

Audit and Governance Committee Members
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11 May 2021

Dear Audit and Governance Committee Members

Audit Completion Report – follow-up letter

Following on from our recent meeting and as required by International Standards on Auditing (UK and Ireland), I am writing to communicate the conclusion of those matters that were marked as outstanding within the Audit completion report dated 16 October 2020.

The outstanding matters and the conclusions reached are detailed below:

Audit area	Status	Description of outstanding matters
Property, plant and equipment	Complete	<p>We have received the residual audit evidence and our work is complete, with a single control deficiency noted in respect of the Council's current arrangements. This is detailed at Appendix 1.</p> <p>As highlighted previously a 'material valuation uncertainty' has been disclosed by the Council's valuer in respect of its property, assets. This has subsequently been disclosed in the Council's financial statements within Note 4. As the value of these assets as recorded on the balance sheet is material, this requires us to include an 'emphasis of matters' paragraph in our Audit Report. The wording of our Audit Report is set out in Appendix 3.</p>
Loans	Incomplete	<p>We have failed to receive the residual audit evidence, being direct confirmation from the lender of a loan balance of £1,000k from State Street, despite repeated efforts from the Council and ourselves.</p> <p>As this loan balance exceeds our level of materiality we are unable to express an opinion over its completeness, existence and valuation in addition to confirming the Council's overall obligation for this item.</p> <p>The Council believes that there is no prospect of obtaining this confirmation in the short term, and consequently we are required to issue a qualified opinion on the Council's financial statements in respect of this matter. The wording of our Audit Report is set out in Appendix 3.</p>

Audit area	Status	Description of outstanding matters
Pensions	Complete	<p>We have received the residual audit evidence and our work is complete. We have identified a misstatement arising as a result of the Council receiving an updated IAS19 pensions valuation report which management has decided not to adjust. This is detailed in Appendix 2.</p> <p>As a result of a 'material valuation uncertainty' being disclosed on the Pension Fund's accounts relating to its holding of property assets, it has become necessary for the Council to correspondingly reflect this uncertainty within its own accounts. This has subsequently been disclosed in the Council's financial statements within Note 4. As the Council's share of those assets as recorded on the balance sheet is material, this requires us to include an 'emphasis of matters' paragraph in our Audit Report. The wording of our Audit Report is set out in Appendix 3.</p>
Whole of Government Accounts (WGA)	Complete	<p>We have now received the National Audit Office's Group Instructions for local authority 2019/20 audits and completed the work necessary in respect of these.</p> <p>We are therefore able to issue our audit completion certificate.</p>
Audit quality control and completion procedures	Complete	<p>We have undertaken the outstanding procedures and received the residual audit documentation required and our work is complete.</p> <p>There are no matters arising to report to the Committee.</p>

If you wish to discuss these or any other points, then please do not hesitate to contact me.

Yours sincerely



Mark Surridge
Mazars LLP

Priority ranking	Description	Number of issues
1 (high)	In our view, there is potential for financial loss, damage to reputation or loss of information. This may have implications for the achievement of business strategic objectives. The recommendation should be taken into consideration by management immediately.	2
2 (medium)	In our view, there is a need to strengthen internal control or enhance business efficiency. The recommendations should be actioned in the near future.	0
3 (low)	In our view, internal control should be strengthened in these additional areas when practicable.	0

Significant deficiencies in internal control – Level 1

Description of deficiency

Maintenance of property asset information

Our testing of the Council's property assets has confirmed that it has not maintained an accurate database of its portfolio of assets, specifically the floor areas of buildings. As the floor areas of buildings are utilised by the valuer in some of their valuations it is essential that such records are maintained to ensure accurate valuations are undertaken and reported at each year end.

Potential effects

The Council's property valuations may be materially misstated within the financial statements as a result of inaccurate floor areas being used in valuations.

Recommendation

The Council should ensure that complete and accurate records are maintained in respect of its property assets to ensure appropriate valuations are able to be undertaken.

Management response

The recommendation is noted and agreed. Floor areas of buildings will be recorded and maintained for future asset valuations.

Description of deficiency

Loan confirmations

Our testing of the Council's loans balances has confirmed that it does not have relevant contact details for the provider of one of its loans. As these details are required to effectively monitor and control the Council's liability it is essential that such details are obtained and maintained over the lifetime of its obligation.

