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Meeting	AUDIT AND GOVERNANCE COMMITTEE
Time/Day/Date	6.30 pm on Wednesday, 21 April 2021
Location	Remote Meeting using Microsoft Teams
Officer to contact	Democratic Services (01530 454512)

AGENDA

Item	Pages
1. APOLOGIES FOR ABSENCE	
2. DECLARATION OF INTERESTS	
Under the Code of Conduct members are reminded that in declaring disclosable interests you should make clear the nature of that interest and whether it is pecuniary or non-pecuniary.	
3. MINUTES	
To confirm and sign the minutes of the meetings held on 20 January 2021	3 - 6
4. EXTERNAL AUDIT STRATEGY MEMORANDUM	
Report of the Head of Finance	7 - 44
5. 2019/20 ANNUAL AUDIT LETTER	
Report of the Head of Finance	45 - 60
6. TREASURY MANAGEMENT STEWARDSHIP REPORT 2020/21	
Report of the Finance Team Manager	61 - 76
7. ACCOUNTING POLICIES AND MATERIALITY 2020/21	
Report of the Finance Team Manager	77 - 98
8. INTERNAL AUDIT PROGRESS REPORT	
Report of the Audit Manager	99 - 122

9.	INTERNAL AUDIT 2021/22 ANNUAL AUDIT PLAN.	
	Report of the Audit Manager	123 - 130
10.	STANDARDS AND ETHICS - QUARTER 4 REPORT	
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11.	DRAFT MEMBER CONDUCT ANNUAL REPORT	
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12.	CORPORATE RISK UPDATE	
	Report of the Strategic Director of Housing and Customer Services	151 - 164
13.	RENEWABLE HEATING INCETIVE (RHI) - UPDATE REPORT	
	Report of the Strategic Director of Housing and Customer Services	165 - 174

Circulation:

Councillor S Gillard (Chairman)
 Councillor D Harrison (Deputy Chairman)
 Councillor C C Benfield
 Councillor D Bigby
 Councillor J Clarke
 Councillor M D Hay
 Councillor K Merrie MBE
 Councillor V Richichi
 Councillor S Sheahan
 Councillor M B Wyatt

MINUTES of a meeting of the AUDIT AND GOVERNANCE COMMITTEE held in the Remote Meeting using Microsoft Teams on WEDNESDAY, 20 JANUARY 2021

Present: Councillor S Gillard (Chairman)

Councillors C C Benfield, D Bigby, J Clarke, M D Hay, V Richichi, S Sheahan and M B Wyatt

Officers: Mr A Barton, Beavis, Mrs T Bingham, Mr T Delaney, M D'Oyly-Watkins, Mrs L Marron, Mrs R Wallace and Miss E Warhurst

External Audit: M Butler and Mr M Surridge

34. APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillors D Harrison and K Merrie.

35. DECLARATION OF INTERESTS

There were no declarations of interest.

36. MINUTES

Consideration was given to the minutes of the meeting held on 24 November 2020.

It was moved by Councillor J Clarke, seconded by Councillor V Richichi and by affirmation of the meeting it was

RESOLVED THAT:

The minutes of the meeting held on 24 November 2020 be approved as a correct record.

37. COMMITTEE WORK PLAN

The Committee considered its current work plan.

By affirmation of the meeting it was

RESOLVED THAT:

The Committee work plan be noted.

38. 2019/20 AUDIT COMPLETION REPORT

The External Auditors presented the report to Members.

Members were asked to reaffirm the resolutions made at the previous meeting in relation to the approval of the management representation letter.

It was moved by Councillor J Clarke, seconded by Councillor S Gillard and by affirmation of the meeting it was

RESOLVED THAT:

- 1) The report be noted.
- 2) The agreement of the management representation letter made at the meeting on 24 November be reaffirmed.

39. INTERNAL AUDIT PROGRESS REPORT

The Audit Manager presented the report to Members.

It was moved by Councillor S Sheahan, seconded by Councillor V Richichi and by affirmation of the meeting it was

RESOLVED THAT:

The report be noted.

40. EXTERNAL QUALITY ASSESSMENT OF INTERNAL AUDIT

The Audit Manager presented the report to Members.

It was moved by Councillor S Gillard, seconded by Councillor V Richichi and by affirmation of the meeting it was

RESOLVED THAT:

The report be noted.

41. TREASURY MANAGEMENT ACTIVITY REPORT APRIL 2020 TO DECEMBER 2020

The Finance Team Manager presented the report to Members.

In response to a question regarding negative interest rates, the Finance Team Manager assured Members that all investments were monitored on a weekly basis. The Head of Finance also stressed the importance of protecting the cash invested.

It was moved by Councillor M Hay, seconded by Councillor D Bigby and by affirmation of the meeting it was

RESOLVED THAT:

The report be approved.

42. UPDATE ON STATUS OF IMPLEMENTATION OF ANNUAL GOVERNANCE STATEMENT IMPROVEMENTS

The Head of Finance presented the report to Members.

It was moved by Councillor S Gillard, seconded by Councillor J Clarke and by affirmation of the meeting it was

RESOLVED THAT:

The report be noted.

43. CORPORATE RISK UPDATE

The Strategic Director presented the report to Members.

A Member raised concerns regarding the perceived acceptance of the high-risk items as they were marked as being stable even though given a high rating. The Strategic Director explained that all highlighted risks were currently in the process of being reviewed and most already had measures in place to reduce the rating which were not yet complete. It

was agreed for more narrative to be included in reports around the high-risk ratings going forward.

It was moved by Councillor S Gillard, seconded by Councillor C Benfield and by affirmation of the meeting it was

RESOLVED THAT:

The report be noted.

At this point in the meeting; Councillor M B Wyatt left the meeting.

44. STANDARDS AND ETHICS - QUARTER 3 REPORT

The Head of Legal and Commercial Services presented the report to Members.

It was moved by Councillor V Richichi, seconded by Councillor J Clarke and by affirmation of the meeting it was

RESOLVED THAT:

The report be noted.

45. EXCLUSION OF PRESS AND PUBLIC

Concerns were raised on the confidentiality of the following item as some Members felt that the matter was of public interest and therefore should be considered in public. Members were given advice regarding matters of public interest and it was suggested that a further report could be brought back to the committee containing the information in a way that could be presented to the public, if required.

As a result of further discussions, Members were comfortable to discuss the matter in private if it was to be reported to the public in the future.

It was moved by Councillor V Richichi, seconded by Councillor J Clarke and by affirmation of the meeting it was

RESOLVED THAT:

In pursuance of Section 100A(4) of the Local Government Act 1972, the press and public be excluded from the remainder of the meeting on the grounds that the business to be transacted involves the likely disclosure of exempt information as defined in Paragraph 1,2 and 3 of Part 1 of Schedule 12A to the Act and that the public interest in maintaining this exemption outweighs the public interest in disclosing the information.

46. RENEWABLE HEATING INCENTIVE

The Strategic Director presented the report to Members

Following a full debate, Members felt that a public note should be added to the minutes and agreed on several points to be included.

Members agreed for the exact wording of the note to be drafted by the Strategic Director and circulated to the Committee. The final note would be agreed by the Chairman of the Committee.

It was moved by Councillor S Gillard, seconded by Councillor V Richichi and by affirmation of the meeting was

RESOLVED THAT:

- 1) The outcome of the management investigation into failure to claim external funding for the RHI programme be noted.
- 2) The 2021/22 Audit Programme include an item to consider high value grant claiming across the council.
- 3) The approach to reporting as set out in section three of the report be agreed.
- 4) A public note be added to the minutes reporting the failure to claim.
- 5) The Strategic Director, in consultation with the Chairman of the Audit and Governance Committee, be requested to draft the wording of the public note to include the points made by the Committee.
- 6) A further public report be considered at the next meeting of the Audit and Governance Committee covering the outstanding issues raised.

Councillor M B Wyatt left the meeting at 7.00pm

The meeting commenced at 6.30 pm

The Chairman closed the meeting at 8.22 pm

Note:

As agreed by the Committee during the meeting the following note has been placed on the minutes in relation to minute no 46 – Renewable Heating Incentive:

This item covered a loss of £667k to the HRA capital fund, due to failing to claim grants from a government programme. The issue commenced in 2018/9, and was identified in 2019/20. This loss takes the form of a series of grant payments over a seven year period.

An internal investigation has been conducted and a series of corrective measures have been put in place to prevent a similar issue from occurring, and further work will build on the lessons learnt from this issue. The primary issue at fault was a failure of the council's first line controls at that time. The internal investigation also concluded it is not possible to take any further action regarding any member of staff.

The portfolio holder is intending to make a statement at the full council in February 2021 to ensure full transparency.

This committee will receive an update into the remaining outstanding issues they wished to be assessed. This includes a timeline of events, remedial actions put in place, and further consideration as to whether any retrospective action can be progressed.

NORTH WEST LEICESTERSHIRE DISTRICT COUNCIL

AUDIT AND GOVERNANCE COMMITTEE – WEDNESDAY, 21
APRIL 2021

Title of Report	AUDIT STRATEGY MEMORANDUM	
Presented by	Dan Bates Head of Finance and Section 151 Officer	
Background Papers	None	Public Report: Yes
Purpose of Report	To consider the External Audit Strategy Memorandum.	
Recommendations	THAT THE COMMITTEE NOTES THE AUDIT STRATEGY MEMORANDUM FOR 2020/21.	

1.0 BACKGROUND

- 1.1 Mazars LLP were appointed to audit the accounts of the Council for five years, for the accounts from 2018/19 to 2022/23. The appointment was made under regulation 13 of the Local Audit (Appointing Person) Regulations 2015 and was approved by the Public Sector Appointments Limited (PSAA Ltd) Board in December 2017. PSAA Ltd are a company incorporated by the Local Government Association to manage an opt-in scheme for public bodies in appointing auditors, setting scales of fees and ensuring effective management of contracts with audit firms for the delivery of external audit services.
- 1.2 Mazars LLP have provided the Audit Strategy Memorandum for the forthcoming audit of the Council's accounts, as attached at Appendix A. A representative from Mazars will be in attendance at the meeting to present their plan to the committee.
- 1.3 The purpose of the document is to summarise the audit approach, highlight significant audit risks and areas of key judgements and provide details of the audit team. The Audit Strategy Memorandum focuses around three key objectives:
- Audit Opinion – providing an opinion of the accounts, including the Annual Governance Statement and narrative report.
 - Going Concern – concluding of the appropriateness of the Section 151 use of going concern basis of accounting in the preparation of the financial statements
 - Value for Money – concluding on the arrangements that the Council has in place to secure economy, efficiency and effectiveness in its use of resources.
- 1.4 The proposed fee for undertaking the 2020/21 audit work (as detailed in Section 6 of the Audit Strategy Memorandum) is £57,969. Additional fees of £19,067 have been proposed compared to the scale fee set by the PSAA due to additional testing required due on Property, Plant and Equipment, testing on new accounting standards and additional work required arising from change in the Code of Practice. Further details are available in Appendix A.

Policies and other considerations, as appropriate	
Council Priorities:	An unqualified audit opinion on the Council's financial statements and conclusion on the Council's value for money arrangements underpins all of the Council's priorities.
Policy Considerations:	None
Safeguarding:	None
Equalities/Diversity:	None
Customer Impact:	None
Economic and Social Impact:	None
Environment and Climate Change:	None
Consultation/Community Engagement:	None
Risks:	The External Audit is an essential part of the Council's arrangements for compliance with laws and regulations, as well as maintaining good Value for Money.
Officer Contact	Dan Bates Head of Finance and Section 151 Officer Dan.Bates@nwleicestershire.gov.uk

Audit Strategy Memorandum

North West Leicestershire District Council

Year ending 31 March 2021



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- 06** Value for Money
- 07** Fees for audit and other services
- 08** Our commitment to independence
- 09** Materiality and misstatements

Appendix – Key communication points

This document is to be regarded as confidential to North West Leicestershire District Council. It has been prepared for the sole use of the Audit and Governance Committee as the appropriate sub-committee charged with governance. No responsibility is accepted to any other person in respect of the whole or part of its contents. Our written consent must first be obtained before this document, or any part of it, is disclosed to a third party.

Audit and Governance Committee
North West Leicestershire District Council
Council Offices
Whitwick Rd
Coalville
LE67 3FJ

Mazars LLP
2 Chamberlain Square
Birmingham
B3 3AX

25 February 2021

Dear Audit Committee Members

Audit Strategy Memorandum – Year ending 31 March 2021

We are pleased to present our Audit Strategy Memorandum for North West Leicestershire District Council for the year ending 31 March 2021. The purpose of this document is to summarise our audit approach, highlight significant audit risks and areas of key judgements and provide you with the details of our audit team. As it is a fundamental requirement that an auditor is, and is seen to be, independent of its clients, section 8 of this document also summarises our considerations and conclusions on our independence as auditors. We consider two-way communication with you to be key to a successful audit and important in:

- reaching a mutual understanding of the scope of the audit and the responsibilities of each of us;
- ~~sharing~~ sharing information to assist each of us to fulfil our respective responsibilities;
- providing you with constructive observations arising from the audit process; and
- ensuring that we, as external auditors, gain an understanding of your attitude and views in respect of the internal and external operational, financial, compliance and other risks facing North West Leicestershire District Council which may affect the audit, including the likelihood of those risks materialising and how they are monitored and managed.

With that in mind, we see this document, which has been prepared following our initial planning discussions with management, as being the basis for a discussion around our audit approach, any questions, concerns or input you may have on our approach or role as auditor. This document also contains an appendix that outlines our key communications with you during the course of the audit,

Client service is extremely important to us and we strive to provide technical excellence with the highest level of service quality, together with continuous improvement to exceed your expectations so, if you have any concerns or comments about this document or audit approach, please contact me at mark.surridge@mazars.co.uk.

Yours faithfully

Signed:

Mark Surridge

Mazars LLP

Mazars LLP – 2 Chamberlain Square, Birmingham, B3 3AX

Tel: 0121 232 9500 – Fax: 0121 232 9501 – www.mazars.co.uk

Mazars LLP is the UK firm of Mazars, an integrated international advisory and accountancy organisation. Mazars LLP is a limited liability partnership registered in England and Wales with registered number OC308299 and with its registered office at Tower Bridge House, St Katharine's Way, London E1W 1DD.

We are registered to carry on audit work in the UK by the Institute of Chartered Accountants in England and Wales. Details about our audit registration can be viewed at www.auditregister.org.uk under reference number C001139861. VAT number: 839 8356 73

01

Section 01:

Engagement and responsibilities summary

1. Engagement and responsibilities summary

Overview of engagement

We are appointed to perform the external audit of North West Leicestershire District Council (the Council) for the year to 31 March 2021. The scope of our engagement is set out in the Statement of Responsibilities of Auditors and Audited Bodies, issued by Public Sector Audit Appointments Ltd (PSAA) available from the PSAA website: <https://www.psaa.co.uk/managing-audit-quality/statement-of-responsibilities-of-auditors-and-audited-bodies/>. Our responsibilities are principally derived from the Local Audit and Accountability Act 2014 (the 2014 Act) and the Code of Audit Practice issued by the National Audit Office (NAO), as outlined below.



Audit opinion

We are responsible for forming and expressing an opinion on the financial statements. Our audit does not relieve management or the Audit and Governance Committee, as those charged with governance, of their responsibilities.



Going concern

The Council is required to prepare its financial statements on a going concern basis by the Code of Practice on Local Authority Accounting. The section 151 officer is responsible for the assessment of whether it is appropriate for the Council to prepare its accounts on a going concern basis. As auditors, we are required to obtain sufficient appropriate audit evidence regarding, and conclude on the appropriateness of the section 151 officer's use of the going concern basis of accounting in the preparation of the financial statements and the adequacy of disclosures made.



Value for money

We are also responsible for reaching a conclusion on the arrangements that the Council has in place to secure economy, efficiency and effectiveness in its use of resources. We discuss our approach to Value for Money work further in section 5 of this report.



Electors' rights

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 consider any objection made to the accounts. We also have a broad range of reporting responsibilities and powers that are unique to the audit of local authorities in the United Kingdom.



Fraud

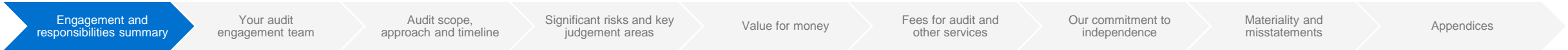
The responsibility for safeguarding assets and for the prevention and detection of fraud, error and non-compliance with law or regulations rests with both those charged with governance and management. This includes establishing and maintaining internal controls over reliability of financial reporting.

As part of our audit procedures in relation to fraud we are required to enquire of those charged with governance, including key management (include Internal audit, other key individuals where relevant) as to their knowledge of instances of fraud, the risk of fraud and their views on internal controls that mitigate the fraud risks. In accordance with International Standards on Auditing (UK), we plan and perform our audit so as to obtain reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. However, our audit should not be relied upon to identify all such misstatements.



Reporting to the NAO

We report to the NAO on the consistency of the Council's financial statements with its Whole of Government Accounts (WGA) submission. We expect that North West Leicestershire District Council will be below the thresholds required for this reporting, but we are required to issue an assurance statement to the National Audit Office confirming income, expenditure, assets and liabilities of the Council.



02

Section 02:

Your audit engagement team

2. Your audit engagement team

Your external audit service continues to be led by Mark Surridge.

Who	Role	E-mail
Mark Surridge	Engagement Lead	Mark.Surridge@mazars.co.uk
Michael Butler	Engagement Manager	Michael.Butler@mazars.co.uk
Leah Fanning	Engagement Assistant Manager	Leah.Fanning@mazars.co.uk



Engagement and responsibilities summary	Your audit engagement team	Audit scope, approach and timeline	Extended auditor's report	Significant risks and key judgement areas	Fees for audit and other services	Our commitment to independence	Materiality and misstatements	Appendices
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03

Section 03:

Audit scope, approach and timeline

3. Audit scope, approach and timeline

Audit scope

Our audit approach is designed to provide an audit that complies with all professional requirements.

Our audit of the financial statements will be conducted in accordance with International Standards on Auditing (UK), relevant ethical and professional standards, our own audit approach and in accordance with the terms of our engagement. Our work is focused on those aspects of your business which we consider to have a higher risk of material misstatement, such as those impacted by management judgement and estimation, application of new accounting standards, changes of accounting policy, changes to operations or areas which have been found to contain material errors in the past.

Audit approach

Our audit approach is a risk based approach primarily driven by the risks we consider to result in a higher risk of material misstatement of the financial statements. Once we have completed our risk assessment, we develop our audit strategy and design audit procedures in response to this assessment.

