

MEETING OF THE AUDIT AND GOVERNANCE COMMITTEE

WEDNESDAY, 26 APRIL 2023

ADDITIONAL PAPERS

CONTENTS

Item	Pages
4. AUDIT COMPLETION REPORT - FOLLOW UP LETTER	
Addendum 4 - Audit Completion Report Follow Up Letter 2	3 - 24
Appendix B - Statement of Accounts 2020-21 Extract	
Appendix C - Note 39 Prior Period Adjustment	
5. ANNUAL AUDITORS REPORT 2020/21	
Updated Appendix A - Annual Auditors Report	25 - 50

AUDIT AND GOVERNANCE COMMITTEE, WEDNESDAY 26 APRIL 2023

ADDENDUM TO ITEM 4, AUDIT COMPLETION REPORT – FOLLOW UP LETTER

At the time of publishing the agenda, the Finance Team were updating the 2020/21 Statement of Accounts to remove the material error identified by the Council's External Auditors, Mazars LLP, as detailed in the original report and Appendix A.

The requested amendments have now been completed and the accounts have been signed by the Section 151 Officer and the Chair of the Audit Committee. Appendix B provides an extract from the accounts detailing the pages that have been updated with all amendments highlighted in red. Appendix C details a new note to the accounts, Note 39 – Prior Period Adjustment, which provides a summary of the changes.

The External Auditors are expected sign the opinion after the committee meeting and an audited version of the accounts will be published on the council's website.

This page is intentionally left blank

Comprehensive Income and Expenditure Statement

This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Authorities raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

2019/20 Restated			Notes	2020/21		
Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000		Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000
0	0	0		37	(16)	21
241	(42)	199		4,229	(4,385)	(156)
1,189	(469)	720		879	(287)	592
14,475	(4,549)	9,926		15,049	(2,481)	12,568
3,547	(1,670)	1,877		3,616	(1,519)	2,097
1,651	(241)	1,410		2,128	(81)	2,047
103	(103)	0		134	(134)	0
1,217	(505)	712		1,283	(445)	838
15,559	(13,565)	1,994		16,586	(13,859)	2,727
(73)	(24)	(97)		(1,995)	(67)	(2,062)
1,012	(1)	1,011		1,081	0	1,081
(191)	0	(191)		14	0	14
7,183	(17,709)	(10,526)		9,829	(17,969)	(8,140)
45,913	(38,878)	7,035		52,870	(41,243)	11,627
		8,187				7,383
		2,146				3,475
		(20,411)				(22,063)
		(3,043)				422
		(18,782)				(17,894)
		0				0
		(18,603)				18,635
		(37,385)				741
		(40,428)				1,163

Movement in Reserves Statement

This statement shows the movement in the year on the different reserves held by the Council, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce taxation) and unusable reserves. The statement shows how the movement in year of the authority's reserves are broken down between gains and losses incurred in accordance with generally accepted accounting practices and statutory adjustments required to return to the amounts chargeable to Council Tax or rents for the year. The net increase/decrease line shows the statutory General Fund Balance and Housing Revenue Account Balance movements in the year following those adjustments.

(Restated)	General Fund Balance £'000	Housing Revenue Account £'000	Capital Receipts Reserve £'000	Major Repairs Reserve £000	Capital Grants Unapplied £000	Total Usable Reserves £000	Unusable Reserves £000	Total Authority Reserves £000
Balance as at 1 April 2019	14,233	14,423	7,452	1,339	997	38,444	129,999	168,443
Total Comprehensive Income and Expenditure	57	2,986	0	0	0	3,043	37,385	40,428
Adjustments between accounting basis and funding basis under regulations	2,452	(617)	2,044	(805)	632	3,706	(3,706)	0
Increase/(Decrease) in Year	2,509	2,370	2,044	(805)	632	6,750	33,679	40,429
Balance as at 31 March 2020	16,742	16,793	9,496	534	1,629	45,194	163,678	208,872
Total Comprehensive Income and Expenditure	(2,834)	2,412	0	0	0	(422)	(741)	(1,163)
Adjustments between accounting basis and funding basis under regulations	7,548	201	(1,326)	886	(23)	7,286	(7,286)	0
Increase/(Decrease) in Year	4,714	2,613	(1,326)	886	(23)	6,864	(8,027)	(1,163)
Balance at 31 March 2021 carried forward	21,456	19,406	8,170	1,420	1,606	52,058	155,651	207,709

The accounting arrangements for council tax and non-domestic rates income mean that the General Fund Balance at 31 March 2021 excludes losses for:

- shortfalls in collection resulting from the pandemic that were not predicted at the start of the year
- rate reliefs introduced during the year to support particular business sectors.

These losses will be charged to the General Fund Balance in future years. However, the Government has paid grant in 2020/21 to compensate for these losses. This income remains in the General Fund Balance as at 31 March 2021, such that the balance effectively overstates the resources available to the Council to spend on service provision.

The amounts being carried forward to cover the losses that will be charged back to the General Fund Balance in future years comprise:

- £4.8 million business rates reserve which is included in the General Fund balance above and also in Note 5 - Transfer to/from Earmarked Reserves.

If these amounts are deducted from the General Fund Balance as at 31 March 2021, the resources available for spending on service provision are reduced by £4.8 million.

Balance Sheet

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Council. The net assets of the Council (assets less liabilities) are matched by the reserves held by the Council. Reserves are reported in two categories.

The first category of reserves are usable reserves, i.e. those reserves that the Council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use.

The second category of reserves is those that the Council is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'.

The council has £3.5m LOBO (Lender Option, Borrower Option) loan where the lender has the option on set dates to propose an increase in the rate payable; The council will then have the option to accept the new rate or repay the loan without penalty. The lender therefore has the effective right to demand repayment and these loans are therefore shown in the Balance Sheet as Short Term Borrowing. The loan option date is every 6 months from loan inception.

(Restated)		(Restated)		31 March 2021	
31 March 2019	31 March 2020				
£'000	£'000		NOTES	£'000	£'000
262,348	281,503	Property Plant and Equipment	9	305,695	
15,559	16,307	Investment Property	10	15,186	
244	207	Intangible Assets	11	248	
1,336	1,083	Heritage Assets	12	625	
0	0	Assets Held For Sale	13	0	
316	473	Surplus Assets	9	0	
3,000	0	Long Term Investments		0	
6	4	Long Term Debtors		0	
282,809	299,577	Long Term Assets			321,754
37,995	39,495	Short Term Investments		29,000	
137	163	Inventories	14	150	
2,241	2,776	Short Term Debtors	15	12,292	
7,744	10,875	Cash and Cash Equivalents	16	20,894	
48,117	53,309	Current Assets			62,336
(1,128)	(1,154)	Short Term Borrowing		(17,680)	
(12,062)	(10,673)	Short Term Creditors	17	(24,500)	
(2,297)	(1,651)	Provisions	34	(2,010)	
(15,487)	(13,478)	Current Liabilities			(44,190)
(80,680)	(79,512)	Long Term Borrowing		(61,819)	
(59,661)	(44,691)	Other Long Term Liabilities		(63,294)	
(809)	(883)	Revenue Grants Receipt In Advance		(733)	
(5,846)	(5,450)	Capital Grants Receipt In Advance		(6,345)	
(146,996)	(130,536)	Long Term Liabilities			(132,191)
168,443	208,872	Net Assets			207,709
14,233	16,742	General Fund Balance		21,456	
14,423	16,793	Housing Revenue Account		19,406	
7,452	9,496	Capital Receipts Reserve		8,170	
1,339	534	Major Repairs Reserve		1,420	
997	1,629	Capital Grants Unapplied		1,606	
38,444	45,194	Usable Reserves			52,058

