committee and Council.

# 3. VFM arrangements – Governance

## Overall commentary on the Governance reporting criteria (continued)

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

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

There are the rules in place regarding virements within budget cost centres and adjustments to the original budget required by changes in Council policy must be approved by the relevant policy committee or by the Council. The opportunity to review the budget was especially important in 2020/21 given the likely impact of Covid-19 was largely unknown at the time the original budget was approved. The updated 2020/21 budget and mid year review of the Medium Term Financial Plan was approved by the Corporate Policy and Resources Committee in November 2020.

Quarterly Financial performance monitoring reports are presented to the Corporate Policy and Resources Committee. The reports cover spend and income to date and forecast against budget, Capital Programme progress and Treasury Management activities. and forecast significant variations are investigated and reported on, together with any corrective action being taken. Our review of the relevant meeting minutes confirmed there was challenge and scrutiny of the process. The impact of Covid-19 on financial performance is apparent from the reports through 2020/21 and any material budget variances were identified and explained at an appropriate stage. There were no significant unexpected over or underspends reported at the year-end.

The Chartered Institute of Public Finance and Accountancy (CIPFA) has published its Financial Management (FM) Code to provide guidance for good practice in financial management and to assist local authorities in demonstrating their financial sustainability. The first full year of compliance with the FM code is 2021/22. The Governance and Audit Committee received in April 2021 a report from the Assistant Director (Finance, Business and Property Services) summarising the Council's compliance with the standards set out in the Code. The report found that the Council complied with the majority of the Code requirements already and management is working to address the small number of areas for improvement identified.

## Decision making arrangements and control framework

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

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

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

The Constitution is kept under review and updated as required. The Constitution sets out how the Council operates, how decisions are made and the procedures to support the Council's aims of being transparent and accountable. The Constitution includes the Budget and Policy Framework Procedure Rules, Financial Procedure Rules and Contract and Procurement Procedure Rules and the Members' code of conduct.

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

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# 3. VFM arrangements – Governance

## Overall commentary on the Governance reporting criteria (continued)

### Regulators

There are few external regulators for district councils and we have not identified any matters reported which indicate significant weaknesses in the Council’s governance arrangements. We reviewed the Local Government and Social Care Ombudsman’s (LGSCO) 2020/21 report which was considered by the Governance and Audit Committee at its November 2021 meeting. The Committee report summarised management’s response to the matters raised by LGSCO and included comparative information for similar councils.

**Based on the above considerations we are satisfied there are no significant weaknesses in the Council’s arrangements in relation to governance.**

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

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

### Performance Management

The 2019-23 Corporate Plan sets out the Council's strategic aims and objectives, and key intended outcomes for the four years of the Plan. The Council has identified the key performance indicators, and target levels of performance, in relation to these priorities. The performance targets are informed by national standards, local benchmarking and experience and subject to initial challenge and confirmation.

The Council has in place a performance management framework which includes identified responsibilities of managers and processes for regular performance reporting and corrective action if required. There is quarterly reporting to the Prosperous Communities Corporate Policy and Resources Committee. These quarterly reports identify whether the performance is on/off track and its direction of travel. They include appropriate commentary to explain any significant factors which are affecting performance and actions being taken to correct performance.

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

We have reviewed a sample of the detailed performance reports and reviewed the Corporate Policy and Resources Committee minutes which demonstrate the Committee's review and challenge of the quarterly reports. The quarterly reports demonstrate that performance has been managed throughout the 2020/21 year and any significant variances have been justified, with no major unexpected gaps in performance at the year end. The process has continued in the first half of 2021/22. Overall, we believe there is sufficient evidence to demonstrate adequate arrangements for performance monitoring and management at the Council.

### Partnerships

There are a number of significant partnership arrangements in place and some key support services (for example payroll, ICT and Business Rates collection) are provided through agreements with neighbouring councils. There are relevant governance frameworks in place for these partnership arrangements and the Council continues to keep its role in these activities under review.

The Council is 100% shareholder of a group of companies. The group is made up of a holding company, an acquired limited company providing temporary staff and a 'Teckal' company that provides services solely to the Council. The Council's transactions with these companies are properly disclosed in the financial statements and there are appropriate governance arrangements in place. The turnover of these companies is not material.

The Council has also, since 2016/17, been party to a joint venture - Market Street Renewal Limited. The company was primarily set up for the development and renovation of Market Street in Gainsborough. The Council's total investment in this venture at the end of 2020/21 was around £0.35m. There is an appropriate governance and performance management framework in place for this arrangement.

### Commercial investments

The Council has a significant Investment Property portfolio, valued at 31 March 2021 at £20.9m. There is an underlying strategy and appropriate framework for approving and managing these investments, including regular monitoring of performance against target returns.

The majority of the portfolio has been funded through borrowing. Local authorities are required each year to set aside some of their revenues as provision for debt in respect of capital expenditure financed by borrowing or long term credit arrangements. The amount to be set aside each year (the Minimum Revenue Provision) has not been prescribed although an overarching principle of prudence is expected to be adopted. Under its current policy the Council does not commit to set aside a MRP for commercial investment properties where the asset is expected to be held for a set period, at the end of which a capital receipt is expected to be realised and therefore funds will be available to repay borrowing. The policy does state that the Council may choose to make a voluntary MRP and a payment was made in 2020/21 equivalent to the amount expected in the statutory guidance.

In our 2020/21 Audit Completion Report we again highlight that it was important that the Council continues to ensure that, in departing from Statutory Guidance, it is able to demonstrate that it is continuing to act reasonably, that Members understand the implications, and that its approach is prudent. It is important as part of its ongoing review of its MRP policy that the Council takes account of the updated (December 2021) CIPFA Prudential Code and the outcome of the current Department for Levelling Up, Housing and Communities consultation on proposed changes to MRP guidance and regulations.

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

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

### Procurement

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

**Based on the above considerations we are satisfied there are not significant weaknesses in the Council’s arrangements in relation to improving economy, efficiency and effectiveness.**

# 04

Section 04:

**Other reporting responsibilities and  
our fees**



# 4. Other reporting responsibilities and our fees

## Matters we report by exception

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

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

We have not exercised any of these statutory reporting powers.

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

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

We have not yet received group instructions from the National Audit Office confirming their requirements in relation to the Council's Whole of Government Accounts. We are unable to issue our audit certificate until this is formally confirmed.

## 4. Other reporting responsibilities and our fees

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

We reported our proposed fees for the delivery of our work under the Code of Audit Practice in our Audit Strategy Memorandum and Audit Completion Report presented to the Governance and Audit Committee in March and November 2021 respectively. We expect our final audit fees to be as follows.

Area of work	2019/20 fees	2020/21 fees
Scale fee in respect of our work under the Code of Audit Practice	£33,420	£33,420
Additional testing as a result of changes arising from increased audit quality expectations involving the work on the valuation of land and buildings and on the local government pension scheme	£7,067	£7,067*
Additional testing as a result of the implementation of new auditing standards	-	£2,000*
Other additional testing - new significant audit risks for 2020/21 (Covid-19 grant recognition) and additional testing and reporting in 2019/20 on uncertainties in key estimates as a result of Covid-19	£5,032	-
Additional work as a result of the new Code of Audit Practice and VFM reporting	-	£8,000*
<b>Total fees</b>	<b>£45,519</b>	<b>£50,487*</b>

\* Fee variations subject to approval and confirmation by Public Sector Appointments Ltd.

### Fees for other work

We confirm that we undertook the following non-audit service for the Council in the year.

Certification of the 2019/20 Housing Benefit Subsidy Claim	£7,819
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# Mark Dalton, Director – Public Services

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