If we conclude that appropriately designed controls are in place then we may plan to test and rely upon these controls. If we decide controls are not appropriately designed, or we decide it would be more efficient to do so, we may take a wholly substantive approach to our audit testing. Substantive procedures are audit procedures designed to detect material misstatements at the assertion level and comprise: tests of details (of classes of transactions, account balances, and disclosures); and substantive analytical procedures. Irrespective of the assessed risks of material misstatement, which take into account our evaluation of the operating effectiveness of controls, we are required to design and perform substantive procedures for each material class of transactions, account balance, and disclosure.

Our audit will be planned and performed so as to provide reasonable assurance that the financial statements are free from material misstatement and give a true and fair view. The concept of materiality and how we define a misstatement is explained in more detail in section 8.

The diagram on the next page outlines the procedures we perform at the different stages of the audit.



3. Audit scope, approach and timeline

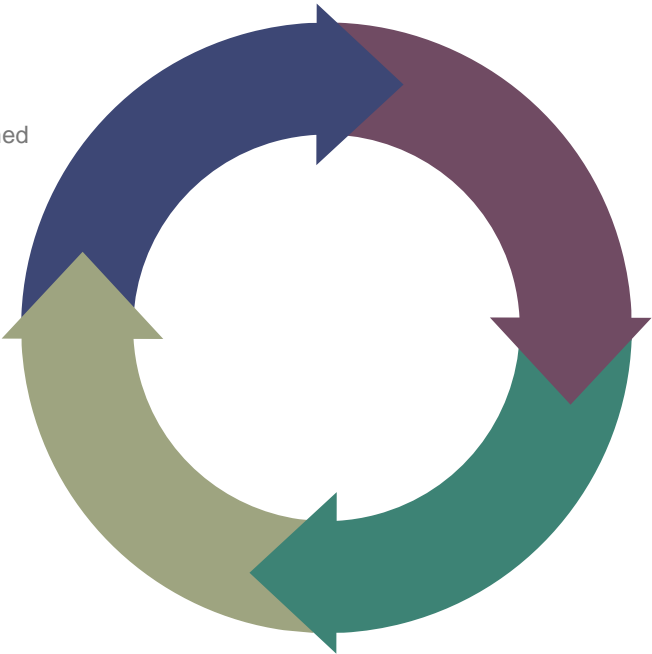
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Planning (January 2021)

- Planning visit and developing our understanding of the Council
- Initial opinion and value for money risk assessments
 - Considering proposed accounting treatments and accounting policies
 - Developing the audit strategy and planning the audit work to be performed
 - Agreeing timetable and deadlines
 - Preliminary analytical review

Completion (September 2021)

- Final review and disclosure checklist of financial statements
- Final partner and EQCR review
 - Agreeing content of letter of representation
 - Reporting to the Audit and Governance Committee
 - Reviewing subsequent events
 - Signing the auditor's report



Interim (March 2021)

- Documenting systems and controls
- Performing walkthroughs
 - Interim controls testing including tests of IT general controls and application controls
 - Early substantive testing of transactions
 - Reassessment of audit plan and revision if necessary

Fieldwork (July- August 2021)

- Receiving and reviewing draft financial statements
- Reassessment of audit plan and revision if necessary
 - Executing the strategy starting with significant risks and high risk areas
 - Communicating progress and issues
 - Clearance meeting



3. Audit scope, approach and timeline

Reliance on internal audit

Where possible we will seek to utilise the work performed by internal audit to modify the nature, extent and timing of our audit procedures. We will meet with internal audit to discuss the progress and findings of their work prior to the commencement of our controls evaluation procedures.

Where we intend to rely on the work on internal audit, we will evaluate the work performed by your internal audit team and perform our own audit procedures to determine its adequacy for our audit.

Management’s and our experts

Management makes use of experts in specific areas when preparing the Council’s financial statements. We also use experts to assist us to obtain sufficient appropriate audit evidence on specific items of account.

Item of account	Management’s expert	Our expert
Defined benefit liability	Hymans Robertson Actuary for Leicestershire Pension Fund	PWC Consulting actuary appointed by the NAO
Property, plant and equipment valuation	Internal Valuer Valuation of Council Dwellings External Valuer-Wilks, Head and Eve LLP <i>Other PPE Assets and Investment Properties</i>	None. We expect to use third party information provided via the NAO to support our challenge of valuation assumptions.
Financial instrument disclosures	Link Asset Management Treasury management advisors	None judged necessary

Service organisations

International Auditing Standards (UK) (ISAs) define service organisations as third party organisations that provide services to the Council that are part of its information systems relevant to financial reporting. We are required to obtain an understanding of the services provided by service organisations as well as evaluating the design and implementation of controls over those services. The table below summarises the service organisations used by the Council and our planned audit approach.

Items of account	Service organisation	Audit approach
Pension cost (cost of services) Net Interest on defined benefit liability Re-measurements of the net defined benefit liability (OCI) Net Pension liability	Leicestershire Pension Fund <i>The IAS 19 pension entries that form part of the Council’s financial statements are material and are derived from actuarial valuations. The process of obtaining these is co-ordinated by and uses information held and processed by the service organisation.</i>	We will review the controls operating at the Council over these transactions to gain an understanding of the services provided by the service organisation. Where we conclude that we do not have a sufficient understanding of the services provided by the service organisation we will seek to obtain assurance by undertaking additional audit procedures.
Council Tax (CT) Revenue, debtors and creditors Business rates (BR) Revenue, debtors and creditors Housing Benefits (HB) Expenditure	Leicestershire Revenues and Benefits Partnership <i>The Council is a member of the partnership which manages the billing and collection of CT and BR revenue and carries the processing of HB applications and payments.</i>	



04

Section 04:

**Significant risks and other key
judgement areas**

4. Significant risks and other key judgement areas

Following the risk assessment approach discussed in section 3 of this document, we have identified relevant risks to the audit of financial statements. The risks that we identify are categorised as significant, enhanced or standard. The definitions of the level of risk rating are given below:

Significant risk

A significant risk is an identified and assessed risk of material misstatement that, in the auditor's judgment, requires special audit consideration. For any significant risk, the auditor shall obtain an understanding of the entity's controls, including control activities relevant to that risk.

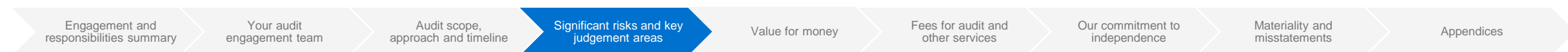
Enhanced risk

An enhanced risk is an area of higher assessed risk of material misstatement ('RMM') at audit assertion level other than a significant risk. Enhanced risks require additional consideration but does not rise to the level of a significant risk, these include but may not be limited to:

- key areas of management judgement, including accounting estimates which are material but are not considered to give rise to a significant risk of material misstatement; and
- other audit assertion risks arising from significant events or transactions that occurred during the period.

Standard risk

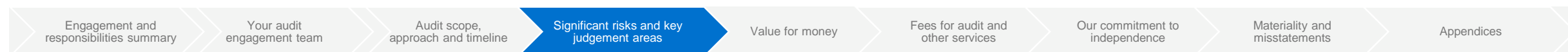
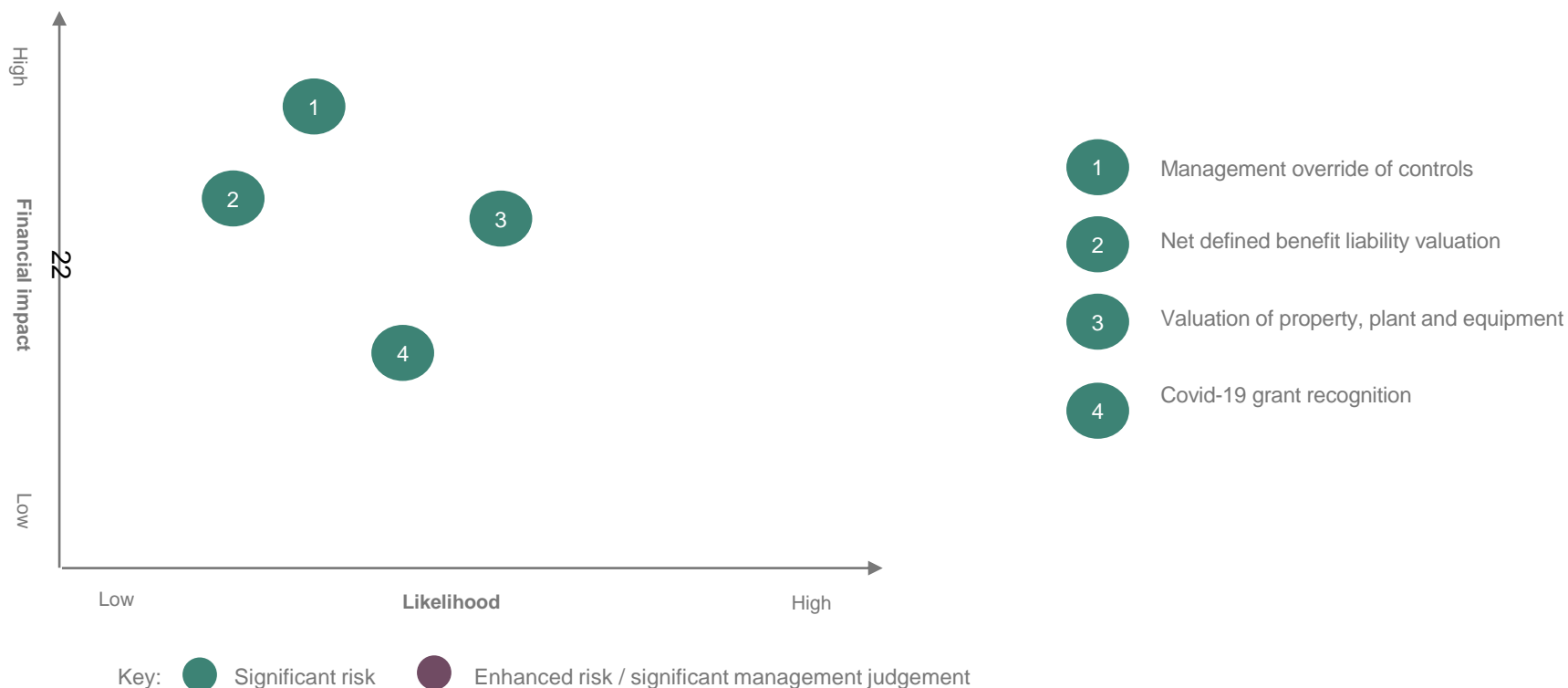
This is related to relatively routine, non-complex transactions that tend to be subject to systematic processing and require little management judgement. Although it is considered that there is a risk of material misstatement (RMM), there are no elevated or special factors related to the nature, the likely magnitude of the potential misstatements or the likelihood of the risk occurring.



4. Significant risks and other key judgement areas

Summary risk assessment

The summary risk assessment, illustrated in the table below, highlights those risks which we deem to be significant and other enhanced risks in respect of the Council. We have summarised our audit response to these risks on the next page.



4. Significant risks and other key judgement areas

Specific identified audit risks and planned testing strategy

We have presented below in more detail the reasons for the risk assessment highlighted above, and also our testing approach with respect to significant risks. An audit is a dynamic process, should we change our view of risk or approach to address the identified risks during the course of our audit, we will report this to the Audit and Governance Committee.

Significant risks

	Description	Fraud	Error	Judgement	Planned response
1	Management override of controls This is a mandatory significant risk on all audits due to the unpredictable way in which such override could occur. Management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur there is a risk of material misstatement due to fraud on all audits.	●	-	-	We plan to address the management override of controls risk through performing audit work over accounting estimates, journal entries and significant transactions outside the normal course of business or otherwise unusual.

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4. Significant risks and other key judgement areas

Significant risks

	Description	Fraud	Error	Judgement	Planned response
2	<p>Net defined benefit liability valuation</p> <p>The defined benefit liability relating to the Local Government pension scheme represents a significant balance on the Council's balance sheet.</p> <p>The Council uses an actuary to provide an annual valuation of these liabilities in line with the requirements of IAS 19 Employee Benefits.</p> <p>Due to the high degree of estimation uncertainty associated with this valuation, we have determined there is a significant risk in this area.</p>	-	●	●	<p>We plan to address this risk by:</p> <ul style="list-style-type: none"> critically assess the competency, objectivity and independence of the Leicestershire Pension Fund's Actuary; liaise with the auditors of the Leicestershire Pension Fund to gain assurance that the controls in place at the Pension Fund are operating effectively. This will 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; test payroll transactions at the Council to provide assurance over the pension contributions which are deducted and paid to the Pension Fund by the Council; review the appropriateness of the Pension Asset and Liability valuation methodologies applied by the Pension Fund Actuary, and the key assumptions included within the valuation. This will include comparing them to expected ranges, utilising information by PWC and consulting actuary engaged by the National Audit Office; and agree the data in the IAS 19 valuation report provided by the Fund Actuary for accounting purposes to the pension accounting entries and disclosures in the Council's financial statements.
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4. Significant risks and other key judgement areas

Significant risks

	Description	Fraud	Error	Judgement	Planned response
3	<p>Valuation of property, plant and equipment</p> <p>Land and buildings are a significant balance on the Council's balance sheet.</p> <p>The valuation of land and buildings is complex and is subject to a number of management assumptions and judgements.</p> <p>Due to the high degree of estimation uncertainty associated, we have determined there is a significant risk in this area.</p> <p>This risk covers:</p> <ul style="list-style-type: none"> - HRA Council Dwellings - Investment Properties - Other material PPE related assets held at fair value 	-	●	●	<p>We plan to address this risk by:</p> <ul style="list-style-type: none"> • critically assess the Council's valuers scope of work, qualifications, objectivity and independence to carry out the required programme of revaluations; • consider 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; • assess whether valuation movements are in line with market expectations by using third party information provided by Gerald Eve to provide information on regional valuation trends; • critically assess the treatment of the upward and downward revaluation movements in the Council's financial statements with regards to the requirements of the CIPFA Code of Practice; • critically assess the approach that the Council adopts to ensure that assets are not subject to revaluation in 2020/21 are materially correct, including considering the robustness of that approach in light of the valuation information reported by the Council's valuers; and • test a sample of items of capital expenditure, disposals and reclassifications (where balances are material) to confirm that the amounts used and accounting treatment applied is appropriate in line with the CIPFA Code of Practice.

Engagement and responsibilities summary

Your audit engagement team

Audit scope, approach and timeline

Significant risks and key judgement areas

Value for money

Fees for audit and other services

Our commitment to independence

Materiality and misstatements

Appendices

4. Significant risks and other key judgement areas

Significant risks

	Description	Fraud	Error	Judgement	Planned response
4	<p>Covid-19 grant recognition</p> <p>Throughout 2020/21, the Government has provided substantial sums of financial support to local authorities including sums that have been passed through to businesses. The Council needs to ensure it applies the correct accounting treatment for these funds.</p> <p>We therefore identified the completeness and accuracy of this income as a significant audit risk for 2020/21.</p>	-	●	●	<p>We plan to address this risk by:</p> <ul style="list-style-type: none"> • Reviewing the Council's approach in determining whether grants are or are not ringfenced for specified areas of expenditure; • Testing grant income recorded in the ledger to grant allocations/ notifications; and • Reviewing a sample of grants to ensure conditions to recognise the income in 2020/21 have or have not been met.

05

Section 05: **Value for Money**

9. Value for money conclusion

The framework for Value for Money work

We are required to form a view as to 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 in order to form our view, and sets out the overall criterion and sub-criteria that we are required to consider.

The new Code of Audit Practice (the Code) has changed the way in which we report our findings in relation to Value for Money (VFM) arrangements from 2020/21. Whilst we are still required to be satisfied that the Council has proper arrangements in place, we will now report by exception in our auditor's report where we have identified significant weakness in those arrangements. This is a significant change to the requirements under the previous Code which required us to give a conclusion on the Council's arrangements as part of our auditor's report.

Under the new Code, the key output of our work on VFM arrangements will be a commentary on those arrangements which will form part of the Auditor's Annual Report.

Specified reporting criteria

The Code requires us to structure our commentary to report under three specified criteria:

1. **Financial sustainability** – how the Council plans and manages its resources to ensure it can continue to deliver its services
2. **Governance** – how the Council ensures that it makes informed decisions and properly manages its risks
3. **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

Our approach

Our work falls into three primary phases as outlined opposite. We need to gather sufficient evidence to support our commentary on the Council's arrangements and to identify and report on any significant weaknesses in arrangements. Where significant weaknesses are identified we are required to report these to the Council and make recommendations for improvement. Such recommendations can be made at any point during the audit cycle and we are not expected to wait until issuing our overall commentary to do so.

Planning and risk assessment

Obtaining an understanding of the Council's arrangements for each specified reporting criteria. Relevant information sources will include:

- NAO guidance and supporting information
- Information from internal and external sources including regulators
- Knowledge from previous audits and other audit work undertaken in the year
- Interviews and discussions with staff and members.

Additional risk based procedures and evaluation

Where our planning work identifies risks of significant weaknesses, we will undertake additional procedures to determine whether there is a significant weakness.

Reporting

We will provide a summary of the work we have undertaken and our judgements against each of the specified reporting criteria as part of our commentary on arrangements. This will form part of the Auditor's Annual Report.

Our commentary will also highlight:

- Significant weaknesses identified and our recommendations for improvement
- Emerging issues or other matters that do not represent significant weaknesses but still require attention from the Council.

Engagement and responsibilities summary

Your audit engagement team

Audit scope, approach and timeline

Extended auditor's report

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Appendices

9. Value for money conclusion

Under the 2020 Code, we are required to structure our commentary on the Trust's 'proper arrangements' under three specified reporting criteria, which are expanded in the supporting guidance notes produced by the National Audit Office:

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

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

Governance: how the body ensures that it makes informed decisions and properly manages its risks, including

- how the body monitors and assesses risk and how the body gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud
- how the body approaches and carries out its annual budget setting process
- how the body ensures effective processes and systems are in place to ensure budgetary control; to communicate relevant, accurate and timely management information (including non-financial information where appropriate); supports its statutory financial reporting requirements; and ensures corrective action is taken where needed
- how the body ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency. This includes arrangements for effective challenge from those charged with governance/audit committee
- how the body monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of officer or member behaviour (such as gifts and hospitality or declarations/conflicts of interests).