Balance Sheet

31 March 2019	31 March 2020			31 March 2021
(Restated)	(Restated)			
£'000	£'000			
			NOTES	£'000
				£'000
61,379	78,293	Revaluation Reserve	19	93,520
130,108	132,237	Capital Adjustment Account	19	132,479
(1,281)	(1,251)	Financial Instruments Adjustment Account	19	(1,221)
(59,661)	(44,691)	Pension Reserve	19	(63,294)
(276)	(640)	Collection Fund Adjustment Account	19	(5,562)
(270)	(270)	Accumulated Absences Account	19	(270)
129,999	163,678	Unusable Reserves		155,651
168,443	208,872	Total Reserves		207,709

Cash Flow Statement

The Cash Flow statement shows the changes in cash and cash equivalents of the Council during the reporting period. The statement shows how the Council generates and uses cash and cash equivalents by classifying cash flows as; operating, investing and financing activities.

The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Council are funded by way of taxation and grant income or from the recipients of services provided by the Council.

Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Council's future service delivery.

Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the Council.

Direct Method		NOTES	2020/21
2019/20 (Restated) £'000			£'000
3,043	Net surplus or (deficit) on the provision of services		(422)
9,108	Adjustments to net surplus or deficit on the provision of services for non-cash movements	20	14,566
(2,450)	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	20	7,021
9,701	Net Cash flows from operating activities		21,165
(7,328)	Net Cash flows from Investing Activities	21	(11,682)
758	Net Cash flows from Financing Activities	22	536
3,131	Net increase or (decrease) in cash and cash equivalents		10,019
7,744	Cash and cash equivalents at the beginning of the reporting period		10,875
10,875	Cash and cash equivalents at the end of the reporting period	16	20,894

Notes to core financial statement - continued

3 Events after the Balance Sheet Date

The reporting date for the 2020/21 Statement of Accounts (subject to External Audit) is the 30 July 2021 on which the Council's Section 151 Officer certifies the accounts. Any events occurring after this date which have had a material impact on the figures contained within the Statement of Accounts will be added and issued with the audited accounts as appropriate.

4 Adjustments between Accounting Basis and Funding Basis under Regulations

This note details the adjustments that are made to the total comprehensive income and expenditure recognised by the Council in the year in accordance with proper accounting practice to the resources that are specified by statutory provisions as being available to the Council to meet future capital and revenue expenditure.

2020/21	Usable Reserves					
	General Fund Balance £'000	Housing Revenue Account £'000	Capital Receipts Reserve £'000	Major Repairs Reserves £'000	Capital Grants Unapplied £'000	Movement In Unusable Reserves £'000
Adjustments primarily involving the Capital Adjustment Account:						
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:						
Charges for depreciation and impairment of non current assets	1,073	2,950		0		(4,023)
Revaluation (gains) and losses on Property Plant and Equipment	426	(867)				441
Movements in the market value of Investment Properties	1,463					(1,463)
Amortisation of intangible assets	139					(139)
Depreciation of Heritage Assets	20					(20)
Asset recognitions	(512)					512
Capital grants and contributions applied	(864)	(6)				870
Transfer of depreciation to Major Repairs Account		(2,864)		2,864		0
Revenue expenditure funded from capital under statute	716	0				(716)
Principal Repaid on Self Financing Loans		(1,147)				1,147
Amount of non current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	1,275	5,804				(7,079)
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:						
Statutory provision for the financing of capital investment	(715)					715
Capital expenditure charged against the General Fund and HRA balances	(665)	(1,392)				2,057
Adjustments primarily involving the Capital Grants Unapplied Account:						
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	29	(6)			(23)	
Sub-Total	2,385	2,472	0	2,864	(23)	(7,698)

Notes to core financial statement - continued

2020/21 - continued	Usable Reserves					
	General Fund Balance	Housing Revenue Account	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied	Movement In Unusable Reserves
	£'000	£'000	£'000	£'000	£'000	£'000
Adjustments primarily involving the Capital Receipts Reserve:						
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(21)	(2,563)	2,584			0
Use of the Capital Receipts Reserve to finance new capital expenditure			(3,294)			3,294
Contribution from the Capital Receipts Reserve towards administrative costs of non current asset disposals	0	43	(43)			0
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool	593		(593)			0
Transfer from Deferred Capital Receipts Reserve upon receipt of cash		(20)	20			0
Adjustments primarily involving the Deferred Capital Receipts Reserve:						
Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement						0
Adjustment involving the Major Repairs Reserve:						
Use of the Major Repairs Reserve to finance new capital expenditure				(1,978)		1,978
Adjustments involving the Financial Instruments Adjustment Account:						
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from the finance costs chargeable in the year in accordance with statutory requirements	(30)					30
Adjustments involving the Pensions Reserve:						
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	4,640	1,170				(5,810)
Employer's pensions contributions and direct payments to pensioners payable in the year	(4,941)	(901)				5,842
Adjustments involving the Collection Fund Adjustment Account:						
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	4,922					(4,922)
Adjustments involving the Accumulated Absences Account:						
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	0					0
Total Adjustments	7,548	201	(1,326)	886	(23)	(7,286)

Notes to core financial statement - continued

	Usable Reserves					
	General Fund Balance	Housing Revenue Account	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied	Movement In Unusable Reserves
	£'000	£'000	£'000	£'000	£'000	£'000
Restated 2019/20 comparative figures						
Adjustments primarily involving the Capital Adjustment Account:						
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:						
Charges for depreciation and impairment of non current assets	1,135	88		2,685		(3,908)
Revaluation losses/(gains) on Property Plant and Equipment	395	(3,037)				2,642
Movements in the market value of Investment Properties	(767)					767
Amortisation of intangible assets	160					(160)
Depreciation of Heritage Assets	25					(25)
Capital grants and contributions applied	(851)	(235)				1,086
Movements in donated assets		0				0
Revenue expenditure funded from capital under statute		0				0
Principal Repaid on Self Financing Loans		(1,128)				1,128
Amount of non current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	47	9,166				(9,213)
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:						
Statutory provision for the financing of capital investment	(618)					618
Capital expenditure charged against the General Fund and HRA balances	(362)	(2,400)				2,762
Adjustments primarily involving the Capital Grants Unapplied Account:						
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	(628)	(4)			632	
Adjustments primarily involving the Capital Receipts Reserve:						
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(11)	(3,774)	3,785			
Use of the Capital Receipts Reserve to finance new capital expenditure			(1,074)			1,074
Contribution from the Capital Receipts Reserve towards administrative costs of non current asset disposals	0	73	(73)			0
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool	594		(594)			0
Transfer from Deferred Capital Receipts Reserve upon receipt of cash		0				0
Sub-Total	(881)	(1,251)	2,044	2,685	632	(3,229)