Potential effects

The Council's may not be able to effectively service its contractual obligations in respect of it loans balances.

Recommendation

The Council should ensure that complete and accurate records are maintained in respect of its loans balances to ensure appropriate communications and debt servicing are able to be undertaken.

Management response

The loan balance is long standing (20 years) with confirmations previously having been received annually. The recommendation is noted and agreed. Once future communication occurs we will record and maintain contact details.

Appendix 2 – Summary of Unadjusted Misstatements

We set out below the additional misstatements arising following the completion of those matters that were marked as outstanding within the Audit completion report dated 16 October 2020.

Unadjusted misstatements 2019/20

We have identified identified a single misstatement that management has decided not to adjust.

	Comprehensive Income and Expenditure Statement		Balance Sheet	
	Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
1 Cr: CIES – Chief finance officer (Expenditure)		(123)		
Cr: BS – Pensions liability				(42)
Dr: BS – Unusable reserves – Pensions reserve			42	
Dr: MiRS – Adjustments between accounting basis & funding basis under regulations	123			
Revision to IAS19 liability following receipt of an updated report to take account of the McCloud and Goodwin legal cases and revised pension fund asset valuations.				
This error would also have consequential impacts for the cash flow statement and its related notes, and Notes 7, 9 and 14.				
Total Unadjusted misstatements	123	(123)	42	(42)

We set out below our proposed Auditors' Report on the Council's 2019/20 financial statements:

Independent auditor's report to the members of Boston Borough Council

Report on the financial statements

Qualified opinion

We have audited the financial statements of Boston Borough Council ('the Council') for the year ended 31 March 2020, which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion section of our report, the financial statements:

- give a true and fair view of the financial position of the Council as at 31st March 2020 and of its expenditure and income for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

Basis for qualified opinion

Included in the carrying value of the Council's long-term borrowing in the balance sheet of £16.4m as at 31st March 2020, is £1m of Other Market Debt as described at Note 19. The audit evidence available to us for this Other Market Debt was limited because we were unable to obtain sufficient assurance over the existence and valuation of the loan as at 31 March 2020, including being unable to obtain direct confirmation from the lender leading to a potential overstatement of long term borrowing by £1m..

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities section of our report. We are independent of the Council in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, 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.

Emphasis of Matter – Effect of the Covid-19 pandemic on the valuation of property, investment properties and pension fund property investment assets

We draw attention to note 4 of the financial statements, which describes the effects of the Covid-19 pandemic on the valuation of the Council's property assets, investment properties and the valuation of the Council's share of Lincolnshire Pension Fund's property investment assets. As disclosed in note 4 of the financial statements, the Council's and Pension Fund's valuers included a 'material valuation uncertainty' declaration within their reports as a result of the Covid-19 pandemic. Our opinion is not modified in respect of this matter.

Conclusions relating to going concern

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

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

Appendix 3 – Audit Report Wording (Continued)

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 this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of the Chief Finance Officer for the financial statements

As explained more fully in the Responsibilities of 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 2019/20, and for being satisfied that they give a true and fair view. The Director of Resources is also responsible for such internal control as the Director of Resources determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Chief Finance Officer is required to comply with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 and prepare the financial statements on a going concern basis, unless the Council is informed of the intention for dissolution without transfer of services or function to another entity. The Chief Finance Officer is responsible for assessing each year whether or not it is appropriate for the Council to prepare its accounts on the going concern basis and disclosing, as applicable, matters related to going concern.

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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

We have nothing to report in these respects.

Conclusion on Boston Borough Council’s arrangements for securing economy, efficiency and effectiveness in the use of resources

Conclusion

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in April 2020, we are satisfied that, in all significant respects, Boston Borough Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

Basis for conclusion

We have undertaken our review in accordance with the Code of Audit Practice issued by the Comptroller and Auditor General, having regard to the guidance on the specified criterion issued in April 2020, as to whether the Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider in satisfying ourselves whether the Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

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

Responsibilities of the Council

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

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

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

Use of the audit report

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

Certificate

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

Mark Surridge

For and on behalf of Mazars LLP

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12 May 2021