Improving VFM: how the body uses information about its costs and performance to improve the way it manages and delivers its services

- how financial and performance information has been used to assess performance to identify areas for improvement
- how the body evaluates the services it provides to assess performance and identify areas for improvement
- how the body ensures it delivers its role within significant partnerships, engages with stakeholders it has identified, monitors performance against expectations, and ensures action is taken where necessary to improve
- where the body commissions or procures services, how the body ensures that this is done in accordance with relevant legislation, professional standards and internal policies, and how the body assesses whether it is realising the expected benefits.

06

Section 06:

Fees for audit and other services

7. Fees for audit and other services

Fees for work as the Council’s appointed auditor

Details of the 2019/20 Actual and 2020/21 Audit fees in line with PSAA and other reporting mechanisms are set out below:

Area of work	2020/21 Proposed Fee	2019/20 Actual Fee
Scale audit fee	£38,902	£42,552
Fee variations:		
Additional Testing on Property, Plant & Equipment and Defined Benefit Pensions Schemes as a result of changes in regulatory expectations	£7,067 ¹	£7,067
Additional testing as a result of the implementation of new auditing standards: ISA 220 (Revised): Quality control of an audit of financial statements; ISA 540 (Revised): Auditing accounting estimates and related disclosures; ISA570 (Revised) Going Concern; and ISA 600 (Revised): Specific considerations – audit of group financial statements.	£2,000 ²	-
Other additional costs	TBC	£5,032 ³
Sub-total	£47,969	£54,651
Additional work arising from the change in the Code of Audit Practice	£10,000 ⁴	-
Total	£57,969 ⁵	£54,651

¹ As previously reported to you, the scale fee has been adjusted to take into account the additional work required as a result of increased regulatory expectations over these areas.

² For 2020/21, two new auditing standards have been introduced incurring additional time and audit work not reflected in the scale fee. Additional testing as a result of the implementation of IFRS 16 Leases is deferred to the financial year 2021/22.

³ The additional audit costs in 2019/20 will be disclosed within our Annual Audit Letter, and presented at a future Audit and Governance Committee. This mainly relates to additional testing and reporting of uncertainties in key estimates as a result of Covid-19.

⁴ As explained in section 5, the revised Code of Audit Practice results in a substantial amount of additional audit work to support the value for money conclusion and the changes in reporting requirements, requiring additional time and input from the senior members of the team. Our review of the Code and supporting guidance notes shows that the additional fee impact at all public sector entities is expected to be at least £10,000. The final fee will take into account the extent, and complexity of, any significant weaknesses in arrangements to review and report upon.

⁵ This is a proposed fee for 2020/21 at the point of the issue of our ASM. This figure is subject to change and additional costs will be discussed with management, for example material valuation uncertainty on asset valuations as a result of Covid-19.

07

Section 07:

Our commitment to independence

8. Our commitment to independence

We are committed to independence and are required by the Financial Reporting Council to confirm to you at least annually in writing that we comply with the FRC's Ethical Standard. In addition, we communicate any matters or relationship which we believe may have a bearing on our independence or the objectivity of the audit team.

The Ethical Standard 2019 is applicable for any non-audit services commencing on or after 15 March 2020.

Based on the information provided by you and our own internal procedures to safeguard our independence as auditors, we confirm that in our professional judgement there are no relationships between us and any of our related or subsidiary entities, and you and your related entities creating any unacceptable threats to our independence within the regulatory or professional requirements governing us as your auditors.

We have policies and procedures in place which are designed to ensure that we carry out our work with integrity, objectivity and independence. These policies include:

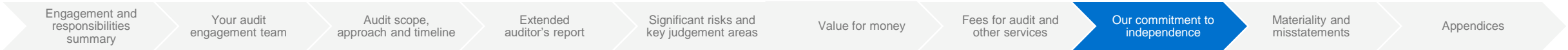
- All partners and staff are required to complete an annual independence declaration;
- All new partners and staff are required to complete an independence confirmation and also complete computer based ethical training;
- Rotation policies covering audit engagement partners and other key members of the audit team; and
- Use by managers and partners of our client and engagement acceptance system which requires all non-audit services to be approved in advance by the audit engagement partner.

We confirm, as at the date of this document, that the engagement team and others in the firm as appropriate, Mazars LLP are independent and comply with relevant ethical requirements. However, if at any time you have concerns or questions about our integrity, objectivity or independence please discuss these with Mark Surridge in the first instance.

Prior to the provision of any non-audit services Mark Dalton will undertake appropriate procedures to consider and fully assess the impact that providing the service may have on our auditor independence.

Principal threats to our independence and identified associated safeguards in relation to the planned non-audit work for 2020/21 are set out below. Any emerging independence threats and associated identified safeguards will be communicated in our Audit Completion Report.

Service	Considerations
Housing Benefits Subsidy Assurance	<p>We have considered threats and safeguards as follows:</p> <ul style="list-style-type: none">• Self Review: The work does not involve the preparation of information that has a material impact upon the financial statements subject to audit by Mazars;• Self Interest: The total fee level is not deemed to be material to the Council or Mazars. The work undertaken is not paid on a contingency basis;• Management: The work does not involve Mazars making any decisions on behalf of management;• Advocacy: The work does not involve Mazars advocating the Council to third parties;• Familiarity: Work is not deemed to give rise to a familiarity threat given this piece of assurance work used to fall under the Audit Commission / PSAA certification regimes and was the responsibility of the Council's appointed auditor; and• Intimidation: The nature of the work does not give rise to any intimidation threat from management to Mazars.



08

Section 08:

Materiality and other misstatements

9. Materiality and misstatements

Summary of initial materiality thresholds

Threshold	Initial threshold £'000s
Overall materiality	1,063
Performance materiality	850
Trivial threshold for errors to be reported to the Audit and Governance Committee	32
<u>Specific materiality:</u>	
Senior Officer Remuneration	5
Audit fee	8
Members Allowances	47

Materiality

Materiality is an expression of the relative significance or importance of a particular matter in the context of financial statements as a whole.

Misstatements in financial statements are considered to be material if they, individually or in aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Judgements on materiality are made in light of surrounding circumstances and are affected by the size and nature of a misstatement, or a combination of both. Judgements about materiality are based on consideration of the common financial information needs of users as a group and not on specific individual users.

The assessment of what is material is a matter of professional judgement and is affected by our perception of the financial information needs of the users of the financial statements. In making our assessment we assume that users:

- Have a reasonable knowledge of business, economic activities and accounts;

- Have a willingness to study the information in the financial statements with reasonable diligence;
- Understand that financial statements are prepared, presented and audited to levels of materiality;
- Recognise the uncertainties inherent in the measurement of amounts based on the use of estimates, judgement and the consideration of future events; and
- Will make reasonable economic decisions on the basis of the information in the financial statements.

We consider materiality whilst planning and performing our audit based on quantitative and qualitative factors.

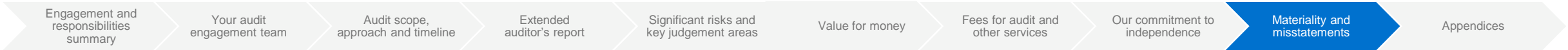
Whilst planning, we make judgements about the size of misstatements which we consider to be material and which provides a basis for determining the nature, timing and extent of risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature, timing and extent of further audit procedures.

The materiality determined at the planning stage does not necessarily establish an amount below which uncorrected misstatements, either individually or in aggregate, will be considered as immaterial.

We revise materiality for the financial statements as our audit progresses should we become aware of information that would have caused us to determine a different amount had we been aware of that information at the planning stage.

We expect to set materiality based on a benchmark of at 2% of gross revenue expenditure. We will identify a figure for materiality but identify separate levels for procedures design to detect individual errors, and also a level above which all identified errors will be reported to the Audit and Governance Committee.

Based on 2019/20 audited financial statements, we anticipate the overall materiality for the year ending 31 March 2021 to be in the region of £1,063k.



9. Materiality and misstatements

Materiality (continued)

For Public Interest Entities, disclose also any separate specific materiality levels for particular classes of transactions, account balances or disclosures in compliance with ISA (UK) 260.16-2(h). Additionally, teams are expected to disclose the level of performance materiality applied given this is already disclosed in the auditor's report.

After setting initial materiality, we continue to monitor materiality throughout the audit to ensure that it is set at an appropriate level.

Performance Materiality

Performance materiality is the amount or amounts set by the auditor at less than materiality for the financial statements as a whole to reduce, to an appropriately low level, the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole. Our initial assessment of performance materiality is based on low inherent risk, meaning that we have applied 80% of overall materiality as performance materiality.

Misstatements

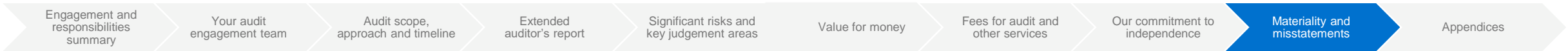
We accumulate misstatements identified during the audit that are other than clearly trivial. We set a level of triviality for individual errors identified (a reporting threshold) for reporting to the Audit and Governance Committee that is consistent with the level of triviality that we consider would not need to be accumulated because we expect that the accumulation of such amounts would not have a material effect on the financial statements. Based on our preliminary assessment of overall materiality, our proposed triviality threshold is

£32k based on 3% of overall materiality. If you have any queries about this please do not hesitate to raise these with Mark Surridge

Reporting to the Audit and Governance Committee

The following three types of audit differences will be presented to the Audit and Governance Committee:

- summary of adjusted audit differences;
- summary of unadjusted audit differences; and
- summary of disclosure differences (adjusted and unadjusted).





Appendix: Key communication points

Appendix: Key communication points

We value communication with Those Charged With Governance as a two way feedback process at the heart of our client service commitment. ISA 260 (UK) 'Communication with Those Charged with Governance' and ISA 265 (UK) 'Communicating Deficiencies In Internal Control To Those Charged With Governance And Management' specifically require us to communicate a number of points with you.

Relevant points that need to be communicated with you at each stage of the audit are outlined below.

Form, timing and content of our communications

We will present the following reports:

- Our Audit Strategy Memorandum;
- Our Audit Completion Report; and
- Auditor's Annual Report

These documents will be discussed with management prior to being presented to yourselves and their comments will be incorporated as appropriate.

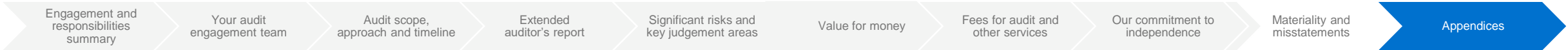
Key communication points at the planning stage as included in this Audit Strategy Memorandum

- Our responsibilities in relation to the audit of the financial statements;
- The planned scope and timing of the audit;
- Significant audit risks and areas of management judgement;

- Our commitment to independence;
- Responsibilities for preventing and detecting errors;
- Materiality and misstatements; and
- Fees for audit and other services.

Key communication points at the completion stage to be included in our Audit Completion Report

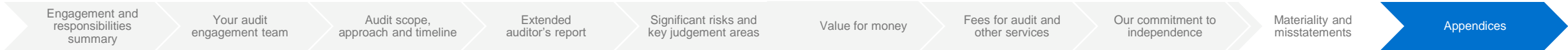
- Significant deficiencies in internal control;
- Significant findings from the audit;
- Significant matters discussed with management;
- Our conclusions on the significant audit risks and areas of management judgement;
- Summary of misstatements;
- Management representation letter;
- Our proposed draft audit report; and
- Independence.



Appendix: Key communication points

ISA (UK) 260 ‘Communication with Those Charged with Governance’, ISA (UK) 265 ‘Communicating Deficiencies In Internal Control To Those Charged With Governance And Management’ and other ISAs (UK) specifically require us to communicate the following:

Required communication	Where addressed
Our responsibilities in relation to the financial statement audit and those of management and those charged with governance.	Audit Strategy Memorandum
The planned scope and timing of the audit including any limitations, specifically including with respect to significant risks/ key audit matters.	Audit Strategy Memorandum
With respect to misstatements: <ul style="list-style-type: none">Uncorrected misstatements and their effect on our audit opinion;The effect of uncorrected misstatements related to prior periods;A request that any uncorrected misstatement is corrected; andIn writing, corrected misstatements that are significant.	Audit Completion Report
With respect to fraud communications: <ul style="list-style-type: none">Enquiries of the Audit and Governance Committee to determine whether they have a knowledge of any actual, suspected or alleged fraud affecting the entity;Any fraud that we have identified or information we have obtained that indicates that fraud may exist; andA discussion of any other matters related to fraud.	Audit Completion Report and discussion at the Audit and Governance Committee Audit Planning and Clearance meetings



Appendix: Key communication points

Required communication	Where addressed
<p>Significant matters arising during the audit in connection with the entity’s related parties including, when applicable:</p> <ul style="list-style-type: none"> • Non-disclosure by management; • Inappropriate authorisation and approval of transactions; • Disagreement over disclosures; • Non-compliance with laws and regulations; and • Difficulty in identifying the party that ultimately controls the entity. 	Audit Completion Report
<p>Significant findings from the audit including:</p> <ul style="list-style-type: none"> • Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures; • Significant difficulties, if any, encountered during the audit; • Significant matters, if any, arising from the audit that were discussed with management or were the subject of correspondence with management; • Written representations that we are seeking; • Expected modifications to the audit report; and • Other matters, if any, significant to the oversight of the financial reporting process or otherwise identified in the course of the audit that we believe will be relevant to the Audit and Governance Committee in the context of fulfilling their responsibilities. 	Audit Completion Report
Significant deficiencies in internal controls identified during the audit.	Audit Completion Report
Where relevant, any issues identified with respect to authority to obtain external confirmations or inability to obtain relevant and reliable audit evidence from other procedures.	Audit Completion Report

Appendix: Key communication points

Required communication	Where addressed
Audit findings regarding non-compliance with laws and regulations where the non-compliance is material and believed to be intentional (subject to compliance with legislation on tipping off) and enquiry of the Audit and Governance Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit Committee may be aware of.	Audit Completion Report and Audit Committee meetings
With respect to going concern, events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: <ul style="list-style-type: none">Whether the events or conditions constitute a material uncertainty;Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements; andThe adequacy of related disclosures in the financial statements.	Audit Completion Report
Reporting on the valuation methods applied to the various items in the annual financial statements including any impact of changes of such methods	Audit Completion Report
Indication of whether all requested explanations and documents were provided by the entity	Audit Completion Report

Appendix: Key communication points

Required communication	Where addressed
Identification of each key audit partner involved in the audit	Audit Strategy Memorandum
[Communication in respect of any arrangements for any of our activities as auditor to be conducted by another firm	Audit Strategy Memorandum and/or Audit Completion Report as appropriate
Description of nature, frequency and extent of communication with the Audit and Governance Committee and other relevant bodies including dates of meetings	Audit Strategy Memorandum
Description of distribution of tasks among the auditors where more than one auditor has been appointed	Audit Strategy Memorandum
Description of methodology used, including which categories of the balance sheet have been directly verified and which categories have been verified based on system and compliance testing, including an explanation of any substantial variations compared to the previous year	Audit Strategy Memorandum and/or Audit Completion Report as appropriate
Disclosure of quantitative level of materiality applied to the audit, any specific materiality levels applied to particular classes of transactions, account balances or disclosures, and qualitative factors considered when setting materiality	Audit Strategy Memorandum and/or Audit Completion Report as appropriate
Explanation of judgements about events or conditions identified during the course of the audit that may cast significant doubt on the entity's ability to continue as a going concern and whether they constitute a material uncertainty, and provide a summary of all guarantees, comfort letters, undertakings of public intervention and other support measures that have been taken into account when making a going concern assessment	Audit Strategy Memorandum and/or Audit Completion Report as appropriate
Reporting on significant deficiencies including whether or not the deficiency in question has been resolved by management	Audit Completion Report

Mark Surridge

Mazars

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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.

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Title of Report	2019/20 ANNUAL AUDIT LETTER	
Presented by	Dan Bates Head of Finance and Section 151 Officer	
Background Papers	Report to those charged with governance – Audit and Governance Committee 24 November 2020 2019/20 Audit Completion Report – Audit and Governance Committee 20 January 2021	Public Report: Yes/No
Purpose of Report	To report the receipt of the Annual Audit Letter.	
Recommendations	THAT THE 2019/20 ANNUAL AUDIT LETTER BE NOTED.	

1.0 BACKGROUND

- 1.1 Our External Auditor, Mazars LLP, were responsible for the external audit of the Council's financial statements and Value for Money arrangements for the 2019/20 financial year.
- 1.2 On 24 November 2020 Mazars reported their findings of the audit to the Committee, pending conclusion of the audit, which at that time was subject to assurance being received from the Leicestershire County Council pension fund auditors. The auditors issued a secondary report and updated Committee on 20 January 2021. The report provided an update following receipt of assurance over the pension fund. At the time of the meeting, the audit had not concluded but the auditors anticipated issuing an unqualified opinion on the financial statements and concluding that the Council had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources.
- 1.3 The audit was concluded on the 17 February 2021 and the audited version of the accounts were published.
- 1.4 The Annual Audit Letter (Appendix A) provides a summary of the audit work undertaken for last year. A representative from Mazars will be in attendance at the meeting to present their report to the committee. This letter was shared with members via email in February and was also loaded onto the council's website, so it is publicly available.
- 1.4 The report details the fees for undertaking the annual audit for 2019/20 which is £38,902.
- 1.5 Further costs totalling £12,099 were incurred as a result of the need for Mazars to carry out additional work and these have subsequently been agreed by the Head of Finance. £7,067 of this was in relation to additional testing on Property, Plant and Equipment and Defined Benefit Pensions Schemes and £5,032 was in relation to additional costs associated with the impact of 'Material Valuation Uncertainty' in Council's Assets and its share of Pension Fund Assets, updating audit risk assessments, additional considerations of estimation uncertainty in going concern and changes impacting pension liabilities through McCloud and Goodwin.

Policies and other considerations, as appropriate	
Council Priorities:	Effective management of the council's finances underpins the delivery of all council priorities.
Policy Considerations:	None
Safeguarding:	None
Equalities/Diversity:	None
Customer Impact:	None
Economic and Social Impact:	None
Environment and Climate Change:	None
Consultation/Community Engagement:	None
Risks:	The Council's governance arrangements are a fundamental part of the Authority's management of risk and contribute towards good corporate governance.
Officer Contact	Dan Bates Head of Finance and Section 151 Officer dan.bates@nwleicestershire.gov.uk

Annual Audit Letter

North West Leicestershire District Council

Year ending 31 March 2020





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- 02** Audit of the financial statements
- 03** Value for money conclusion
- 04** Other reporting responsibilities
- 05** Our fees
- 06** Forward look

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. Our written consent must first be obtained before this document, or any part of it, is disclosed to a 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.