Notes to core financial statement - continued

Restated 2019/20 comparative figures continued		Usable Reserves				
	General Fund Balance	Housing Revenue Account	Capital Receipts Reserve	Major Repairs Reserves	Capital Grants Unapplied	Movement in Unusable Reserves
	£'000	£'000	£'000	£'000	£'000	£'000
Adjustment involving the Major Repairs Reserve:						
Use of the Major Repairs Reserve to finance new capital expenditure				(3,490)		3,490
Adjustments involving the Financial Instruments Adjustment Account:						
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from the finance costs chargeable in the year in accordance with statutory requirements	(30)	0				30
Adjustments involving the Pensions Reserve:						
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	5,557	1,301				(6,858)
Employer's pensions contributions and direct payments to pensioners payable in the year	(2,558)	(667)				3,225
Adjustments involving the Collection Fund Adjustment Account:						
↳ Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	364					(364)
Adjustments involving the Accumulated Absences Account:						
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	0	0				0
Total Adjustments	2,452	(617)	2,044	(805)	632	(3,706)

Notes to core financial statement - continued

10 Investment Properties

The following items of income and expense have been accounted for in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

There are no restrictions on the Council's ability to realise the value inherent in its investment property or on the Council's right to the remittance of income and the proceeds of disposal. The Council has no contractual obligations to purchase, construct or develop investment property or repairs, maintenance or enhancement.

2019/20 £'000	2020/21 £'000
718 Rental income from investment property	667
821 Direct operating expenses arising from investment property	(1,677)
1,539 Net gain/(loss)	(1,010)

The following table summarises the movement in the fair value of investment properties over the year.

2019/20 Restated £'000	2020/21 £'000
15,559 Balance at the start of the year	16,307
Additions:	
0 Purchases	0
229 Construction	0
0 Subsequent expenditure	342
Disposals:	
767 Net gains/(losses) from fair value adjustments	(1,463)
Transfers:	
0 To/from Inventories	0
(248) To/from Property, Plant and Equipment	0
0 Other changes	0
16,307 Balance at the end of the year	15,186

11 Intangible Assets

The Council accounts for its software as intangible assets, to the extent that the software is not an integral part of a particular IT system and accounted for as part of the hardware item of Property, Plant and Equipment. The intangible assets include both purchased licences and internally generated software.

All software is given a finite useful life, based on assessments of the period that the software is expected to be of use to the Council.

Notes to core financial statement - continued

18 Usable Reserves

The Council's usable reserves are detailed in the Movement in Reserves Statement.

19 Unusable Reserves

31 March 2020		31 March 2021
Restated		
£'000		£'000
78,293	Revaluation Reserve	93,520
132,237	Capital Adjustment Account	132,479
(1,251)	Financial Instruments Adjustment Account	(1,221)
(44,691)	Pensions Reserve	(63,294)
(640)	Collection Fund Adjustment Account	(5,562)
(270)	Accumulated Absences Account	(270)
163,678	Total Unusable Reserves	155,651

Revaluation Reserve

2019/20 £'000		2020/21 £'000
61,379	Balance at 1 April	78,293
19,715	Upward revaluation of assets	20,870
(933)	of assets and	(2,976)
18,782	Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services	17,894
(1,040)	Difference between fair value depreciation and historical cost depreciation	(1,228)
(828)	Accumulated gains on assets sold or scrapped	(1,439)
(1,868)	Amount written off to the Capital Adjustment Account	(2,667)
78,293	Balance at 31 March	93,520

The Revaluation Reserve contains the gains made by the Council arising from increases in the value of its Property, Plant and Equipment and Intangible Assets. The balance is reduced when assets with accumulated gains are:

- Revalued downwards or impaired and the gains are lost;
- Used in the provision of services and the gains are consumed through depreciation, or
- Disposed of and the gains are realised.

The Reserve contains only revaluation gains accumulated since 1 April 2007, the date that the Reserve was created. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account.

Notes to core financial statement - continued

Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions.

The Account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling posting from the Revaluation Reserve to convert fair value figures to a historical cost basis). The Account is credited with the amounts set aside by the Council as finance for the costs of acquisition, construction and enhancement.

The Account contains accumulated gains and losses on Investment Properties and gains recognised on donated assets that have yet to be consumed by the Council.

The Account also contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains.

Note 4 provides details of the source of all transactions posted to the Account, apart from those involving the Revaluation Reserve.

2019/20		2020/21	
Restated		£'000	£'000
£'000			
130,108	Balance at 1 April		132,237
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:		
(3,933)	Charges for depreciation and impairment of non-current assets	-4,043	
2,642	Revaluation (losses)/gain on Property, Plant and Equipment	441	
(160)	Amortisation of Intangible assets	-139	
0	Revenue expenditure funded from capital under statute	-716	
(9,213)	Amounts of non current assets written off on disposal or sale as part of the gains/loss on disposal to the Comprehensive Income and Expenditure Statement	-3,668	
828	Write-out of gains relating to revalued disposed assets	1,439	
1,040	Write-out of depreciation on revalued assets (HCA)	1,228	
(8,796)	Net written out amount of the cost of non-current assets consumed in the year		-5,459
0	Other transactions	-2,899	
	Capital financing applied in the year:		
1,074	Use of Capital Receipts Reserve to finance new capital expenditure	3,294	
3,490	Use of the Major Repairs Reserve to finance new capital expenditure	1,978	
1,086	Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	789	
1,128	Repayment of Debt	1,147	
0	Application of grants to capital financing from the Capital Grants Unapplied Account	82	
618	Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	715	
2,762	Capital expenditure charged against the General Fund and HRA balances	2,057	
10,158	Capital financing and other transactions		7,163
767	Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement		-1,463
0	Movement in the Donated Assets Account credited to the Comprehensive Income and Expenditure Statement		-
132,237	Balance at 31 March		132,479

Notes to core financial statement - continued

20 Cash Flow Statement - Operating Activities

The cash flows for operating activities include the following items:

2019/20 (Restated) £'000	2020/21 £'000
490 Interest received	204
(2,711) Interest paid	(2,686)
0 Dividends received	
(2,221) Total Operating Activities	(2,482)

The surplus or deficit on the provision of services has been adjusted for the following non-cash movements:

2019/20 (Restated) £'000	2020/21 £'000
3,933 Depreciation	4,043
(1,982) Impairment and downward valuations	505
160 Amortisation	139
(3,634) Increase/(decrease) in creditors	9,285
(116) (Increase)/decrease in debtors	(6,828)
(26) (Increase)/decrease in inventories	13
3,633 Movement in pension liability	(76)
9,213 Carrying amount of non-current assets and non-current assets held for sale, sold or derecognised	7,079
(2,073) Other non-cash items charged to the net surplus or deficit on the provision of services	406
9,108 Total Non-Cash Movements	14,566

Notes to core financial statement - continued

23 Expenditure and Income Analysed by Nature

The Council's expenditure and income is analysed as follows:

2019/20 Restated £'000	Expenditure/Income	2020/21 £'000
Expenditure		
21,372	Employee expenses	19,874
26,636	Other services expenses	30,886
1,357	Depreciation, amortisation, impairment	5,386
1,464	Net pension interest	1,015
2,711	Interest payments	2,686
2,162	Precepts and levies	2,270
593	Payments to Housing Capital Receipts Pool	594
5,432	(Gain) / Loss on the disposal of assets	4,519
61,727	Total Expenditure	67,230
Income		
(32,159)	Fees, charges and other service income	(27,976)
(492)	Interest and investment income	(205)
(14,319)	Income from Council Tax and Non-Domestic Rates	(15,053)
(17,800)	Government Grants and Contributions	(23,574)
(64,770)	Total Income	(66,808)
(3,043)	Surplus or deficit on the Provision of Services	422

Notes to core financial statement - continued

38 Expenditure and Funding Analysis

This analysis statement shows how annual expenditure is used and funded from resources (government grants, rents, council tax and business rates) by local authorities in comparison with those resources consumed or earned by authorities in accordance with generally accepted accounting practices. It also shows how this expenditure is allocated for decision making purposes between the council's directorates/services/departments. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement.

2020/21

	Net Expenditure chargeable to the General Fund and Housing Revenue a/c £'000	Recharges £'000	Contributions to/from Reserves £'000	Investment Properties & other £'000	Revised Net Expenditure chargeable to the General Fund and Housing Revenue a/c £'000	Adjustments between funding basis and accounting basis £'000	Net expenditure in the Comprehensive Income and Expenditure Statement £'000
Chief Executive and Other Services	299	(278)	0	0	21	0	21
Human Resources & Organisational Dev	197	(361)	3	0	(161)	5	(156)
Legal and Commercial Services	1,429	(852)	15	0	592	0	592
→ Community Services including Strategic							
Director of Place	9,317	1,424	1,223	(1,438)	10,526	2,042	12,568
Planning & Infrastructure	1,226	556	315	0	2,097	0	2,097
Economic Development	787	188	689	0	1,664	383	2,047
Joint Strategic Planning	(9)	9	0	0	0	0	0
Housing - General Fund	420	183	193	0	796	42	838
Customer Services	3,006	(1,889)	17	1,459	2,593	134	2,727
Finance	(1,076)	(994)	4	0	(2,066)	4	(2,062)
Corporate and Democratic Core	25	1,038	18	0	1,081	0	1,081
Non-Distributed Costs	13	1	0	0	14	0	14
Housing Revenue Account	(10,586)	(348)	94	0	(10,840)	2,700	(8,140)
Recharges	(1,323)	1,323	0	0	0	0	0
Net Cost of Services	3,725	0	2,571	21	6,317	5,310	11,627
Other Income and Expenditure	(14,312)	0	(7,708)	(21)	(22,041)	10,836	(11,205)
Surplus/Deficit on Provision of Services	(10,587)	0	(5,137)	0	(15,724)	16,146	422

Notes to core financial statement - continued

Expenditure and Funding Analysis continued

2019/20 (Restated)

	Net Expenditure chargeable to the General Fund and Housing Revenue a/c £'000	Recharges £'000	Contributions to/from Reserves £'000	Investment Properties £'000	Revised Net Expenditure chargeable to the General Fund and Housing Revenue a/c £'000	Adjustments between funding basis and accounting basis £'000	Net expenditure in the Comprehensive Income and Expenditure Statement £'000
Chief Executive and Other Services	282	(282)	0	0	0	0	0
Human Resources & Organisational Dev	727	(621)	88	0	194	5	199
Legal and Commercial Services	1,417	(801)	104	0	720	0	720
Community Services including Strategic Director of Place	6,867	1,394	510	(134)	8,637	1,289	9,926
Planning & Infrastructure	483	543	851	0	1,877	0	1,877
Economic Development	788	199	229	0	1,216	194	1,410
Joint Strategic Planning	(9)	8	1	0	0	0	0
Housing & Asset Mgmt - General Fund	784	(447)	48	1,661	2,046	(1,334)	712
Customer Services	2,325	(1,173)	53	0	1,205	789	1,994
Finance	809	(914)	2	0	(103)	6	(97)
Corporate and Democratic Core	20	979	12	0	1,011	0	1,011
Non-Distributed Costs	(204)	1	0	12	(191)	0	(191)
Housing Revenue Account	(11,218)	(304)	53	0	(11,469)	943	(10,526)
Recharges	(1,418)	1,418	0	0	0	0	0
Net Cost of Services	1,653	0	1,951	1,539	5,143	1,892	7,035
Other Income and Expenditure	(13,180)	0	(5,470)	(1,539)	(20,189)	10,111	(10,078)
Surplus/Deficit on Provision of Services	(11,527)	0	(3,519)	0	(15,046)	12,003	(3,043)

Notes to core financial statement - continued

Expenditure and Funding Analysis continued

Analysis of adjustments between funding basis and accounting basis

2020/21	Adjustment for capital purposes £'000	Net change for the pensions adjustment £'000	Other Differences £'000	Total Adjustments £'000
Chief Executive and Other Services	0	0	0	0
Human Resources & Organisational Dev	5	0	0	5
Legal and Commercial Services	0	0	0	0
Community Services including Strategic Director of Place	2,042	0	0	2,042
Planning & Infrastructure	0	0	0	0
Economic Development	383	0	0	383
Joint Strategic Planning	0	0	0	0
Housing & Asset Mgmt - General Fund	42	0	0	42
Customer Services	134	0	0	134
Finance	4	0	0	4
Corporate and Democratic Core	0	0	0	0
Non-Distributed Costs	0	0	0	0
Housing Revenue Account	2,026	(268)	942	2,700
Recharges	0	0	0	0
Net Cost of Services	4,636	(268)	942	5,310
Other Income and Expenditure	6,304	(300)	4,832	10,836
Surplus/Deficit on Provision of Services	10,940	(568)	5,774	16,146

Notes to core financial statement - continued

Expenditure and Funding Analysis continued

2019/20 (Restated)	Adjustment for capital purposes £'000	Net change for the pensions adjustment £'000	Other Differences £'000	Total Adjustments £'000
Chief Executive and Other Services	0	0	0	0
Human Resources & Organisational Dev	5	0	0	5
Legal and Commercial Services	0	0	0	0
Community Services including Strategic Director of Place	1,289	0	0	1,289
Planning & Infrastructure	0	0	0	0
Economic Development	194	0	0	194
Joint Strategic Planning	0	0	0	0
Housing & Asset Mgmt - General Fund	(1,334)	0	0	(1,334)
Customer Services	789	0	0	789
Finance	6	0	0	6
Corporate and Democratic Core	0	0	0	0
Non-Distributed Costs	0	0	0	0
Housing Revenue Account	(265)	(634)	1,842	943
Recharges	0	0	0	0
Net Cost of Services	684	(634)	1,842	1,892
Other Income and Expenditure	6,620	3,308	183	10,111
Surplus/Deficit on Provision of Services	7,304	2,674	2,025	12,003

Notes to core financial statement - continued

39 Prior Period Adjustment

The council owns a parcel of land which is held as an investment property called Cropston Drive.

During the year, the council undertook a review of its assets and discovered the size of this asset was materially incorrect in the asset register. The asset size was previously measured as 3.72 hectares but was re-measured during the year as 7.42 hectares. This means that we have had to correct the prior period balances for this asset.

The table below shows the adjustments to the financial statements and affected notes for the previous reporting periods.

	2018/19	Adjustment	2018/19	2019/20	Adjustment	2019/20
	£'000	£'000	Restated £'000	£'000	£'000	Restated £'000
Balance Sheet						
Investment Properties Valuation	13,484	2,075	15,559	14,892	1,415	16,307
Capital Adjustment Account	128,033	2,075	130,108	130,822	1,415	132,237
Note 4 - Adjustments between Accounting Basis and Funding Basis under Regulations						
Movements in the market value of investment properties	475	2,075	2,550	1,427	1,415	2,842
Note 10 - Investment Properties						
Balance at the start of the year				13,484	2,075	15,559
Net gain/(losses) from fair value adjustments	475	2,075	2,550	1,427	1,415	2,842
Balance at end of the year	13,484	2,075	15,559	14,892	1,415	16,307
Note 19 - Unusable Reserves						
Capital Adjustment Account:						
Balance at 1st April				128,033	2,075	130,108
Movement in value of Investment Properties debited or Credited to the CIES	475	2,075	2,550	1,427	1,415	2,842
Balance at 31 March	128,033	2,075	130,108	130,822	1,415	132,237

This page is intentionally left blank


(Final) Auditor's Annual Report

North West Leicestershire District Council
– year ended 31 March 2021

April 2023



Contents

- 01 Introduction
- 02 Audit of the financial statements
- 03 Commentary on VFM arrangements
- 04  Other reporting responsibilities

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.

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

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 North West Leicestershire 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
Our audit opinion, issued in April 2023 is unqualified.

28

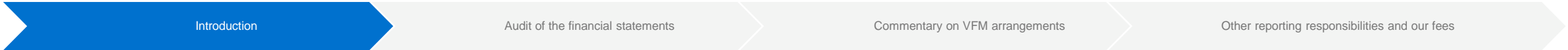


Value for Money arrangements
In our audit report issued we reported that we had not completed our work on the Council’s arrangements to secure, economy, efficiency and effectiveness in its use of resources and had not issued recommendations in relation identified significant weaknesses in those arrangements at the time of reporting. Section 3 confirms that we have now completed this work and provides our commentary on the Council’s arrangements.



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.



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 on the financial statements for the year ended 31 March 2021 is unqualified, but with an additional paragraph to emphasise the effect of the Covid-19 pandemic on the valuation of land and buildings:

"We draw attention to Note 2 of the financial statements, which describes the effects of the Covid-19 pandemic on the valuation of the Council's retail and specific trading related assets/sectors such as car parks. As disclosed in Note 2 of the financial statements, the Council's valuer included a 'material valuation uncertainty' declaration within their report in relation to these assets as a result of the Covid-19 pandemic. Our opinion is not modified in respect of this matter."

Qualitative aspects of the Council's accounting practices

We reviewed the Council's accounting policies and disclosures and concluded they comply with the 2020/21 Code of Practice on Local Authority Accounting, appropriately tailored to the Council's circumstances.

Internal control recommendations

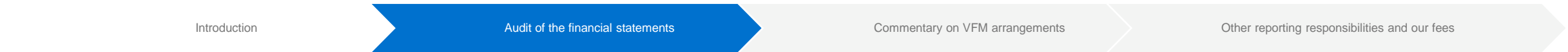
The purpose of our audit was to express an opinion on the financial statements. As part of our audit, we considered the internal controls in place relevant to the preparation of the financial statements in order to

design audit procedures to allow us to express an opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of internal control or to identify any significant deficiencies in their design or operation.

Our detailed findings and recommendations were included in the Audit Completion Report to the Council's Audit Committee

Management co-operation during the audit

We have had full cooperation throughout our work and are grateful for the cooperation and support provided by management.



2. Audit of the financial statements

Main financial statement audit risks and findings

Our audit approach is risk-based and primarily driven by the issues that we consider lead to a higher risk of material misstatement of the accounts. Once we have completed our risk assessment, we develop our audit strategy and design audit procedures in response to this assessment. Following the risk assessment, we identified risks relevant to the audit of financial statements and the significant audit risks and conclusions reached are set out below:

Audit Risk	Level of audit risk	How we addressed the risk	Audit conclusions
Management override of controls This is a mandatory significant risk on all audits due to the unpredictable way in which such override could occur.	Significant risk: an area that, in our judgment, requires special audit consideration.	We addressed the risk through performing work over accounting estimates, journal entries and considering whether there were any significant transactions outside the normal course of business or otherwise unusual. In addition, we made enquiries of management and used our data analytics and interrogation software to extract accounting journals for detailed testing on specific risk characteristics.	There are no significant matters to report in respect of management override of controls.
Valuation of the net pension liability The defined benefit liability relating to the Local Government pension scheme represents significant balances on the Council's balance sheet. The Council relies on an actuary to provide an annual valuation of these liabilities in line with the requirements of IAS 19 Employee Benefits. Due to the high degree of estimation uncertainty associated with this valuation, we have determined there is a significant risk of misstatement in this area.	Significant risk: an area that, in our judgment, requires special audit consideration.	<div>Our procedures to address this risk included, but was not limited to:</div> <ul style="list-style-type: none">liaising with the auditors of the Leicestershire Pension Fund to gain assurance that the controls in place at the Pension Fund are designed and implemented correctly. This included the processes and controls in place to ensure data provided to the Actuary by the Pension Fund for the purposes of the IAS 19 valuation is complete and accurate;reviewing the appropriateness of the Pension Asset and Liability valuation methodologies applied by the Pension Fund Actuaries, and the key assumptions included within the valuations. This included comparing them to expected ranges, utilising information by the consulting actuary engaged by the National Audit Office.	There are no significant matters to report in respect of the net pension liability.

2. Audit of the financial statements

Main financial statement audit risks and findings (continued)