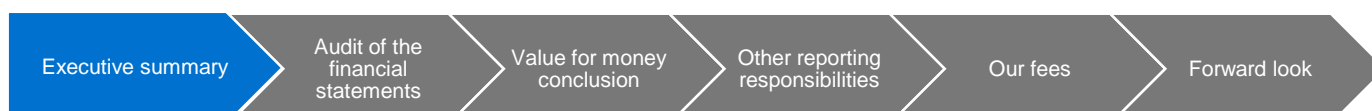
1. EXECUTIVE SUMMARY

Purpose of the Annual Audit Letter

Our Annual Audit Letter summarises the work we have undertaken as the auditor for North West Leicestershire District Council (the Council) for the year ended 31 March 2020. Although this letter 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 (the 2014 Act) and the Code of Audit Practice issued by the National Audit Office (the NAO). The detailed sections of this letter provide details on those responsibilities, the work we have done to discharge them, and the key findings arising from our work. These are summarised below.

Area of responsibility	Assessment	Summary
Audit of the financial statements	 [Green]	<p>Our auditor's report issued on 17 February 2021 included our opinion that the financial statements:</p> <ul style="list-style-type: none">• give a true and fair view of the Council's financial position as at 31 March 2020 and of its expenditure and income for the year then ended; and• have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20
Other information published alongside the audited financial statements	 [Green]	<p>Our auditor's report included our opinion that:</p> <ul style="list-style-type: none">• the other information in the Statement of Accounts is consistent with the audited financial statements.
Value for money conclusion	 [Green]	<p>Our auditor's report concluded that we are satisfied that in all significant respects, the 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</p>
Reporting to the group auditor	 [Green]	<p>In line with group audit instructions, issued by the NAO on 4th November, we reported to the group auditor in line with the requirements applicable to the Council's Whole of Government Accounts return.</p>
Statutory reporting	 [Green]	<p>Our auditor's report confirmed that we did not use our powers under s24 of the 2014 Act to issue a report in the public interest or to make written recommendations to the Council.</p>



2. AUDIT OF THE FINANCIAL STATEMENTS

Opinion on the financial statements

Unqualified

The scope of our audit and the results of our work

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 2020 and of its financial performance for the year then ended.

Our audit was conducted in accordance with the requirements of the Code of Audit Practice issued by the National Audit Office and International Standards on Auditing. These require us to consider whether:

- the accounting policies are appropriate to the Council's circumstances and have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management in the preparation of the financial statements are reasonable; and
- the overall presentation of the financial statements provides a true and fair view.

Our auditor's report, stated that in our view, the financial statements give a true and fair view of the Council's financial position as at 31 March 2020 and of its financial performance for the year then ended.

Our auditor's report was modified to include an emphasis of matters paragraph, drawing attention to the financial statement disclosure explaining that Covid19 had contributed to 'material valuation uncertainty' in the valuation of the Council's land & buildings and investment properties and in the Council's share of Nottinghamshire Pension Fund's property assets.



2. AUDIT OF THE FINANCIAL STATEMENTS

Our approach to materiality

We apply the concept of materiality when planning and performing our audit, and when evaluating the effect of misstatements identified as part of our work. We consider the concept of materiality at numerous stages throughout the audit process, in particular when determining the nature, timing and extent of our audit procedures, and when evaluating the effect of uncorrected misstatements. An item is considered material if its misstatement or omission could reasonably be expected to influence the economic decisions of users of the financial statements.

Judgements about materiality are made in the light of surrounding circumstances and are affected by both qualitative and quantitative factors. We set materiality for the financial statements as a whole (financial statement materiality) and set a lower level of materiality for specific items of account (specific materiality) due to the nature of these items or because they attract public interest. We also set a threshold for reporting identified misstatements to the Audit and Governance Committee. We call this our trivial threshold.

The table below provides details of the materiality levels applied in the audit of the financial statements for the year ended 31 March 2020:

Financial statement materiality	Our financial statement materiality is based on 2% of Gross Operating Expenditure.	£1,063k
Trivial threshold	Our trivial threshold is based on 3% of financial statement materiality.	£32k
Specific materiality	<p>We have applied a lower level of materiality to the following areas of the accounts:</p> <ul style="list-style-type: none">• Senior Officer Remuneration• Members Allowances• External Audit Fee	<p>£5k</p> <p>£47k</p> <p>£8k</p>



2. AUDIT OF THE FINANCIAL STATEMENTS

Our response to significant audit risks

As part of our continuous planning procedures we considered whether there were risks of material misstatement in the Council's financial statements that required special audit consideration. We reported significant risks identified at the planning stage to the Audit and Governance committee within our Audit Strategy Memorandum and provided details of how we responded to those risks in our Audit Completion Report. The table below outlines the identified significant risks, the work we carried out on those risks and our conclusions.

Identified significant risk	Our response	Our findings and conclusions
Management override of controls Management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur, we consider there to be a risk of material misstatement due to fraud and thus a significant risk on all audits.	We addressed this risk through, amongst other tests, performing audit work over accounting estimates and financial journal entries.	Our audit procedures have not identified any material errors or uncertainties in the financial statements, or other matters that we wish to bring to Members' attention in relation to management override of controls.



2. AUDIT OF THE FINANCIAL STATEMENTS

Our response to significant audit risks

Identified significant risk	Our response	Our findings and conclusions
<p>Valuation of property, plant and equipment and investment properties</p> <p>The financial statements contain material entries on the Balance Sheet as well as material disclosure notes in relation to the Council's Property, Plant and Equipment that is held at a valuation. The Council uses an internal valuation expert to provide information on valuations because there is a high degree of estimation uncertainty caused by significant judgements and number of variables involved in providing valuations. We have therefore identified the valuation of material balances of land and buildings, investment properties (if applicable or material) and assets held for sale (if material) to be an area of significant audit risk.</p> <p>At the outset of the Covid19 outbreak, guidance issued by the Royal Institute of Chartered Surveyors set out an expectation that valuers are likely to conclude that there is "material uncertainty" over the valuation of land and buildings at the balance sheet date.</p> <p>Relevant balances:</p> <ul style="list-style-type: none"> Note 9: Property, Plant & Equipment – Council Dwellings £245m Note 9: Property, Plant & Equipment – Other Land & Buildings £30m Note 10: Investment Properties £15m. 	<p>In relation to the valuation of property, plant & equipment, investment properties and assets held for sale we:</p> <ul style="list-style-type: none"> critically assessed the Council's valuer's scope of work, qualifications, objectivity and independence to carry out the required programme of revaluations; considered whether the overall revaluation methodologies used by the Council's valuer's were in line with industry practice, the CIPFA Code of Practice and the Council's accounting policies; assessed whether valuation movements are in line with market expectations by using information available from other sources; critically assessed the treatment of the upward and downward revaluations in the Council's financial statements with regards to the requirements of the CIPFA Code of Practice; and critically assessed the approach that the Council adopted to ensure that any assets not subject to revaluation in 2019/20 were materially correct, including considering the robustness of that approach in light of the valuation information reported by the Council's valuers. 	<p>During the course of our work, our testing of underlying valuation data, such as floor spaces, identified some gaps in the Council's records that was resolved through identifying alternative sources of evidence.</p> <p>At the outset of the Covid19 outbreak, the Royal Institute of Chartered Surveyors set out an expectation that valuers are likely to conclude that there is "material uncertainty" over the valuation of land and buildings at the balance sheet date. The Council's valuer has followed guidance issued by the Royal Institute of Chartered Surveyors and as expected their valuation reports conclude that, due the impact of COVID-19 on the property market, there is "material uncertainty" over the valuation of land and buildings and investment properties at the balance sheet date. This has been properly disclosed in the notes to the Statement of Accounts.</p> <p>We will, in line with normal practice, include reference to this disclosure as an 'emphasis of matter' in our audit report.</p> <p>There are no other matters to bring to Members' attention.</p>



2. AUDIT OF THE FINANCIAL STATEMENTS

Our response to significant audit risks

Identified significant risk	Our response	Our findings and conclusions
<p>Valuation of the Net Pension Liability</p> <p>The financial statements contain material pension entries in respect of retirement benefits. The calculation of these pension figures, both assets and liabilities, can be subject to significant volatility and includes estimates based upon a complex interaction of actuarial assumptions. Moreover, the local government pension assets and liabilities are subject to triennial revaluation as at 31 March 2019, which set the contribution rates for 2020/21 onwards. This results in an increased risk of material misstatement.</p> <p>Relevant balances:</p> <ul style="list-style-type: none"> Note 33: Net Pension Liability £45m 	<p>We performed a range of audit tests, including, but not limited to:</p> <ul style="list-style-type: none"> reviewed the appropriateness of the Pension Asset and Liability valuation methodologies applied by the Pension Fund Actuary, and the key assumptions included within the valuation. This will include comparing them to expected ranges, utilising information provided by the consulting actuary engaged by the National Audit Office; agreed the data in the IAS 19 valuation report provided by the Fund Actuary for accounting purposes to the pension accounting entries and disclosures in the Council's financial statements; critically assessed the competency, objectivity and independence of the Leicestershire Pension Fund's Actuary; and liaised with the auditors of the Leicestershire Pension Fund to gain assurance that the controls in place at the Pension Fund are operating effectively. This will include 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. 	<p>We received our assurance from the auditor of the Leicestershire Pension Fund on 17 December 2020. This confirmed a 'material valuation uncertainty' on the Pension Fund's property assets. The Council's share of these property assets recorded in the balance sheet is therefore also affected. This has been disclosed in the financial statements and incorporated into the 'emphasis of matters' paragraph in our Audit Report. In reviewing the work of the pension fund auditor, we also noted:</p> <ul style="list-style-type: none"> A £5m difference has been reported between the value of scheme assets per the 2019 Triennial Actuarial Report (£4,312m) and the value of scheme assets per the Pension Fund audited financial statements as at 31 March 2019 (£4,307m). Pension benefits payable sent to the actuary was £3,454k. The Pension Fund auditor agreed the benefits paid data to the underlying information system maintained by the pension fund, noting a difference of £618k. This has no impact on the net pension liability in the Council's balance sheet. The Pension Fund submitted asset information to the actuary as at 31 December 2019 and not 31 March 2020. The actuary then estimated asset investment returns as -4.6%, whereas the actual return for the period was -3.56%. <p>In July 2020, MHCLG consulted on the proposed remedy for the 'McCloud' and 'Sargeant' cases. This indicates that the approach adopted for 2018/19 and 2019/20 is likely to have led to an overstatement of the pension fund liability as at 31 March 2020.</p> <p>The Council obtained an updated actuarial valuation to identify whether the pension fund assets and liabilities require adjustment, with the net impact being a £300k movement in the pension liability that management has adjusted for.</p> <p>There are no other matters to report from the work we have performed.</p>

3. VALUE FOR MONEY CONCLUSION

Value for money conclusion	Unqualified
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Our audit approach

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 in order to form our conclusion, and sets out the criterion and sub-criteria that we are required to consider.

The overall criterion is that, 'in all significant respects, 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.' To assist auditors in reaching a conclusion on this overall criterion, the following sub-criteria are set out by the NAO:

- informed decision making;
- sustainable resource deployment; and
- working with partners and other third parties.

Significant audit risks

The NAO's guidance requires us to carry out work to identify whether or not a risk to our conclusion exists. Risk, in the context of our work, is the risk that we come to an incorrect conclusion rather than the risk of the arrangements in place at the Council being inadequate.

In our Audit Strategy Memorandum, we reported that we not identified any significant risk to our VFM Conclusion

We have kept a number of matters under review:

- Financial sustainability – the medium term financial position contains some inherent uncertainties (common to all bodies in the sector) and we will update our risk assessment of the council's financial sustainability at the final stages of the audit
- New Leisure Centre - we will keep a watching brief on progress before forming our VFM conclusion, in particular whether there has been any unusual slippage or material budget variations
- The reports of Internal Audit
- The outcome of other aspects of assurance work, such as the audited financial position and the Head of Internal Audit's opinion
- The work on the Council's 2018/19 AGS including consideration of any further changes from Brexit
- Updates to the Council's strategic risk register
- Issues noted following meetings with management or Those Charged with Governance
- The work and reports of regulators.

In respect of the above, we are satisfied that no additional Significant VFM Risks have arisen relating to the 2019/20 VFM Conclusion.

Overall Conclusion

Our auditor's report included states that we intend to issue an unqualified Value for Money conclusion for the 2019/20 financial year.



4. OTHER REPORTING RESPONSIBILITIES

Exercise of statutory reporting powers	No matters to report
Completion of group audit reporting requirements	Below testing threshold
Other information published alongside the audited financial statements	Consistent

The Code of Audit Practice and the 2014 Act place wider reporting responsibilities on us, as the Council's external auditor. We set out below, the context of these reporting responsibilities and our findings for each.

Matters on which we report by exception

The 2014 Act provides us with specific powers where matters come to our attention that, in our judgement, require reporting action to be taken. We 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 law; and
- issue an advisory notice under schedule 8 of the 2014 Act.

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 National Audit Office in respect of Whole of Government Accounts consolidation data

The National Audit Office, as group auditor, requires us to complete a Whole of Government Accounts Assurance Statement in respect of financial consolidation data produced by the Council. We submitted this information to the National Audit Office on 15 December 2020.

Other information published alongside the financial statements

The Code of Audit Practice requires us to consider whether information published alongside the financial statements is consistent with those statements and our knowledge and understanding of the Council. In our opinion, the other information in the Statement of Accounts is consistent with the audited financial statements.



5. OUR FEES

Fees for work as the Council's auditor

We reported our proposed fees for the delivery of our work in the Audit Strategy Memorandum.

Having completed our work for the 2019/20 financial year, we can confirm that our final fees are as follows:

Area of work	2019/20 proposed fee	2019/20 final fee
Delivery of audit work under the NAO Code of Audit Practice	£38,902	
Fee Variations*:		
• Additional Testing on Property, Plant & Equipment and Defined Benefit Pensions Schemes		£7,067
• Additional costs associated with 2019/20, including, but not limited to:		£5,032
• Impact of 'Material Valuation Uncertainty' in Council's Assets and its share of Pension Fund Assets		
• Updating audit risk assessments, including the value for money conclusion		
• Additional considerations of estimation uncertainty in going concern,		
• Changes impacting pension liabilities through McCloud & Goodwin		
Final audit fee		£51,001
Assurance:		
• Pooling of Housing Capital Receipts Return	£3,250	
• Housing Benefits Assurance	Ongoing	
Other non-Code work	Nil	Nil

*Fee variations subject to confirmation from PSAA.



6. FORWARD LOOK: AUDIT CHANGES 2020/21

Changes to the Code of Audit Practice

The Code of Audit Practice (the Audit Code), issued by the Comptroller and Auditor General, prescribes the way we carry out our responsibilities as your auditors. On 1st April 2020 a new Code came in to force and will apply to our work from 2020/21 onwards.

The new Audit Code continues to apply the requirements of International Standards on Auditing (ISAs) to our audit of the financial statements. While there are changes to the ISAs that are effective from 2020/21 the Audit Code has not introduced any changes to the scope of our audit of the financial statements. We will continue to give our opinion on the financial statements in our independent auditor's report.

There are however significant changes to the work on value for money arrangements, and the way we report the outcomes of our work to you.

The auditor's work on value for money arrangements

From 2020/21 we are still required to satisfy ourselves that you have made proper arrangements for securing the economy, efficiency and effectiveness in your use of resources, however unlike under the 2015 Audit Code, we will no longer report in the form of a conclusion on arrangements. Instead, where our work identifies significant weaknesses in arrangements, we are required to report those weaknesses to you, along with the actions that need to be taken to address those weaknesses.

Our work will focus on three criteria specified in the revised Audit Code:

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

Under the new Audit Code, we will be expected to report and make recommendations as soon as we identify a significant weakness in arrangements, as opposed to reporting our conclusion on arrangements at the end of the audit cycle as has previously been the case.

Reporting the results of the auditor's work

We currently issue you with an Annual Audit Letter which provides a summary of our work across all aspects of our audit. From 2020/21 the Annual Audit Letter will be replaced by the Auditor's Annual Report. This will continue to provide a summary of our work over the year of audit but will also include a detailed commentary on your arrangements in place to achieve economy, efficiency and effectiveness. This commentary replaces the conclusion on arrangements that was previously provided and will include details of any significant weakness identified and reported to you, follow up of any previous recommendations made, and the our view as to whether recommendations have been implemented satisfactorily.

The new Audit Code will result in additional officer time and auditor time and fees.



6. FORWARD LOOK: AUDIT CHANGES 2020/21

Redmond Review

In September 2020, Sir Tony Redmond published the findings of his independent review into the oversight of local audit and the transparency of local authority financial reporting. The report makes several recommendations that, if implemented, could affect both the financial statements that local authorities are required to prepare and the work that we as auditors are required to do.

The report and recommendations are wide-ranging, and includes:

- the creation of the Office of Local Audit and Regulation (OLAR), be created to manage, oversee and regulate local audit;
- reviewing reporting deadlines;
- reviewing governance arrangements in local authorities, including the membership of the Audit Committee; and
- increasing transparency and reducing the complexity of local authority financial statements.

The recommendations and findings will now be considered by the Ministry of Housing, Communities and Local Government and we look forward to working with all stakeholders to implement changes to ensure the development and sustainability of local audit.

The full report is available here: <https://www.gov.uk/government/publications/local-authority-financial-reporting-and-external-audit-independent-review>



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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

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NORTH WEST LEICESTERSHIRE DISTRICT COUNCIL

AUDIT AND GOVERNANCE COMMITTEE – WEDNESDAY, 21
APRIL 2021

Title of Report	TREASURY MANAGEMENT STEWARDSHIP REPORT 2020/21	
Presented by	Anna Wright Finance Team Manager and Deputy S151 Officer	
Background Papers	Capital Strategy 2020/21 – Council 25 February 2020 Treasury Management Strategy Statement 2020/21 and Prudential Indicators 2020/21 to 2022/23 – Council 25 February 2020 Investment Strategy – Service and Commercial 2020/21 – Council 25 February 2020 Budget and Council Tax 2019/20 – Council 25 February 2020 Treasury Management Activity Report April 2020 to December 2020 – Audit and Governance 17 March 2020	Public Report: Yes
Purpose of Report	For Members to consider the draft Treasury Management Stewardship Report for 2020/21 before approval by Cabinet.	
Recommendations	THAT MEMBERS CONSIDER THIS REPORT AND COMMENT AS APPROPRIATE.	