Audit Risk	Level of audit risk	How we addressed the risk	Audit conclusions
<p>Valuation of land & buildings and investment properties and council dwellings</p> <p>The valuation of these properties is complex and is subject to a number of management assumptions, judgements and a high degree of estimation uncertainty.</p>	<p>Significant risk: an area that, in our judgment, requires special audit consideration.</p>	<p>Our procedures to address this risk included, but was not limited to:</p> <ul style="list-style-type: none">• considering whether the overall revaluation methodologies used by the Council's valuers are in line with industry practice, the CIPFA Code of Practice and the Council's accounting policies;• assessing whether valuation movements are in line with market expectations by using third party information to provide information on regional valuation trends;• critically assessing the approach that the Council adopts to ensure assets that are not subject to revaluation in 2021/22 are materially correct, including considering the robustness of that approach in light of the valuation information reported by the Council's valuers; and• testing a sample of individual valuations, back to source records to ensure appropriateness and to gain assurance over whether the correct accounting treatment has been applied.	<p>Material audit adjustments</p> <p>During our initial testing we observed that the Council's internal records (floor plans for assets) did not reconcile to the measurements used by the valuers. We requested the Council obtain further evidence to confirm the correct measurements of assets and revaluations undertaken if required. Once asset measurements were obtained there were significant differences meaning records had not been kept properly up to date leading to material changes to the financial statements, including one investment property where we requested the prior year financial statements be corrected.</p> <p>Following adjustment, we were satisfied the balances were materially correct.</p> <p>Emphasis of matters</p> <p>In Note 2 of the financial statements, the Council explained that the valuation of certain trading assets was subject to "material valuation uncertainty" based on the Council's external valuation report. The interpretation of "material valuation uncertainty" is consistent with our understanding of RICs professional guidance regarding the impact of covid-19 on the valuation of certain assets for the year ended 31 March 2021. A consequence of this clause is that we have included an additional paragraph in our audit report to emphasise this matter as follows:</p> <p>"We draw attention to Note 2 of the financial statements, which describes the effects of the Covid-19 pandemic on the valuation of the Council's retail and specific trading related assets/sectors such as car parks. As disclosed in Note 2 of the financial statements, the Council's valuer included a 'material valuation uncertainty' declaration within their report in relation to these assets as a result of the Covid-19 pandemic. Our opinion is not modified in respect of this matter."</p>

32

03

Section 03:

Commentary on VFM arrangements

3. VFM arrangements – Overall summary

Context of the Auditor’s Annual Report

Our Auditor’s Annual Report summarises the work we have undertaken as the auditor for North West Leicestershire District Council for the year ended **31 March 2021**, where at the time of reporting in April 2023, we recognise that the social, political and economic environment has changed and local government is facing significant challenges including:

- **Cost of Living:** With most people experiencing financial pressure, spending habits are changing. High energy costs and increasing food prices have impacted on levels of disposable income. With wage (and potentially benefit) increases failing to keep pace with inflation, more people will be facing hardship.
- **Added budget pressures:** With inflation soaring, the cost of goods, services and resources are becoming more expensive. Local authorities are not immune to the increasing cost of energy supply, although the government announcements on energy caps help, many local authorities are still facing higher costs. Local authorities typically budget for modest salary increases year on year, but expectations and demands on salary increases have changed and consideration on how they are to be funded is required.
- **Cost of Borrowing:** The Bank of England base rate has risen to 4.25% in March 2023 meaning that the cost of borrowing for capital projects has increased significantly.
- **Contractors and Suppliers:** The cost-of-living crisis has resulted in business failures. Although government support has been announced, some businesses will continue to struggle, with a greater risk of supplier failure. Supply failures anywhere in the supply chain will have a knock-on effect.
- **Service Delivery:** Likely budget reductions and savings plans are going to impact the ability of local authority services to maintain levels of delivery, particularly at a time of increased demand.

We maintain a watching brief over the key issues facing North West Leicestershire District Council and, should we identify a risk of significant weakness in arrangements, will follow the process as described in section 3 to promptly raise these with management and issue any reports to the Audit & Governance Committee as part of our audit for the year ending 31 March 2022 and 2023.

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

35

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.

Reporting criteria	Commentary page reference	Risks of significant weaknesses in arrangements identified?	Actual significant weaknesses in arrangements identified?
Financial sustainability	15	No	No
Governance	18	Yes	No
Improving economy, efficiency and effectiveness	21	No	No

Commentary on VFM arrangements

Risks of significant weaknesses in arrangements

36



3. VFM arrangements – Overall summary

Risk of significant weakness in arrangements

The NAO’s guidance requires us to carry out work at the planning stage to understand the Council’s arrangements and to identify risks that significant weaknesses in arrangements may exist. The table below outlines the risk of significant weakness in arrangements that we identified as part of our planning and risk assessment.

Risk of significant weakness in arrangements	Work performed	Findings
<p>Governance: statutory financial reporting</p> <p>The Ministry of Housing, Communities and Local Government (MHCLG) put in place revised regulations effective from 31 March 2021. The Accounts and Audit (Amendment) Regulations 2021 extend the statutory audit deadlines for 2020/21 for all local authorities from 31 July to 30 September 2021 for all local authority bodies. The completion of audited 2020/21 financial statements represents a delay of some 18 months.</p> <p>We believe this delay presents a risk of significant weakness in the Council’s arrangements for Governance (how the body ensures that it makes informed decisions and properly manages its risks) including how the body supports its statutory financial reporting requirements.*</p> <p><i>* Criteria as defined by Auditor Guidance Note 3 (AGN03), Auditors’ Work on Value for Money (VFM) Arrangements (December 2021)</i></p>	<p>Our work included, but was not limited to:</p> <ul style="list-style-type: none">• Drawing from the outcome of the 2020/21 financial statement audit;• Meetings with Officers• Reviewing any applicable supporting committee reports.	<p>We presented our Audit Completion Report in February 2023, and a summary of the findings are set out in Section 2 of this report. Alongside the various delays mentioned below, we needed to re-deploy our audit team at a point at which we had the capacity and that is also a contributing factor to the delayed audit report.</p> <p><i>Property records</i></p> <p>We reported to the November 2020 Audit & Governance Committee that during the course of our 2019/20 audit, in our testing of underlying valuation data, such as floor spaces, the Council was unable to immediately find data to validate the floor areas used to support the valuation, leading to the Council having to find alternative sources of evidence. We recommended the Council perform a regular reconciliation between the underlying books and records of asset data, such as floor space and land areas, to the information used as the basis of valuation by the valuer.</p> <p>Our initial audit visit in 2021 identified ongoing issues regarding the accuracy and reliability of property records requiring the Council to appoint a company to re-measure assets to ensure asset valuations were accurate. Limited capacity in this specialist sector was a contributing factor to delays. The re-measurement exercise identified significant errors in the Council’s records that needed to be passed onto the Council’s valuation expert for review with new valuations being entered in the fixed asset register and financial statements. This included material errors that meant prior year balances had to be restated.</p> <p><i>New financial ledger</i></p> <p>The Council also intended to introduce a new financial ledger system, with intended wider benefits to financial planning and budgetary control. Capacity in the finance team was also stretched with interim finance staff at various grades and limited success in recruiting, in large part due to scarcity of skilled resource in the labour market. In 2021, we discussed the delays over the financial statements audit and were content that, due to significant finance resource constraints, the Council would focus on the implementation of its new financial ledger rather than complete the 2020/21 financial statements, particularly given the time required to complete the asset remeasurement exercise.</p> <p>The new financial ledger has only recently been put in place and there have been sustained capacity constraints in the finance team, with various interims and vacant posts.</p>

3. VFM arrangements – Overall summary

Risk of significant weakness in arrangements (continued)

The NAO’s guidance requires us to carry out work at the planning stage to understand the Council’s arrangements and to identify risks that significant weaknesses in arrangements may exist. The table below outlines the risks of significant weaknesses in arrangements that we identified as part of our planning and risk assessment.

Risk of significant weakness in arrangements	Recommendation(s) for improvement	Our views on action taken to date
<p>Governance: statutory financial reporting</p> <p>The Ministry of Housing, Communities and Local Government (MHCLG) put in place revised regulations effective from 31 March 2021. The Accounts and Audit (Amendment) Regulations 2021 extend the statutory audit deadlines for 2020/21 for all local authorities from 31 July to 30 September 2021 for all local authority bodies. Our audit report, issued in April 2023, represents a delay of over 18 months from that revision and was mainly due to:</p> <ul style="list-style-type: none">the Council not maintaining accurate or up-to-date property records leading to materially incorrect asset valuations in the financial statements; andinsufficient capacity in the finance team and its leadership, exacerbated by a shortage of skilled resources in the labour market. <p>Overall, we believe that improvements are required, but did not lead to a significant impact on the quality or effectiveness of service and the Council’s reputation.</p>	<p>The Council should:</p> <ul style="list-style-type: none">Ensure accurate and up-to-date property records are maintained to ensure the financial statements are fairly statedRestructure the finance team to ensure there is appropriate capacity to ensure priorities are delivered	<p>The Council’s asset remeasurement exercise during 2022 has now been completed to bring ensure key data to support accurate valuations are recorded in the financial statements.</p> <p>The Council has also agreed the finance team restructure</p> <p>We have also agreed a timetable to bring the audit of the 2021/22 and 2022/23 financial statements through to completion by the end of 2023 / early 2024.</p>

Commentary on VFM arrangements

Financial sustainability: How the Council plans and manages its resources to ensure it can continue to deliver its services

69

Based on the considerations and views formed in this section, we are satisfied there is not a significant weakness in the Council's arrangements in relation to financial sustainability.



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 North West Leicestershire District Council. 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 also received income relating to 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 balance sheet does not give us cause for concern relating to financial stability. Net current assets have reduced from £39.8m to £18.1m, with short term creditors increasing from £10.6m to £24.5m which as at other councils this year is largely due to deferred Covid-19 government grants. The level of total year-end Cash and Cash Equivalents and Short Term Investments Equivalents fell slightly from £50.3m to £49.8m but this was in line with cash flow forecast and requirements.

The Council’s useable reserves increased from £45.2m to £52m in 2020/21, with:

- General Fund Reserves of £21.4, up from £16.7m in 2019/20;
- Capital Receipts Reserves of £8.1m, down from £9.5m in 2019/20; and
- Housing Revenue Account Balances of £19.4m, up from £16.7m in 2019/20.

These reserves provide some mitigation against future financial challenges, and will assist in addressing future volatility and support savings and efficiencies 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 including arrangements for the identification, management and monitoring of funding gaps and savings

In February 2020 the Council set balanced General Fund and Housing Revenue Account budgets for the 2020/21 financial year. For the 2020/21 General Fund budget, the Council set a balanced budget which relied on savings target being achieved that are aimed at delivering efficiency savings and cuts against services totalling £570k. Within the budget report to Council there was an appendix that covered proposals in particular savings proposals and proposals to cover cost pressures. We are satisfied the report contains adequate information to support the budget proposals.

The report identified that the Council has been actively working towards trying to attain a balanced budgeted in future years and yet proposed savings were not achieved: our review of the Revenue And Capital Outturn Position for 2020/21 provided to Cabinet on 27th July 2021 confirmed there was a £660k unfavourable variance for the General Fund resulting in a £32k deficit. There was a £100k unfavourable variance on the HRA which resulted in a £2.6m surplus. The main reason for the slippage was due to Journey to Self Sufficiency (J2SS) savings not being made with unfavourable variances of £454k and £225k on the General Fund and HRA respectively. 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 (continued)

The 2020/21 financial year was extra-ordinary and the impact of the covid-19 pandemic is still reverberating in April 2023. We believe the Council can improve its arrangements for financial planning and budgetary control including reporting to Members. Whilst financial balance and a sound financial standing has been maintained, despite difficult circumstances, in our view this has not materialised through a “journey to self-sufficiency”. We believe, based on discussions with officers since 2020, that financial planning and budgetary control could be more proactive, more transparent and therefore more accountable when it comes to delivering transformation and savings by design and not as a by-product. The Council has recently appointed a new Chief Executive and is going through the appointment process for a substantive s151 Officer, which we suggest is the catalyst to revisit the strategic planning process and improve the integration of service and financial planning in line with good practice.

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 budget was set for the General Fund and HRA for 2021/22 in February 2021, with the General Fund position dependent on £570k transformation savings. The level of general fund reserves and ongoing budgetary control arrangements has led us to believe satisfactory arrangements are in place. We do, however, see it as an area to be challenged by officers and members to ensure appropriate action is taken to maintain service levels under increasing cost pressures beyond 2022/23.

The Council has a Medium Term Financial Plan (MTFP) outlook in place which was approved by Cabinet in July 2022 and covers the period 2022-2027. The MTFP 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. We reviewed the MTFP and confirmed it supports the Council’s priorities communicated in its

Delivery Plan. The MTFP adequately identifies the financial implications from 2022 to 2027, noting that the key assumptions underpinning budgets through the MTFP included CPI, pay increases and uncertainty over funding reforms.

Balanced General Fund and Housing Revenue Account budgets for 2021/22 were approved at the February 2021 Council meeting with any required savings expected to be covered by actions in hand. We also reviewed the 2022/23 budget which was approved in February 2022 and noted the following with regards to reserves. The General Fund has both the journey to self-sufficiency reserve and business rates reserve to help manage deficits and funding volatility. The combined value of these reserves is forecast to be £9.4 million on 31 March 2022 and will rise to £10.6 million by 31 March 2023 based on the current budget. This indicates that the Council is planning to overcome potential future deficits.

The Council has, as described above, established reserves to support its planned transformation and savings process and to address volatility in funding.

The update to the Medium Term Financial Outlook in 2022 showed savings in excess of £1m were required through to 2023/24 and even if those were achieved the Journey to Self Sufficiency reserve (J2SS) would be fully depleted by 2024/25. Within the context of significant disruption caused by the Covid-19 pandemic, we are satisfied this does not indicate there to be a significant weakness in the Council’s arrangements during 2020/21. However, it is important that Officers maintain the channel of open communication regarding budgets with Members so informed decisions can be made on items such as council tax increases and proposed areas where savings can be made and that there is sufficient transparency that planned savings are realised as intended.

Based on the above considerations we are satisfied there is not a significant weakness in the Council’s arrangements in relation to financial sustainability.

Commentary on VFM arrangements

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

42

We are satisfied there is not a significant weakness in the Council's arrangements in relation to governance.



3. VFM arrangements – Governance

Overall commentary on the Governance reporting criteria

Risk management and monitoring arrangements

Based on our work, we are satisfied that the Council has established governance arrangements in place. These are detailed in the Statement of Accounts and Annual Governance Statement. We have considered both documents against our understanding of the Council as part of our audit.

Our review of corporate governance arrangements confirms the Council has an agreed Constitution, setting out how it operates, how decisions are reached and what procedures are followed to ensure that these are transparent and accountable to local people. Any recommendations for amendments to the Constitution need to be approved by Full Council.

Our review of Council and Committee papers confirms that a template covering report is used for all reports, ensuring the purpose, implications, and recommendations are clear. Minutes are published and reviewed by Committees to evidence the matters discussed, challenge and decisions made.