1.0 BACKGROUND

- 1.1 Treasury Management activity is underpinned by CIPFA's Code of Practice on Treasury Management ("the code"), which requires local authorities to produce Prudential Indicators and a Treasury Management Strategy Statement annually on the likely financing and Investment activity.
- 1.2 This report fulfils the council's legal obligation under the Local Government Act 2003, to have regard to both the CIPFA Code and the Ministry of Housing, Communities and Local Government (MHCLG) Investment Guidance
- 1.3 In 2020/21, council approved its Capital Strategy (included in the Budget and Council Tax report) and Treasury Management Strategy Statement, including the Borrowing Strategy, Debt Rescheduling Strategy, Annual Investment Policy and Strategy, Interest Apportionment Policy, Prudential Indicators and Annual Minimum Revenue Position Statement in its meeting on 25 February 2020.
- 1.4 Investing or borrowing activities expose the council to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful

identification, monitoring and control of risks are therefore central to the council's treasury management strategy.

2.0 THE U.K. ECONOMY AND OTHER FACTORS.

2.1 An economic update and Interest rate forecast has been provided by our Treasury Advisers (Arlingclose Ltd) and summarised below. A full update can be found at Appendix A.

- The medium-term global economic outlook has improved with the rollout of vaccination programmes, of which the UK remains at the forefront. The Roadmap out of Lockdown has bolstered expectations through March.
- The ONS Q4 2020 growth was higher than expected at 1%, leaving the UK economy 8% smaller than Q4 2019. January GDP fell by 2.9%, but less than Bank of England expectations. Unemployment had risen to 5.1% in the three months to December.
- Support packages such as the Coronavirus Job Retention Scheme were extended in the Government's Budget, reducing the downside risks facing the UK economy. However, the extension of furlough will not totally mitigate an inevitable rise in unemployment when costs start to be shared with employers.
- While restrictive measures are likely to continue in the UK until most of the population is vaccinated by the second half of 2021, the end of the strict lockdowns in Q2 will prompt a sharp increase in GDP. Meanwhile, inflation is set to rise quickly back to target due to weaker base effects as the pandemic hit in 2020. This will be partly offset by the extensions to VAT reductions and the freezing of various duties.
- There remain risks to the more positive narrative that has developed since the turn of the year. This is especially apparent in the Eurozone, where virus cases are once again on the rise due to the slow vaccine rollout, and recent issues in both the UK and Eurozone with vaccine supply.
- The uncertain outlook will maintain pressure on central banks to maintain loose monetary conditions for the foreseeable future. Bank Rate is unlikely to change despite developing market expectations.
- Longer term yields have risen sharply, albeit remaining at low levels. US stimulus and the relaxation of restrictions has boosted global growth and inflation expectations, raising expectations of monetary tightening.
- Upward movement in gilt yields could continue in the short term due to market momentum and rising CPI rates, but this is likely to taper once inflation fears recede as the effect of weak base effects subsides.

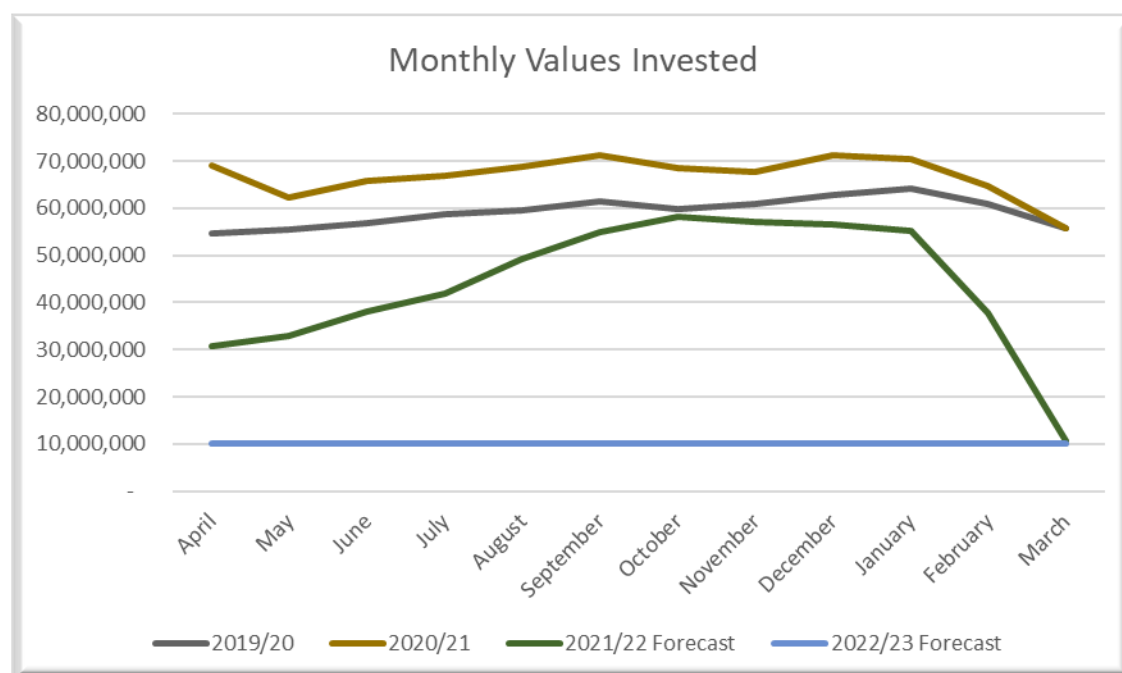
3.0 THE COUNCIL'S TREASURY POSITION.

3.1 The council's current strategy is to use internal borrowing to reduce risk and keep interest costs low. The treasury management change over the financial year is shown below.

	Balance at 01/04/2020 £m	Net Movement £m	Balance at 31/03/2021 £m
Long term borrowing - HRA	£71.70	-£1.20	£70.50
Long term borrowing – General Fund	£8.40	£0.00	£8.40
Other long-term liabilities - HBBC	£0.10	£0.00	£0.10
Total Borrowing	£80.20	-£1.20	£79.00
Long term investments – greater than 1 year	£3.00	-£3.00	£0.00
Short term investments – less than 1 year	£39.70	-£0.90	£38.80
Pooled funds and externally managed investments*	£8.00	£3.50	£11.50
Total Investments	£50.70	-£0.40	£50.30
Net debt	£29.50	-£0.80	£28.70

*Represents investments held in Money Market Funds

- 3.2 The annual repayments on two PWLB annuity loans taken out as part of the self-financing system of Council Housing in 2011/2012, are shown in the Net Movement column.
- 3.3 In 2020/21, the capacity for investment has decreased by £0.4m. This can be affected by various factors including: reduced income, contributions to/from reserves, setting aside expenditure to repay borrowing (MRP), fortuitous expenditure, Section 106 disbursements.
- 3.4 In 2020/21, some of the highlights that have impacted on the capacity are:
- HRA
 - Council House RTB sales +£2.4m
 - Council Houses Non RTB sales +£166k
 - Purchase of new Council Houses +£2.7m
 - Expenditure on New Builds -£435k (8 units completed)
 - Property purchased for demolition as part of new build development -£139k
 - RTB discount previously given returned to the Council +£19.6k
 - General Fund
 - Sale of Vehicles +£21k
 - Purchase of new vehicles -£173k
 - MRP £715k
 - Capital Programmes slippages: General Fund +£13.1m (TBC) (largely attributable from the New Leisure Centre Project +£8.6m(TBC)) and Housing Revenue Account for +£1.15m (TBC)
 - Prepayment into the Pension Fund -£3.1m
 - COVID-19 financial impact
 - Income & expenditure variances due to COVID-19 General Fund -£940k
 - Timing difference between receipt and disbursement of COVID-19 grants +£35m
- 3.5 The pattern of cash held and subsequently invested per day is shown in the chart below, illustrating the cash flow trends throughout the year. The delay in implementation of Capital programmes will provide additional scope for short term investments in 2021/22.
- 3.6 The chart below also shows the forecast position for 2021/22 and 2022/23. This reflects lower levels of cash available in the next two years since it is planned that internal borrowing will be used to fund Capital programmes along with the effect of the expected maturity of Housing Revenue Account's £13m PWLB loans in 2021/22. The repayment of £1m Cornwall Bond 147 is also due in 2022/23.



4.0 BORROWING ACTIVITY.

- 4.1 The council's Borrowing Strategy 2020/21 incorporates a prudent and pragmatic approach to borrowing to minimise borrowing costs without compromising the longer-term stability of the portfolio, consistent with the council's Prudential Indicators.
- 4.2 No loans matured in 2020/21 that required replacement.
- 4.3 The Borrowing Strategy identified that borrowing would not be required until 2021/22 and the council has not undertaken any new long-term borrowing during the year. Annual principal repayment of £1.1m and interest payments totalling £2.68m were made in respect of existing debt. Members should note that a significant proportion of the HRA self-financing debt was taken out on a maturity basis and therefore whilst interest is paid, the principal repayment of the loan is not made. The Council has the funds set aside within HRA reserves for the first two maturity loan redemptions in 2021/22 of £3m and £10m, should it decide to repay the loans rather than refinance.
- 4.4 The council's cash flow remained positive and did not require and temporary loans during the year.
- 4.5 The council had approximately £9m of internal debt at 31 March 2021. This is the cumulative value of internal cash balances used to finance new capital expenditure instead of financing through unsupported borrowing. This is currently judged to be the most cost-effective means of funding the capital programme.
- 4.6 The estimated Minimum Revenue Provision (MRP) is intended to ensure that the capital financing debt is paid off over the longer term. The MRP charge made to General Fund revenue account for 2020/21 is £715k.
- 4.7 The Housing Revenue Account is not required to make MRP charges. However, the council classes the principal repayments made in respect of the two PWLB annuity loans taken out as part of the housing self-financing in 2011/12, as MRP. In 2020/21, this repayment was £1.1m (as per 4.3 above).

5.0 DEBT RESCHEDULING ACTIVITY.

5.1 The council's Debt Rescheduling Strategy 2020/21, established a flexible approach where the rationale for rescheduling could be one or more of the following:

- Savings in interest costs with minimal risk.
- Balancing the volatility profile (i.e. the ratio of fixed to variable rate debt) of the debt portfolio.
- Amending the profile of maturing debt to reduce any inherent refinancing risks.

5.2 No opportunities for debt rescheduling were identified which conformed to the above rationale. Accordingly, the council has undertaken no debt rescheduling activity during the year.

5.3 The council's portfolio of thirteen loans - ten PWLB loans and three market loans continue to be monitored for debt rescheduling opportunities.

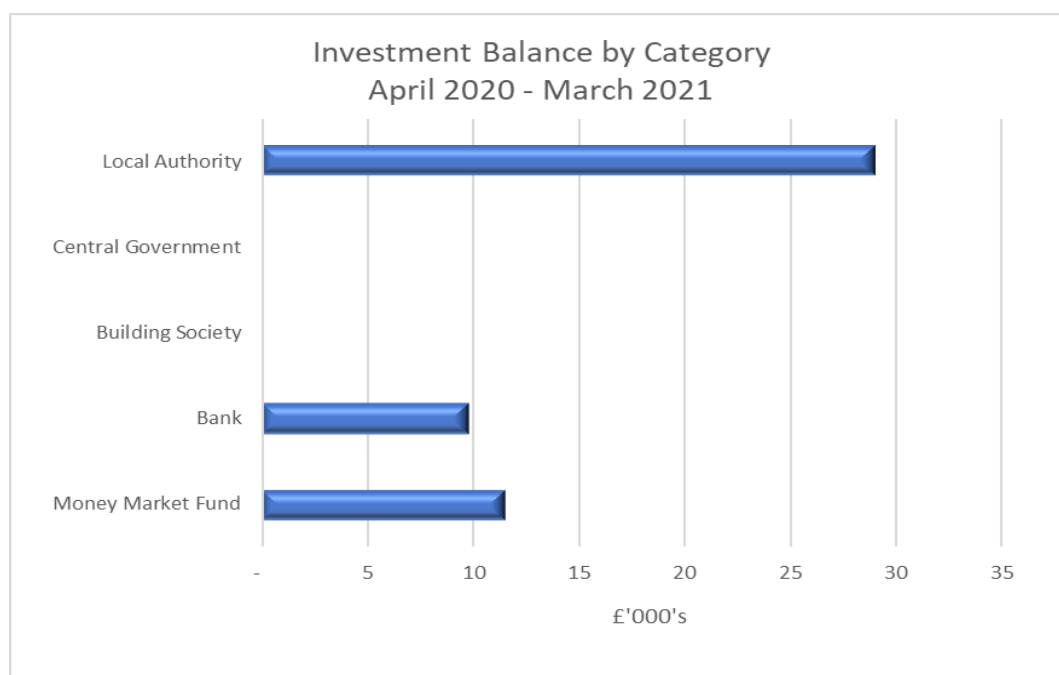
6.0 TREASURY MANAGEMENT INVESTMENT ACTIVITY.

6.1 The main objective of the council's Investment Policy and Strategy 2020/21 is to invest its surplus funds prudently.

6.2 The council's investment priorities (S.L.Y.) are:

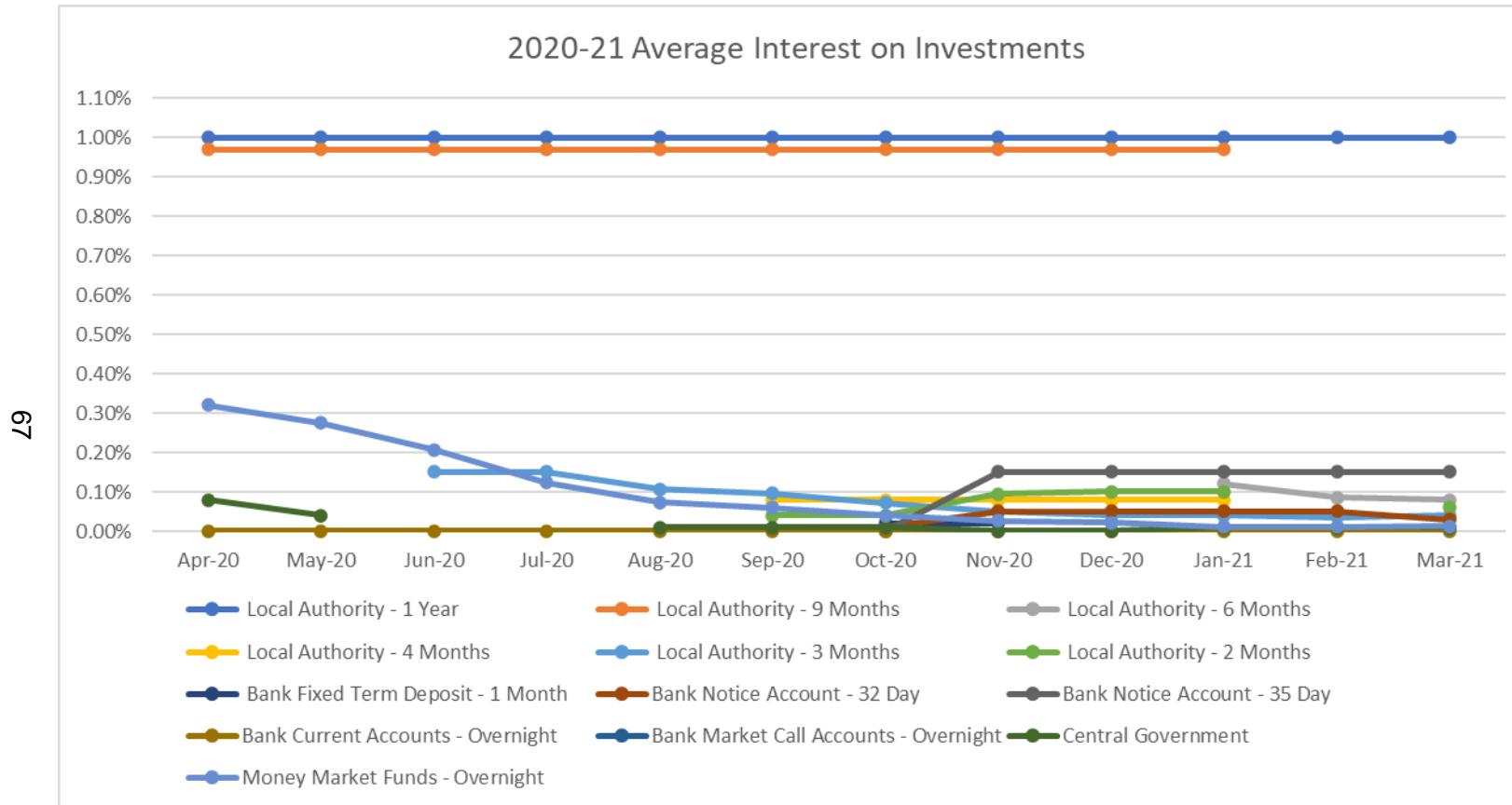
- **S**ecurity of the invested capital;
- sufficient **L**iquidity to permit investments; and,
- Optimum **Y**ield which is commensurate with security and liquidity.

6.3 To lower the inherent investment risk, the council has minimised the use of banks and increased the use of other Local Authorities as investment counterparties. A range of lengths of investment, from overnight investments to short and long fixed term, from 32 days to 1 year, are currently utilised to ensure that the principles of security, liquidity and yield are followed. The table below shows the range of counterparties used by the council and the values invested at 31 March 2021.

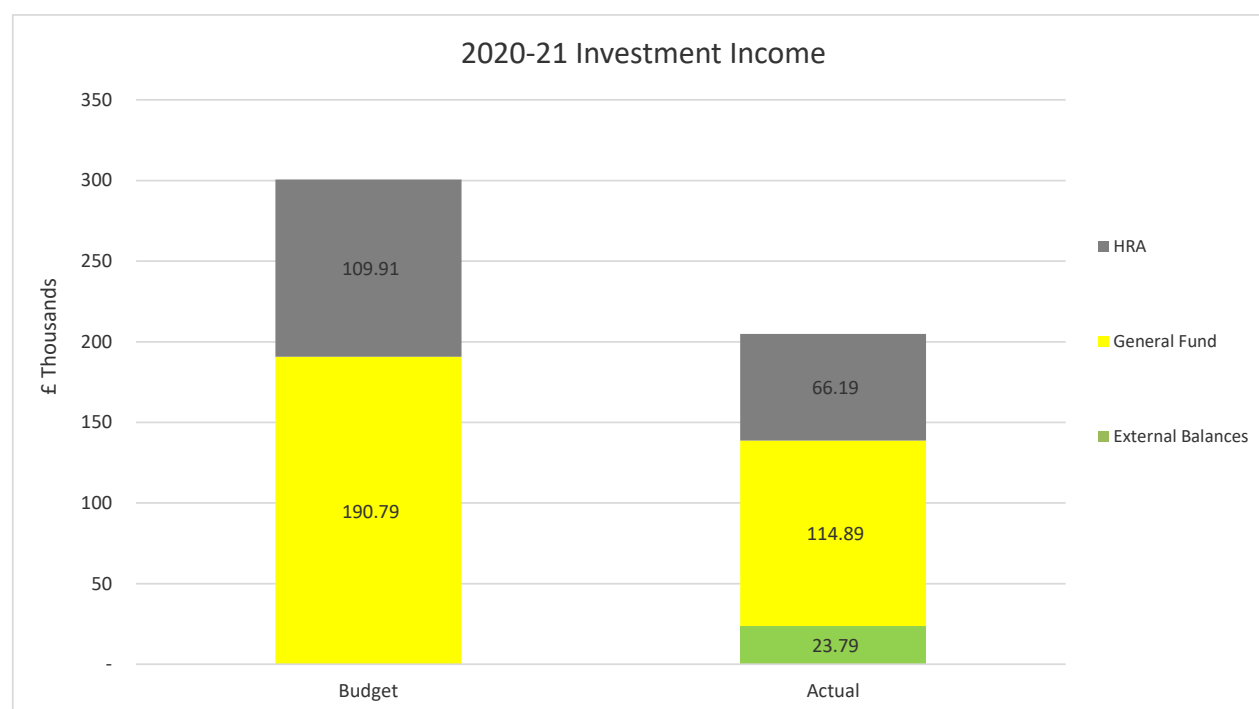


- 6.4 The counterparties that the council currently use all meet the criteria set out in the Treasury Management Strategy Statement 2020/21 and are monitored by the Treasury Management Advisors. A detailed list of the counterparties used and amounts currently invested can be seen in Appendix B.
- 6.4 Inter-Local Authority lending accounted for 58% of investments placed during the year. The Council's investments are made with reference to the Council's cash flow forecast, the outlook for the UK Bank Rate, money market rates, the economic outlook and advice from the Council's treasury adviser.
- 6.5 The Council exercises due diligence by assessing the organisation's financial stability. This is achieved by reviewing their credit status, most recent audited financial statements, auditor's report, budget report and current news which is financial in nature. All decisions are signed off the by the Section 151 Officer or the Deputy Section 151 Officer.
- 6.6 The average rate of return on the council's investment balances for the year was 0.30%. For comparison purposes, the benchmark return (average 7-day London Interbank Bid Rate or LIBID rate) on 31 March 2020 was 0.06% and the average 7 day London Interbank Offered Rate (LIBOR) rate was 0.06%. This shows that we are achieving a good rate of return against benchmark.
- 6.7 Paragraph 6.6 above explains that the current average rate of return of 0.30% has been achieved. This was an under performance from the budgeted interest of 0.83%, which was mainly due to the COVID-19 impact on the financial market. It resulted to the interest income of £181k for the year - £119k below the budget of £300k.
- 6.8 The COVID-19 pandemic hugely impacted the financial market and investment opportunities during the year. With the exception of two forward deals made prior to the national lockdown in March 2020, interest rates on in-year investments ranged between 0% and 0.40%. This is reflected of the decision made by the Bank of England to cut the interest rate to as low as 0.10% and has remained at this level for the whole financial year.

Graph 1 - Average interest rate on in year investments and the movement of interest rates over the year.



- 6.9 The council budgeted to achieve £300,700 of income from its investment activity in 2020/21 of which £190,800 is applied to General Fund and £109,900 to Housing Revenue Account. Investment activity for the year achieved £204,863 (TBC) in interest.
- 6.10 Of the income achieved, an element is applied to balances held on external income. This external income largely represents balances from S106 contributions that have not yet been spent. The amount to be applied is £23,789 (TBC). This is not budgeted for as S106 contributions are only achieved when specific conditions are met and are anticipated to be spent.
- 6.11 The remaining balance of £181,074 is apportioned between the General Fund which will receive £114,889; and Housing Revenue Account which will receive £66,185 (TBC).
- 6.12 The budgeted and projected levels of investment income is represented in the table below.



- 6.13 There were two breaches of investment limits in the year reported to Audit and Governance committee in October 2020.
1. The COVID-19 support grants received from the central government were deposited in short term call accounts and money market funds as the council was required to disburse this to local businesses as soon as possible. Individual account limits on money market funds were maintained, but the aggregate money market limit of £20m as per TMSS was breached by an amount of £2m. This occurred on April 1 when the grants were received and was resolved on April 9 when grants were paid out to businesses. The Head of Finance and S151 officer was made aware of this in advance prior to the initial receipt of the grants. This was closely monitored through a weekly update on the council's Cashflow and investments.
 2. The £5m limit on the Lloyds day-to-day banking account was breached by £1.2m on 1 July 2020. This occurred as a result of £5.7m in Council Tax, Business Rates and Rent being received on this date. As the funds were required the next day to make payments to preceptors (Fire, Police and Leicestershire County Council) and the money market funds were already at their approved limits. The Finance Team Manager and Deputy S151 Officer in the absence of the Head of Finance, approved the breach of the TMSS and to leave the funds in the Lloyds account overnight

7.0 NON-TREASURY INVESTMENT ACTIVITY

7.1 The definition of investments in CIPFA's revised Treasury Management Code now covers all the financial assets of the Authority as well as other non-financial assets which the Authority holds primarily for financial return. This is replicated in MHCLG's Investment Guidance, in which the definition of investments is further broadened to also include all such assets held partially for financial return.

7.2 The following list represents the council's current investments in this area.

Property or Type	Value at 31 Mar 2021	Reason held
Industrial Units	£6.5m	To support the local economy and to generate profits to supplement council expenditure
Markets	£1.5m	Any profit supplements council expenditure
Land	£4.8m	Future economic benefit

7.3 More detailed information can be found in the "Investment Strategy – Service and Commercial" which was presented to Council on 25 February 2020.

7.4 In November 2019, Cabinet approved a new Corporate Asset Management Strategy, which set out a framework from which to manage our corporate property assets for the next five years. This strategy commits to reviewing the financial performance of our commercial assets as a priority, and an external review identified an average yield of 7.88% across our portfolio. Lower yielding assets are planned to be reviewed as part of the Council's Journey to Self Sufficiency (J2SS) programme to assess whether they can be managed in a different way to increase overall portfolio yield. The work on the J2SS programme was halted in 2020/21 in reaction to the demands of the COVID-19 pandemic.

8.0 SUMMARY

8.1 For the financial year 2020/21, the council can confirm that it has complied with its Prudential Indicators, which were approved as part of the council's Treasury Management Strategy Statement.

8.2 The council can confirm that during the financial year, other than the breach of prescribed limit detailed in paragraph 6.13, it has complied with its Treasury Management Practices.

Policies and other considerations, as appropriate	
Council Priorities:	Value for Money
Policy Considerations:	Treasury Management Strategy Statement
Safeguarding:	Not Applicable
Equalities/Diversity:	Not Applicable
Customer Impact:	Not Applicable
Economic and Social Impact:	Not Applicable
Environment and Climate Change:	Not Applicable
Consultation/Community Engagement:	Not Applicable

Risks:	Borrowing and investment both carry an element of risk. This risk is mitigated through the adoption of the Treasury and Investment Strategies, compliance with the CIPFA code of Treasury Management and the retention of Treasury Management Advisors (Arlingclose) to proffer expert advice
Officer Contact	Anna Wright Finance Team Manager & Deputy S151 Officer anna.wright@nwleicestershire.gov.uk

Economic information provided by Treasury Management Advisors

External Context *(based on data as at 24/03/21)*

Economic commentary

Economic background: The coronavirus pandemic dominated 2020/21, leading to almost the entire planet being in some form of lockdown during the year. The start of the financial year saw many central banks cutting interest rates as lockdowns caused economic activity to grind to a halt. The Bank of England cut Bank Rate to 0.1% and the UK government provided a range of fiscal stimulus measures, the size of which has not been seen in peacetime.

Some good news came in December 2020 as two COVID-19 vaccines were given approval by the UK Medicines and Healthcare products Regulatory Agency (MHRA). The UK vaccine rollout started in earliest with the focus on getting those most at risk from the virus vaccinated first and to date some 28 million people have had their first dose.

A Brexit trade deal was agreed with only days to spare before the 11pm 31st December 2020 deadline having been agreed with the European Union (EU) on Christmas Eve.

The Bank of England (BoE) held Bank Rate at 0.1% throughout the year but extended its Quantitative Easing programme by £150 billion to £895 billion at its November 2020 meeting. In its March 2021 interest rate announcement, the BoE noted that while GDP would remain low in the near-term due to COVID-19 lockdown restrictions, the easing of these measures means growth is expected to recover strongly later in the year. Inflation is forecast to increase in the near-term and while the economic outlook has improved there are downside risks to the forecast, including from unemployment which is still predicted to rise when the furlough scheme is eventually withdrawn.

Government initiatives supported the economy and the Chancellor announced in the 2021 Budget a further extension to the furlough (Coronavirus Job Retention) scheme until September 2021. Access to support grants was also widened, enabling more self-employed people to be eligible for government help. Since March 2020, the government schemes have help protect more than 11 million jobs.

After contracting sharply in Q2 (Apr-Jun) 2020 by 19.8%, growth in Q3 and Q4 bounced back by 15.5% and 1.0% respectively. The main sectors of production, construction, and services all increased in output in Q4, rising by 1.8%, 4.6% and 0.6% respectively. The easing of some lockdown measures in the last quarter of the calendar year enabled construction output to continue, albeit at a much slower pace than the 41.7% rise in the prior quarter. When released, figures for Q1 (Jan-Mar) 2021 are expected to show a decline given the national lockdown.

Inflation has remained low all year and the latest figures showed the annual headline rate of UK Consumer Price Inflation (CPI) fell to 0.4% year/year in February, below expectations (0.8%) and still well below the Bank of England's 2% target. The ONS' preferred measure of CPIH which includes owner-occupied housing was 0.7% year/year (1.0% expected). The weaker-than-expected readings were exacerbated by downward price pressures from the latest lockdown with the main upward impact coming from car fuel prices.

Despite the furlough scheme supporting many jobs throughout the year, unemployment still rose. Labour market data showed that in the three months to January 2021 the unemployment rate

was 5.0%, down slightly from the previous month but higher than the 3.9% recorded for the same period 12 months ago. Wages rose 4.8% for total pay in nominal terms (4.2% for regular pay) and was up 3.9% in real terms (3.4% for regular pay). The employment rate fell to 75.0% from 75.2% in the previous quarter. Unemployment is still expected to increase once the various government job support schemes come to an end, but with the extensions announced in the Budget likely to help with longer-term employment, the BoE is now predicting unemployment to peak at around 6-6.5%, rather than the 7.5% it had forecast previously.

After collapsing at an annualised rate of 31.4% in Q2, the US economy rebounded by 33.4% in Q3 and then a further 4.1% in Q4. The US recovery has been fuelled by three major pandemic relief stimulus packages totalling over \$5 trillion. The Federal Reserve cut its main interest rate to between 0% and 0.25% in March 2020 in response to the pandemic and it has remained at the same level since.

The European Central Bank maintained its base rate at 0% and deposit rate at -0.5% but in December 2020 increased the size of its asset purchase scheme to €1.85 trillion and extended it until March 2022.

Financial markets: Monetary and fiscal stimulus helped provide support for equity markets which rose over the period, with the Dow Jones beating its pre-crisis peak on the back of outperformance by a small number of technology stocks. The FTSE indices performed reasonably well during the period April to November, before being buoyed in December by both the vaccine approval and Brexit deal, which helped gave a boost to both the more internationally focused FTSE 100 and the more UK-focused FTSE 250, however they remain lower than their pre-pandemic levels.

Ultra-low interest rates prevailed throughout most of the period, with yields generally falling between April and December 2020. From early in 2021 the improved economic outlook due to the new various stimulus packages (particularly in the US), together with the approval and successful rollout of vaccines, caused government bonds to sell off sharply on the back of expected higher inflation, pushing yields higher more quickly than had been anticipated.

The 5-year UK benchmark gilt yield began the financial year at 0.184% before declining to -0.033% at the end of 2020 and then rising strongly to the current level of 0.33%. Over the same period the 10-year gilt yield fell from 0.314% to 0.192% before rising to 0.764% currently. The 20-year declined slightly from 0.696% to 0.681% before increasing to the current level of 1.265%.

1-month, 3-month and 12-month SONIA bid rates averaged 0.01%, 0.11% and 0.24% respectively over the financial year.

The yield on 2-year US treasuries is currently 0.1452%, up from 0.121% at the beginning of January but down from 0.206% at the start of the financial year. For 10-year treasuries the current yield is 1.647%, up from both the beginning of 2021 (0.913%) and the start of the financial year (0.583%).

German bund yields remain negative across most maturities.

Credit Review: After spiking in March 2020, credit default swap spreads declined over the remaining period of the year to broadly pre-pandemic levels. The gap in spreads between UK ringfenced and non-ringfenced entities remained, albeit Santander UK is still an outlier compared to the other ringfenced/retail banks. At the end of the period Santander UK was trading the highest at 59bps and Standard Chartered the lowest at 29bps. The other ringfenced banks were trading between 30 and 32bps while Nationwide Building Society was 40bps.

Credit rating actions to the period ending December 2020 have been covered in previous outturn reports, however in the last quarter of the financial year S&P upgraded Clydesdale Bank to A- and revised Barclay's outlook to stable (from negative) while Moody's downgraded HSBC's Baseline Credit Assessment to baa3.

The vaccine approval and subsequent rollout programme are both credit positive for the financial services sector in general, but there remains much uncertainty around the extent of the losses banks and building societies will suffer due to the economic slowdown which has resulted due to pandemic-related lockdowns and restrictions. The institutions on Arlingclose's counterparty list and recommended duration remain under constant review, but at the end of the period no changes had been made to the names on the list or the recommended maximum duration of 35 days

Counterparties and Investment Summary as at 31/03/2021

Counterparty	Length	From	To	Amount	Rate
Blackrock MMF	Overnight	31/03/2021	01/04/2021	2,000,000.00	0.0001%
Aberdeen Asset Management MMF	Overnight	31/03/2021	01/04/2021	2,500,000.00	0.0100%
Federated Investors MMF	Overnight	31/03/2021	01/04/2021	3,000,000.00	0.0100%
CCLA MMF	Overnight	31/03/2021	01/04/2021	4,000,000.00	0.0459%
Lloyds Main	Overnight	31/03/2021	01/04/2021	2,778,414.98	0.0000%
Bank of Scotland	Overnight	31/03/2021	01/04/2021	1,000,000.00	0.0000%
Lloyds Market Call Account	Overnight	31/03/2021	01/04/2021	2,000,000.00	0.0100%
Lloyds Notice Account	32	31/03/2021	02/05/2021	2,000,000.00	0.0300%
Santander Notice Account	35	31/03/2021	05/05/2021	2,000,000.00	0.0150%
Walsall Metropolitan Borough Council	364	09/04/2020	08/04/2021	5,000,000.00	1.0000%
Watford Borough Council	184	29/03/2021	29/09/2021	5,000,000.00	0.0700%
Surrey Heath Borough Council	181	17/02/2021	17/08/2021	4,000,000.00	0.0500%
Epping Forest District Council	176	25/01/2021	20/07/2021	5,000,000.00	0.1200%
Monmouthshire County Council	91	05/01/2021	06/04/2021	5,000,000.00	0.0500%
Sedgemoor District Council	60	08/03/2021	07/05/2021	5,000,000.00	0.0600%
Total				50,278,414.98	

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NORTH WEST LEICESTERSHIRE DISTRICT COUNCIL

AUDIT AND GOVERNANCE COMMITTEE – WEDNESDAY, 21
APRIL 2021

Title of Report	ACCOUNTING POLICIES AND MATERIALITY 2020/21	
Presented by	Anna Wright Finance Team Manager and Deputy S151 Officer	
Background Papers	None	Public Report: Yes
Purpose of Report	To review and approve the draft accounting policies and materiality levels for the 2020/21 financial statements.	
Recommendations	TO CONSIDER AND APPROVED: 1. THE DRAFT ACCOUNTING POLICIES FOR THE 2020/21 FINANCIAL STATEMENTS AS DETAILED IN APPENDIX A; AND 2. THE MATERIALITY LEVELS AS SET OUT IN APPENDIX B.	

1.0 BACKGROUND

- 1.1 The accounting policies and materiality levels need to be reviewed and agreed, prior to the closure of the accounts.

2.0 ACCOUNTING POLICIES

- 2.1 It is a requirement of the Local Government Act 2003 and the Accounts and Audit (England) Regulations 2015 for the Statement of Accounts to be produced in accordance with proper accounting practices.
- 2.2 The Accounting Policies adopted by the Council determine the accounting treatment that is applied to transactions during the financial year and in the preparation of the Statement of Accounts at the year-end. They determine the specific principles, bases, conventions, rules and practices that will be applied by the Council in preparing and presenting its financial statements.
- 2.3 Accounting policies need not be applied if the effect of applying them would be immaterial. Materiality is defined in the Code as:

Omissions or misstatements of items are material if they could, individually or collectively, influence the decisions or assessments on the nature or size of the omission or misstatement judged in the surrounding circumstances. The nature or size of the item, or a combination of both, could be the determining factor.

- 2.4 The Audit and Governance Committee's Terms of Reference require the committee to 'consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the Council. It is therefore considered good practice for the committee to have greater visibility over these accounting policies before they are applied.
- 2.5 The accounting policies are reviewed each year by officers to ensure all accounting policies previously approved are still relevant and are in accordance with the latest version of the Chartered Institute of Finance and Accountancy (CIPFA) Code of Practice and international Financial Reporting Standards (IFRS) requirements. Any new requirements are added to the policies and policies, which are no longer relevant or have no material effect to the Statement of Accounts, are removed.
- 2.6 The following accounting standards have been amended by the Code of Practice in 2020/21:
- Amendments to IAS28 Investment in Associates and Joint Ventures: Long-term interests in Associates and Joint Ventures
 - Annual Improvements to IFRS Standards 2015-2017 Cycle
 - Amendments to IAS19 Employee Benefits: Plan Amendment, Curtailment or Settlement.
- 2.7 The application date of the above amendments is the 1 April 2020.
- 2.8 The amendments make makes changes to the wording of existing accounting standards to add clarity to interpretation and understanding of the standards. They are not new accounting standards. They do not have any material effect and have not resulted in any changes to the council's accounting policies.
- 2.9 The proposed accounting policies for 2020/21 are included at Appendix A and are presented to the committee for approval. Adopting the proposed policies will support the timely production of the annual accounts.
- 2.10 CIPFA intended to issue an accounting Bulletin giving further guidance on matters for the production of the Statement of Accounts. At the time of writing this report, the Bulletin has not been issued, once issued it will be taken into account when producing the statements. Section 23 of the accounting policies will be updated once
- 2.11 During the year-end process there may be changes required to the policies arising from changes in circumstances or updated guidance. These will be agreed with the Section 151 Officer and reported to the Audit Committee alongside the final version of the Statement of Accounts.