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 updated and approved Risk Management Policy which includes the Council's approach, guidance, the Council's risk appetite and roles and responsibilities. The Audit and Governance Committee is responsible for overseeing the effectiveness of the Council's risk management arrangements, challenging risk information. The Committee is presented with the risk register on a regular basis and provides challenge as part of the process. There is also a Corporate Risk Scrutiny Group, made up of technical experts and corporate leads from the Council's Service Areas. Members of the Group act as "champions" for risk within their services and the Group provides a link into the Corporate Leadership Team.

In order to provide assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud, the Council has an Internal Audit function which is provided by a shared service with neighbouring councils. The annual Internal Audit plan is agreed with management at the start of the financial year and is reviewed by Audit & Governance 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 each Audit Committee meeting 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, based on the work completed during the year, on the overall adequacy and effectiveness of the council's control environment. For 2020/21 the Head of Internal Audit concluded that a reasonable level of assurance could be provided on the overall adequacy and effectiveness of the Council's framework for governance, risk management and control.

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

3. VFM arrangements – Governance

Overall commentary on the Governance reporting criteria (continued)

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 budget setting rules and financial procedures. The framework includes:

- Clear responsibilities, including the role of the S151 Officer in leading the budget setting process and providing professional advice, and the reservation of the approval of the Budget to the Council.
- Cabinet is responsible for publishing initial proposals for inclusion in the budget and policy framework.

As also explained on page 9, we have reviewed the budget setting arrangements through observation and discussions with Officer. We have also noticed issues with the turnover of finance staff which has in part led to the delayed audit completion and delays in implementing the new finance system over a two year extended period. With a limited availability of suitably skilled staff the Council has been reliant on a number of interim staff in key positions.

The Council's MTFS includes the identification and evaluation of risks to the Authority's finances and is developed in parallel to the budget for the following year and setting of the precept. We have reviewed minutes of meetings and the year end financial outturn reports presented to the Cabinet during the year as well as the and narrative statement to the financial statements. In addition, we have reviewed capital expenditure as presented in the financial statements with no issues arising from our testing of additions.

We also reviewed the capital programme, noting that the GF Capital Programme for the next four years from 2021/22 to 2024/25 is funded predominantly from capital receipts and grants other than 2021/22 when borrowing will be incurred. In contrast, revenue or reserves is the primary source of funding for the housing revenue account capital programme – funding 62% of the five year programme. The Council needs to determine the level of reserves / revenue used over the next four years remains sustainable. We have held regular discussions with officers regarding arrangements for the management and funding of capital programme, and noted no issues.

Based on the above considerations, except for the arrangements relating to statutory financial reporting, we are satisfied there is not a significant weakness in the Council's arrangements in relation to governance.

General Fund	2021/22	2022/23	2023/24	2024/25
General Fund Capital Programme (£000)	20,166	5,875	2,938	2,303
Funded by:				
Government Grant	670	670	670	670
Borrowing	13,428	5,205	2,268	1,633
Capital receipts	4,380	0	0	0
Revenue or reserves	1,687	0	0	0
Total Funding	20,166	5,875	2,938	2,303

Housing Revenue Account	2021/22	2022/23	2023/24	2024/25
HRA Capital Programme (£000)	15,559	13,650	12,124	11,897
Funded by:				
Government Grant	375	192	191	191
Developer Contributions	271	4	0	0
RTB receipts	4,290	2,750	2,608	2,642
Capital receipts	1,073	400	400	400
Revenue or reserves	9,550	10,303	8,926	8,664
Total Funding	15,559	13,650	12,124	11,897

Commentary on VFM arrangements

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

Based on the considerations and views formed in this section, we are satisfied there is not a significant weakness in the Council’s arrangements in relation to improving economy, efficiency and effectiveness.




3. VFM arrangements – Improving Economy, Efficiency and Effectiveness

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

Performance Management

The Council's Delivery Plan sets out the Council's priorities and objectives for the period covered by the Plan. The core themes in the Plan are:

- Supporting Coalville to be a more vibrant family-friendly town
- Our communities are safe, healthy, and connected
- Local people live in high quality, affordable homes
- Support for businesses and helping people into local jobs
-  Developing a clean green district.

Each of the themes have a detailed delivery plan in place with specific indicators to measure success.

As part of the Council's Performance Management and Continuous Improvement Framework all service areas have objectives which form part of the Council's delivery plan and Key Performance Indicators. These are reported on a quarterly basis to Cabinet to enable adequate levels of oversight on progress in detail to allow action to be taken as required.

Partnerships

The Council has a number of partnership arrangements in place, through which the Council works to deliver services in line with its ambitions and priorities. These include having shared service for internal audit and being a part of the Leicester and Leicestershire Enterprise Partnership (LLEP) which aims to drive economic prosperity across the Leicester and Leicestershire area through strong partnerships, robust intelligence and innovation. There are relevant governance frameworks in place for these arrangements and the Council continues to keep its role in these activities under review.

Procurement

The Council has a Procurement Strategy and set of Contract Procurement Rules 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.

Based on the above considerations we are satisfied there is not a significant weakness in the Council's arrangements in relation to improving economy, efficiency and effectiveness.

04

Section 04:

Other reporting responsibilities and our fees

47

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 expect our final audit fees to be as follows.

Area of work	2020/21 fees	2021/22 (estimate)
Scale fee in respect of our work under the Code of Audit Practice	£38,902	£38,902
Additional fees in respect of the new VFM approach (Year 1)	£8,770	£7,500
Additional fee for VFM significant weaknesses	£3,000	-
Additional fees in respect of:		
• Prior period error	£4,080	-
• Additional testing on IAS19 Pension Liabilities*	£3,740	£3,740
• Additional testing on valuation of land, buildings, council dwellings and investment properties*	£6,200	£6,200
• Additional work arising from introduction of new auditing standards (ISA 540 Estimates)	£3,590	£3,590
• Additional checks required for the emphasis of matters in relation to the material valuation uncertainty clause caused by covid-19	£1,000	-
• Delayed audit, including redeployment of staff, and addressing issues in asset valuation and other audit adjustments	£7,500	-
Total fees	£76,782	£59,932

*In respect of additional testing expectations raised by the regulator. The Council was provided with a grant of £20,054 to contribute towards additional audit fees.

All fee variations are subject to approval and confirmation by Public Sector Audit Appointments Limited.

Fees for other work

We confirm that we undertook the following non-audit services for the Council in the year:

- Certification of the Housing Benefit Subsidy Claim £8,120
- Pooling of Housing Capital Receipts Return £3,100

Mark Surridge, Director – Public Services

Mark.Surridge@mazars.co.uk

Mazars

2 Chamberlain Square,
Birmingham
B3 3AX

Mazars is an internationally integrated partnership, specialising in audit, accountancy, advisory, tax and legal services*. Operating in over 90 countries and territories around the world, we draw on the expertise of 40,400 professionals – 24,400 in Mazars' integrated partnership and 16,000 via the Mazars North America Alliance – to assist clients of all sizes at every stage in their development.

*where permitted under applicable country laws.