3.0 MATERIALITY LEVELS

- 3.1 Materiality is defined in paragraph 2.3 above.
- 3.2 Setting materiality levels enables the finance team to identify significant variances and items that need disclosing in the financial statements.
- 3.3 Levels for the 2020/21 financial statements are set out in Appendix B for approval. The levels of materiality agreed by the committee will be used in the preparation of the financial statements and information provided for external audit purposes.

- 3.4 External Audit apply their own test of material misstatements. This is detailed in their Audit Strategy Memorandum, which is a separate report on this agenda. The internal materiality levels presented to committee for approval have been set in reference to the external auditors own materiality levels.

Policies and other considerations, as appropriate	
Council Priorities:	Production of timely and accurate Statement of Accounts is a statutory requirement. Achievement of this reflects sound financial management supporting all the council priorities.
Policy Considerations:	CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.
Safeguarding:	None
Equalities/Diversity:	None
Customer Impact:	None
Economic and Social Impact:	None
Environment and Climate Change:	None
Consultation/Community Engagement:	None
Risks:	None
Officer Contact	Anna Wright Finance Team Manager and Deputy Section 151 Officer anna.wright@nwleicesteshire.gov.uk

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Notes to the accounts

Accounting policies

1. General Principles

The Statement of Accounts has been prepared with reference to the objective of showing the results of the stewardship and accountability of elected members and management for the resources entrusted to them, and on the underlying assumption of a going concern basis.

The Statement of Accounts summarises the council's transactions for the 2020/21 financial year and its position at the year-end of 31 March 2021.

The council is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015, which requires the statement to be prepared in accordance with proper accounting practices. These practices under Section 21 of the 2003 Act primarily comprise the Code of Practice on Local Council Accounting in the United Kingdom 2020/21, supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under Section 12 of the Local Government Act 2003.

The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

The council's accounting policies are updated annually to reflect any changes in IFRS, including changes in International Public Sector Accounting Standards (IPSAS), HM Treasury guidance, CIPFA guidance or any other change in statute, guidance or framework impacting on the council's accounts.

The council's accounting policies as far as possible have been developed to ensure that the accounts are understandable, relevant, free from material error or misstatement, reliable and comparable, and are applied consistently. A glossary of terms can be found at the end of this document.

2. Accruals of income and expenditure

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- Revenue from contracts with service recipients, whether for services or the provision of goods, is recognised when (or as) the goods or services are transferred to the service recipient in accordance with the performance obligations in the contract. Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the

effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.

- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

3. Cash and cash equivalents

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Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours.

Cash equivalents are highly liquid investments that mature in no more than three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand

and form an integral part of the council's cash management.

4. Exceptional items

When items of income and expense are material, their nature and amount is disclosed separately, either on the face of the Comprehensive Income and Expenditure Statement or in the notes to the accounts, depending on how significant the items are to an understanding of the council's financial performance.

5. Prior period adjustments, changes in accounting policies and estimates and errors

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the

effect of transactions, other events and conditions on the council's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

6. Charges to revenue for non-current assets

Services, support services and trading accounts are debited with the following amounts to record the cost of holding non-current assets during the year:

- Depreciation attributable to the assets used by the relevant service
- Revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off
- Amortisation of intangible assets attributable to the service.

The council is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisation. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement equal to an amount calculated on a prudent basis determined by the council in accordance with statutory guidance.

Depreciation, revaluation and impairment losses and amortisation are therefore replaced by the contribution in the General Fund balance (Minimum Revenue Provision) by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

MRP has previously being determined as 4% of the opening balance for the financial period (the Regulatory Method). Going forward the Section 151 Officer has revised this policy for 2019/20 onwards to the asset life method, based on Option 3 of the MHCLG guidance, whereby MRP is determined by reference to the useful life of the asset.

7. Council tax and non-domestic rates (England)

Billing authorities act as agents, collecting council tax and non-domestic rates (NDR) on behalf of the major preceptors (including government for NDR) and, as principals, collecting council tax and NDR for themselves.

Billing authorities are required by statute to maintain a separate fund (the Collection Fund) for the collection and distribution of amounts due in respect of council tax and NDR. Under the legislative framework for the Collection Fund, billing authorities, major preceptors and central government share proportionately the risks and rewards that the amount of council tax and NDR collected could be less or more than predicted.

Accounting for Council Tax and NDR

The council tax and NDR income included in the Comprehensive Income and Expenditure Statement is the council's share of accrued income for the year. However, regulations determine the amount of council tax and NDR that must be included in the council's General Fund. Therefore, the difference between the income included in

the Comprehensive Income and Expenditure Statement and the amount required by regulation to be credited to the General Fund is taken to the Collection Fund Adjustment Account and included as a reconciling item in the Movement in Reserves Statement.

The Balance Sheet includes the council's share of the end of year balances in respect of council tax and NDR relating to arrears, impairment allowances for doubtful debts, overpayments and prepayments and appeals.

8. Employee Benefits

Benefits Payable during Employment

Short-term employee benefits are those due to be settled wholly within 12 months of the year-end.

They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits (e.g. cars) for current employees and are recognised as an expense for services in the year in which employees render service to the council.

An accrual is made for the cost of holiday entitlements (or any form of leave, e.g. time off in lieu) earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday entitlements are charged to revenue in the financial year in which the holiday absence occurs.

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Termination Benefits

Termination benefits are amounts payable as a result of a decision by the council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy in exchange for those benefits and are charged on an accruals basis to the appropriate service segment or, where applicable, to a corporate service segment at the earlier of when the council can no longer withdraw the offer of those benefits or when the council recognises costs for a restructuring.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund Balance to be charged with the amount payable by the council to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.

Post-employment Benefits

Employees of the council are members of the Local Government Pensions Scheme, administered by Leicestershire County Council. The Local Government Pension Scheme is accounted for as a defined benefits scheme:

- The liabilities of the Leicestershire County Council pension fund attributable to the council are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of

the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc., and projected earnings for current employees.

- Liabilities are discounted to their value at current prices, using a discount rate based on the indicative rate of return on high quality corporate bonds.
- The assets of Leicestershire County Council pension fund attributable to the council are included in the Balance Sheet at their fair value:
 - Quoted securities – current bid price
 - Unquoted securities – professional estimate
 - Unitised securities – current bid price
 - Property – market value.

The change in the net pension's liability is analysed into the following components:

- Service cost comprising:
 - Current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure

Statement to the services for which the employees worked.

- Past service cost – the increase in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs.
- Net interest on the net defined benefit liability (asset), i.e. net interest expense for the council – the change during the period in the net defined benefit liability (asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement – this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the period – taking into account any changes in the net defined benefit liability (asset) during the period as a

result of contribution and benefit payments.

- Re-measurements comprising:
 - The return on plan assets – excluding amounts included in net interest on the net defined benefit liability (asset) – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.
 - Actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure
 - Contributions paid to the Leicestershire County Council pension fund – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund Balance to be charged with the amount

payable by the council to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are transfers to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

Discretionary Benefits

The council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

9. Events after the reporting period

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

- Those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events
- Those that are indicative of conditions that arose after the reporting period – the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

10. Financial Instruments

Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

For most of the borrowings that the council has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest); and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

Where premiums and discounts have been charged to the Comprehensive Income and

Expenditure Statement, regulations allow the impact on the General Fund balance to be spread over future years.

The council has a policy of spreading the gain or loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

Financial Assets

Financial assets are classified using an approach that is based on the business model for holding the financial assets and their Cashflow characteristics.

There are three main classes of financial assets measured at:

- Amortised cost
- Fair value through profit or loss (FVPL), and
- Fair value through other comprehensive income (FVOCI).

There are some exceptions, where the council holds strategic investments to help it meet other policy objectives, such as the support of economic development in the district.

This means that some investments are ones where contractual payments are not solely payment of principal and interest (i.e. where the cash flows do not take the form of a basic debt instrument).

Financial Assets measured at amortised cost

Financial assets measured at amortised cost are recognised on the Balance Sheet when the council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the financial assets held by the council, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest

credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

The council has not given any loans to external or voluntary organisations, nor provided guarantees against loans they have received from financial institutions.

When soft loans are made, a loss is recorded in the CIES (debited to the appropriate service) for the present value of the interest that will be foregone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal. Interest is credited to the Financing and Investment Income and Expenditure line

in the CIES at a marginally higher effective rate of interest than the rate receivable from the voluntary organisations, with the difference serving to increase the amortised cost of the loan in the Balance Sheet. Statutory provisions require that the impact of soft loans on the General Fund Balance is the interest receivable for the financial year – the reconciliation of amounts debited and credited to the CIES to the net gain required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement. Any gains and losses that arise on the derecognition of an asset are credited or

debited to the Financing and Investment Income and Expenditure line in the CIES.

Expected credit loss model

The council recognises expected credit losses on all of its financial assets held at amortised cost or FVOCI, either on a 12 month or lifetime basis. The expected credit loss model also applies to lease receivables and contract assets. Only lifetime losses are recognised for trade receivables (debtors) held by the council.

Impairment losses are calculated to reflect the expectation that the future cash flows might not take place because the borrower could default on their obligations. Credit risk plays a crucial part in assessing losses. Where risk has increased significantly since an instrument was initially recognised, losses are assessed on a lifetime basis. Where risk has not increased significantly or remains low, losses are assessed on the basis of 12 month expected losses.

Financial assets measured at Fair Value through Profit or Loss (FVPL)

Financial assets that are measured at FVPL are recognised on the Balance Sheet when

the council becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Fair value gains and losses are recognised as they arrive in the Surplus or Deficit on the Provision of Services.

The fair value measurements of the financial assets are based on the following techniques:

- Instruments with quoted market prices – the market price
- Other instruments with fixed and determinable payments – discounted cash flow analysis.

The inputs to the measurement techniques are categorised in accordance with the following three levels:

- Level 1 inputs – quoted prices (unadjusted) in active markets for identical assets that the council can access at the measurement date
- Level 2 inputs – inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly
- Level 3 inputs – unobservable inputs for the asset.

Any gains and losses that arise on the derecognition of the asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

An equity instrument can be elected into a FVOCI treatment rather than a FVPL treatment if it is not held for trading. The council has reviewed its assets that would be measured at FVPL on the basis of the business model and has elected to classify instruments as either FVPL or FVOCI on an instrument-by-instrument basis based on the assessed benefit to the council from the chosen classification.

Loans and receivables are recognised on the Balance Sheet when the council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans that the

council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

11. Government Grants and Contributions

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the council when there is reasonable assurance that:

- The council will comply with the conditions attached to the payments; and
- The grants or contributions will be received.

Amounts recognised as due to the council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset in the form of the grant or contribution are required to be

consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-specific Grant Income and Expenditure (non-ringfenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied Reserve. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied Reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

12. Heritage Assets

The council has three heritage assets which are held in support of increasing the knowledge, understanding and appreciation of the council's history and local area. These are Moira Furnace, a listed monument of historical interest located in Moira, the Memorial Clock Tower, a Grade II listed building that services as a historic war memorial located in the centre of Coalville and the 'Heart of the Forest' Sculpture in Ashby.

Heritage assets are recognised and measured (including the treatment of revaluation gains and losses) in accordance with the council's accounting policies on property, plant and equipment.

The carrying amounts of heritage assets are reviewed where there is evidence of impairment for heritage assets, e.g. where an item has suffered physical deterioration or breakage or where doubts arise as to its authenticity. Any impairment is recognised and measured in accordance with the council's general policies on impairment – see note 18. The council will occasionally dispose of heritage assets. The proceeds of such items are accounted for in accordance with the council's general provisions relating

to the disposal of property, plant and equipment. Disposal proceeds are disclosed separately in the notes to the financial statements and are accounted for in accordance with statutory accounting requirements relating to capital expenditure and capital receipts (again see note 18 below).

13. Intangible Assets

Expenditure on non-monetary assets that do not have physical substance but are controlled by the council as a result of past events (e.g. software licences) is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the council.

Intangible assets are measured initially at cost. Amounts are only revalued where the fair value of the assets held by the council can be determined by reference to an active market. In practice, no intangible asset held by the council meets this criterion, and they are therefore carried at amortised cost. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. An asset is tested for impairment whenever there is an indication that the asset might be impaired –

any losses recognised are posted to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

14. Inventories and Long-term Contracts

Inventories are included in the Balance Sheet at the lower of cost and net realisable value. The cost of inventories is assigned using the weighted average costing formula. Long-term contracts are accounted for on the basis of charging the Surplus or Deficit

on the Provision of Services with the value of works and services received under the contract during the financial year.

15. Investment Property

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale.

Investment properties are measured initially at cost and subsequently at fair value, being the price that would be received to sell such an asset in an orderly transaction between market participants at the measurement date. As a non-financial asset, investment properties are measured at highest and best use. Properties are not depreciated but are revalued annually according to market conditions at the year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal. Rentals received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the General Fund Balance. However, revaluation and disposal gains and losses

are not permitted by statutory arrangements to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

16. Leases

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases.

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

The Council as Lessee Finance Leases

Property, plant and equipment held under finance leases is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception. The asset recognised is matched by a liability for the obligation to pay the lessor.

Initial direct costs of the council are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability. Contingent rents are charged as expenses in the periods in which they are incurred.

Lease payments are apportioned between:

- A charge for the acquisition of the interest in the property, plant or equipment – applied to write down the lease liability, and
- A finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

Property, plant and equipment recognised under finance leases is accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life (where ownership of the asset does not transfer to the council at the end of the lease period). The council is not required to raise council tax to cover depreciation or revaluation and impairment losses arising on leased assets.

Instead, a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. Depreciation and revaluation and impairment losses are therefore substituted by a revenue contribution in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

Operating leases

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefitting from use of the leased property, plant or equipment. Charges are

made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a rent-free period at the commencement of the lease).

17. Overheads and Support Services

The costs of overheads and support services are charged to service segments in accordance with the council's arrangements for accountability and financial performance.

18. Property, plant and equipment

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as property, plant and equipment.

Recognition

Expenditure on the acquisition, creation or enhancement of property, plant and equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential

associated with the item will flow to the council and the cost of the item can be measured reliably.

Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred.

Measurement

Assets are initially measured at cost, comprising:

- The purchase price
- Any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management
- The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

The council does not capitalise borrowing costs incurred while assets are under construction.

The cost of assets acquired other than by purchase is deemed to be its fair value,

unless the acquisition does not have commercial substance (i.e. it will not lead to a variation in the cash flows of the council). In the latter case, where an asset is acquired via an exchange, the cost of the acquisition is the carrying amount of the asset given up by the council.

Donated assets are measured initially at fair value. The difference between fair value and any consideration paid is credited to the Taxation and Non-specific Grant Income and Expenditure line of the Comprehensive Income and Expenditure Statement, unless the donation has been made conditionally. Until conditions are satisfied, the gain is held in the Donated Assets Account. Where gains are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance to the Capital Adjustment Account in the Movement in Reserves Statement.

Assets are then carried in the Balance Sheet using the following measurement bases:

- Infrastructure, community assets and assets under construction – depreciated historical cost
- Dwellings – current value, determined using the basis of existing use value for social housing (EUV-SH)

- Council offices – current value, determined as the amount that would be paid for the asset in its existing use (existing use value EUV), except for a few offices that are situated close to the council's housing properties, where there is no market for office accommodation, and that are measured at depreciated replacement cost (instant build) as an estimate of current value
- Surplus assets – the current value measurement base is fair value, estimated at highest and best use from a market participant's perspective
- All other assets – current value, determined as the amount that would be paid for the asset in its existing use (existing use value EUV).

Where there is no market-based evidence of current value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of current value. Where non-property assets have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for current value.

Assets included in the Balance Sheet at current value are revalued sufficiently

regularly to ensure that their carrying amount is not materially different from their current value at the year-end, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains.

Exceptionally, gains might be credited to the Surplus or Deficit on the Provision of Services where they arise from the reversal of a loss previously charged to a service.

- Where decreases in value are identified, they are accounted for by:
- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that

date have been consolidated into the Capital Adjustment Account.

Impairment

Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for by:

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains).
- Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

- Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

Depreciation

Depreciation is provided for on all property, plant and equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e. freehold land and certain community assets) and assets that are not yet available for use (i.e. assets under construction).

Depreciation is calculated on the following bases – straight-line allocation over the useful life of the property as estimated by the valuer.

Where an item of property, plant and equipment asset has major components whose cost is significant in relation to

the total cost of the item, the components are depreciated separately.

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

Disposals and non-current assets held for sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an asset held for sale.

The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

Gains in fair value are recognised only up to the amount of any previously recognised

losses in the Surplus or Deficit on the Provision of Services. Depreciation is not charged on assets held for sale.

If assets no longer meet the criteria to be classified as assets held for sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as held for sale; adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as held for sale, and their recoverable amount at the date of the decision not to sell.

Assets that are to be abandoned or scrapped are not reclassified as assets held for sale.

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether property, plant and equipment or assets held for sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the

time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. A proportion of capital receipts relating to housing disposals is payable to the government (50% for land and other assets, net of statutory deductions and allowances and for dwellings, amounts determinable under the Right to Buy and One for One Agreement that the council signed in 2012). The balance of receipts remains within the Capital Receipts Reserve, and can then only be used for new capital investment or set aside to reduce the council's underlying need to borrow (the capital financing requirement). Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

The written-off value of disposals is not a charge against council tax, as the cost of non-current assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

19. Provisions, contingent liabilities and contingent assets

Provisions

Provisions are made where an event has taken place that gives the council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. For instance, the council may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement when the council has an obligation, and are measured at the best estimate at the Balance Sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year

- where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.

Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the council settles the obligation.

Contingent liabilities

A contingent liability arises where an event has taken place that gives the council a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the council. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably. Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts.

Contingent assets

A contingent asset arises where an event has taken place that gives the council a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the council.

Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

20. Reserves

The council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by transferring amounts out of the General Fund Balance. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then transferred back into the General Fund Balance so that there is no net charge against council tax for the expenditure.

Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, local taxation, retirement and employee benefits and do not represent usable resources for the council – these reserves are explained in the relevant policies.

21. Revenue Expenditure Funded from Capital under Statute

Expenditure incurred during the year that may be capitalised under statutory provisions but that does not result in the creation of a non-current asset has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year. Where the council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on the level of council tax.

22. VAT

VAT payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs. VAT receivable is excluded from income.

23. Accounting standards that have been issued but have not yet been adopted

*To be updated upon receipt of the CIPFA
year-end Bulletin.*

Materiality Levels

The following materiality levels are proposed for the preparation of the 2020/21 financial statements:

Balance Sheet

Materiality will be set at 10% of the 2019/20 balance, subject to the external auditors advised materiality, although some areas are material by nature so this will also be taken into account.

Where the external auditors materiality is less than 10% of the balance sheet, the materiality applied internally is reduced to 90% of the external audit materiality.

The 2019/20 balances are deemed to be the best consistent point to assess materiality on, as although the majority of balance is reconciled and updated regularly thought-out the year, some areas, the pension liability for example, is only updated at the end of the financial year.

Balance Sheet Area	2019/20 Balance	Material Level at 10%	External Audit Materiality	90% of External Audit Materiality	Internal Materiality Level
	£'000	£'000	£'000	£'000	£'000
Property, Plant and Equipment (PPE)	281,503	28,150	850	765	765
Debtors	2,776	277	850	765	277
Short Term Creditors	10,673	1,067	850	765	765
Provisions	1,651	165	850	765	165
Pension Liability	44,691	4,469	850	765	765

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NORTH WEST LEICESTERSHIRE DISTRICT COUNCIL

AUDIT AND GOVERNANCE COMMITTEE – WEDNESDAY, 21 APRIL 2021



Title of Report	INTERNAL AUDIT PROGRESS REPORT 2020/21 Q4	
Presented by	Lisa Marron Audit Manager	
Background Papers	Public Sector Internal Audit Standards Internal Audit Plan 2020/21	Public Report: Yes
Purpose of Report	To inform the Committee of progress against the Internal Audit plan for 2020/21 and to highlight any incidences of significant control failings or weaknesses that have been identified.	
Recommendations	THE AUDIT AND GOVERNANCE COMMITTEE NOTE THE REPORT.	

1.0 BACKGROUND

- 1.1 The Public Sector Internal Audit Standards require the Authority's Audit Committee to approve the audit plan and monitor progress against it. The Standards state that the Committee should receive periodic reports on the work of internal audit.
- 1.2 The Audit and Governance Committee approved the 2020/21 Audit Plan on 17 March 2020 and revisions necessary due to the Covid-19 response on 21st October 2020. The Committee receives quarterly progress reports.

2.0 PROGRESS REPORT

- 2.1 The Internal Audit Progress Report for the period 01 January 2021 to 31 March 2021 (Q4) is attached at Appendix 1.

Policies and other considerations, as appropriate	
Council Priorities:	An effective internal audit service supports all council priorities.
Policy Considerations:	None.
Safeguarding:	None.
Equalities/Diversity:	None.
Customer Impact:	None.
Economic and Social Impact:	None.
Environment and Climate Change:	None.
Consultation/Community Engagement:	None.
Risks:	There are no specific risks associated with this report.
Officer Contact	Lisa Marron Audit Manager Lisa.marron@nwleicestershire.gov.uk



INTERNAL AUDIT SHARED SERVICE

North West Leicestershire District Council

Internal Audit Progress Report 2020/21 Q4

1. Introduction

- 1.1. Internal Audit is provided through a shared service arrangement led by North West Leicestershire District Council and delivered to Blaby DC and Charnwood BC. The assurances received through the Internal Audit programme are a key element of the assurance framework required to inform the Annual Governance Statement. The purpose of this report is to highlight progress against the 2020/21 Internal Audit Plan up to 31st March 2021.

2. Internal Audit Plan Update

- 2.1. During Q4 good progress has been made against the 20/21 audit plan. Since the last update report six final audit reports have been issued, one audit is at the draft reporting stage and three are in progress. Three audits have been deferred to 2021/22 following consultation with the relevant heads of service during the 2021/22 audit planning process. More details can be found in Appendix A.
- 2.2. The following audit opinions were issued and the executive summaries are included in Appendix B:
- Health and Safety – Covid-19 – Reasonable Assurance
 - Safeguarding – Reasonable Assurance
 - Creditors – Substantial Assurance
 - HR and Payroll – Substantial Assurance
 - Treasury Management - Reasonable Assurance
 - Income Collection – Substantial Assurance

3. Internal Audit Recommendations

- 3.1. Internal Audit monitor and follow up all critical, high and medium priority recommendations. All overdue Internal Audit recommendations are included in Appendix C for information.
- 3.2. It is noted that a small number of recommendations due to be implemented have been delayed due to the impact of Covid-19 on the individual services. The Audit Manager does not have any concerns to highlight at this time and where appropriate extensions to target dates have been agreed.

4. Internal Audit Performance Indicators

- 4.1. Progress against the agreed Internal Audit performance targets is documented in Appendix D. Up until the end of Q2 the audit team were mostly redeployed to support the COVID-19 response. In agreement with CLT the audit plan was reviewed and revised, with work starting on the plan as soon as possible in Q3. Good progress has been made in the last two quarters and all audits on the revised plan are either completed or well underway. It is expected that all audits will be completed before the Audit Manager prepares the overall annual opinion.

Appendix A

2020/21 AUDIT PLAN AS AT 31ST MARCH 2021

Audit Area (Report No.)	Type	Planned Days	Actual Days	Status	Assurance Level	Recommendations					Comments
						C	H	M	L	A	
Health and Safety – COVID-19(4)	Audit	8	11	Final Report Issued	Reasonable	-	1	-	-	-	
Rent Accounting (1)	Audit	8	8	Final Report Issued	Substantial	-	-	-	1	-	
Domestic Heating Services Contract (8)	Audit	6	11	Draft report issued							
Grounds Maintenance	Audit	6	-	Deferred to 21/22							Deferred to 21/22 as not considered high risk for 20/21 and limited auditor resources due to overrun on higher priority audits. Reviewed key risk areas as part of Health and Safety-Covid-19 audit and previous audit follow up work.
CCTV	Audit	5	-	Deferred to 21/22							Deferred to 21/22 as not considered high risk for 20/21 and limited auditor resources due to overrun on higher priority audits.
Safeguarding (3)	Audit	6	13	Final Report Issued	Reasonable	-	5	3	1	-	Days exceeded as broader audit scope than originally envisaged with a greater focus on staff awareness, recruitment processes and training.

Appendix 1

Income Collection (7)	Audit	8	6	Final Report Issued	Substantial	-	1	1	-	-	
Creditors (2)	Audit	8	10	Final report issued	Substantial	-	-	-	2	-	
Debtors	Audit	8	2	In progress							
Main accounting system and budgetary control	Audit	8	2	In progress							
HR and Payroll (6)	Audit	8	6	Final report issued	Substantial	-	-	1	2	-	
Treasury Management (5)	Audit	8	6	Final report issued	Reasonable	-	1	1	1	-	
Central Control	Audit	6	4	In progress							
Fire safety and management (all properties)	Audit	8	0.5	Deferred to 21/22							Deferred to 21/22 due to current improvement activities for both corporate and housing properties; audit would not add value at this time.

Audit Opinion Key

Opinion	Definition
Substantial	A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited
Reasonable	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited
Limited	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.

Appendix 1

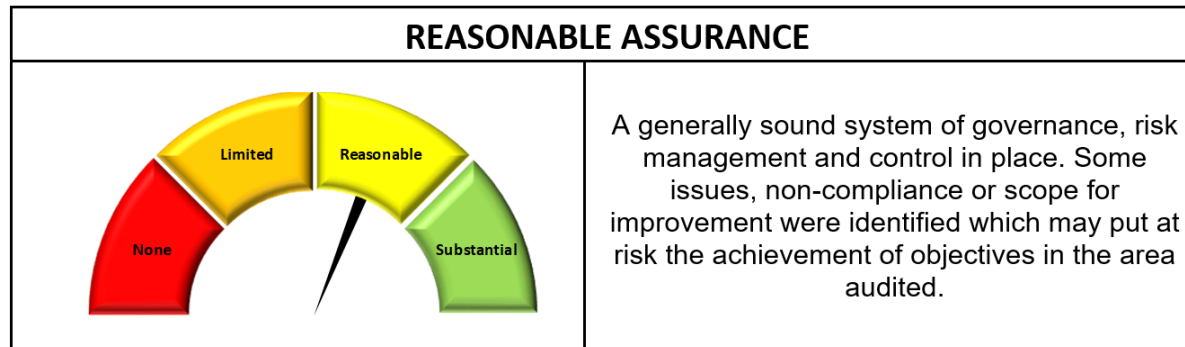
No Assurance	Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited
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Audit Recommendations Key

Level	Definition
Critical	Recommendations which are of a very serious nature and could have a critical impact on the Council, for example to address a breach in law or regulation that could result in material fines/consequences.
High	Recommendations which are fundamental to the system and require urgent attention to avoid exposure to significant risks.
Medium	Recommendations which, although not fundamental to the system, provide scope for improvements to be made,
Low	Recommendations concerning issues which are considered to be of a minor nature, but which nevertheless need to be addressed.
Advisory	Issues concerning potential opportunities for management to improve the operational efficiency and/or effectiveness of the system.

SUMMARY OF FINAL AUDIT REPORTS ISSUED BETWEEN 01 JANUARY 2021 AND 31 MARCH 2021

Health and Safety – Covid-19



Key Findings

Areas of positive assurance identified during the audit:

- Action has been taken in line with government guidance to protect the Health and Safety of staff and members of the public relating to the safe use of Council buildings as a result of COVID-19.
- COVID-19 risk assessments have been produced where required and action taken where necessary.
- Staff have been consulted with regarding their individual needs in relation to health and safe working practices.
- There has been effective communication to staff as a result of the COVID-19 response.
- Contractors have been required to provide assurance they have COVID-19 compliant safe working practices in place.

The main area identified for improvement are:

- Identification and management of statutory Health and Safety requirements for all council services.

Appendix 1

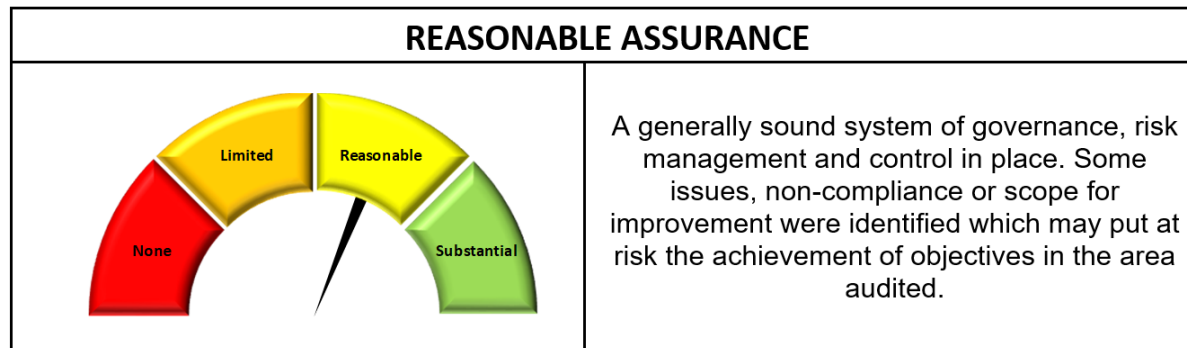
It was also noted that work is ongoing in the following areas therefore no recommendations have been made:

- Health and Safety induction for new starters to ensure it fully addresses all COVID-19 related changes such as individual risk assessments and home-based display screen equipment assessments.
- First Aid cover during reduced office usage.
- Fire risk assessment and action plan.

One high priority recommendation was made.

Recommendation	Priority	Response/Agreed Action	Officer Responsible	Implementation Date
There should be a comprehensive record of all statutory Health and Safety inspections / checks that are required by the Council. This record should cover all services and be monitored and reported against on a regular basis to ensure checks have taken place as required.	High	Agreed	Head of Human Resources and Organisational Development in conjunction with the Head of Customer Services, Corporate Property and Assets in his role as Chair of the Statutory Duty Group.	June 2021

Safeguarding



Key Findings

Areas of positive assurance identified during the audit:

- Policies, procedures and guidance in relation to Safeguarding are up to date and available to staff on the Intranet.
- Staff have received Safeguarding training and would know what action to take should they need to raise a Safeguarding concern.
- Safeguarding referrals and case records are effectively managed using the Sentinel case management system.

The main areas identified for improvement are:

- Recruitment Policy, Safer Recruitment training and processes for appointing to posts requiring a DBS check.
- Recording of posts which require a DBS check.
- Annual update and approval of the Councils Modern Slavery Statement.
- The mandatory training required for specific posts where a DBS is required is not detailed, additionally a record of safeguarding training completed is not held by the authority. No recommendation has been made for this as Human Resources are currently undertaking work in this area to produce individual development plans which should identify this, with records being held on ITrent. However, progress will be reviewed by Internal Audit during the audit follow up work.
- Availability of Designated Safeguarding Officers to dedicate time to dealing with referrals.

Five high, three medium and one low priority recommendations were made.

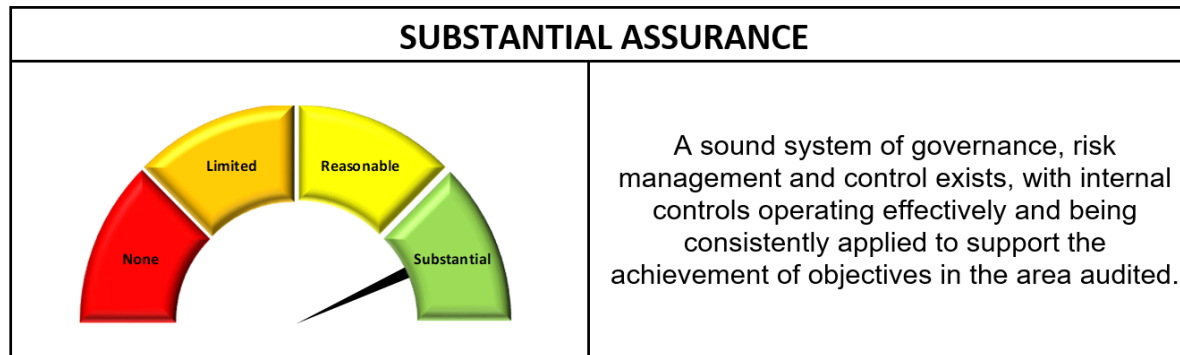
Recommendation	Priority	Response/Agreed Action	Officer Responsible	Implementation Date
1 - Where departments have safeguarding responsibilities officers should ensure that these are relevantly recorded within their business risk assessment.	Medium	<p>This will be addressed at the next meeting of the Risk Group (March 21). Comms to Risk Owners will be sent following meeting.</p> <p>The risk is addressed at a corporate level on the corporate wide Risk Register.</p>	Strategic Director of Housing & Customer Services (in his role as Chair of Risk Scrutiny Group)	<p>Agenda item for next Risk Scrutiny Group meeting 21st March 2021</p> <p>Update – discussed at 21st March RSG and team plans to be updated with a template risk but service specific mitigations.</p>
2 – The record of training for DSO's who have attended the two day external training and the DSO Induction Course should be updated. It would also be advisable to record any future additional training attended by DSO's as this may be required by Human Resources.	Medium	Agreed – individuals responsible for recording their own training on ITrent as advised by HR. Community Safety will have a record of when DSO induction training has taken place.	Community Safety Officer & DSO	April 2021
3 - With the current COVID situation and the intention for more agile working consideration should be given to introducing new ways of making staff aware of the safeguarding process and the Designated Safeguarding Officers.	Low	Agreed	Community Safety Officer & DSO	March 2021 and quarterly thereafter
4 - The capacity issues raised by the Head of Community Services should be reported formally to the Corporate Leadership Team. This should include the level of resource required for the service, allowing DSO's within services allocated time to perform this role, and identifying any opportunities for staff who are unable to perform their current roles as a result of the pandemic to be trained as DSO's.	High	Agreed – report presented to Corporate Leadership Team – 27th January 2021	Head of Community Services in conjunction with the Community Safety Officer and DSO	Already implemented

Additionally consideration should be given to having safeguarding champions within specific services across the authority to be able to promote safeguarding, offer safeguarding advice and support within their areas, highlight any specific issues that the service is having and reduce the pressure on DSO's.				
5 - A Modern Slavery Statement should be produced annually and published on the Council website within six months of the councils year end. Government guidance should be followed when preparing this document. This guidance can be found at: https://www.gov.uk/guidance/publish-an-annual-modern-slavery-statement	High	Agreed	Head of Finance (S151 Officer)	By September 2021
6 - The DBS Policy and procedure document should be updated and approved. The current document should be shown as out of date (if this is possible) and to contact HR for guidance until the new policy is available. The updated policy and procedure should provide clear guidance and advice relating to DBS checks. This should cover the posts which are required to have DBS checks, obtaining of DBS checks, subscribing to the update service and who is responsible for carrying out the annual checking via the update service. The guidance should also refer to requirements when employing agency workers.	High	Agreed	Head of HR and Organisational Development	June 2021
7 - All posts which are required to have a DBS check should be identified and recorded on ITrent. Details relating to the DBS check, date of check, reference number and confirmation that the annual recheck has been done should also be recorded on ITrent. Responsibility for ensuring that DBS checks are carried	High	Agreed that check information to be recorded on ITrent etc. There is no requirement by the DBS for annual checks to be carried out.	Head of HR and Organisational Development	June 2021

Appendix 1

out on an annual basis should be documented and circulated.		If people don't subscribe to the update service a new check would be required. Good practice suggests new checks done every 2-3 years, not annually.		
8 - The Recruitment Policy should be updated and include safer recruitment processes which should be undertaken when recruiting to posts that have contact with vulnerable groups.	Medium	Agreed	Head of HR and Organisational Development	June 2021
9 - The Safer Recruitment e-learning module should be added to Learning Pool. The availability of this training should be communicated to all relevant staff.	High	Agreed	Senior HR Advisor	February 2021 – Already implented

Creditors



Key Findings

Areas of positive assurance identified during the audit:

- Official orders had been raised for goods where appropriate.
- Invoices sampled were found to be bona fide and had been processed satisfactorily.
- Open orders periodically reviewed and cancelled where no longer required.
- Adequate controls are in place for the authorisation of payments.
- Reconciliations have been completed in a timely manner.

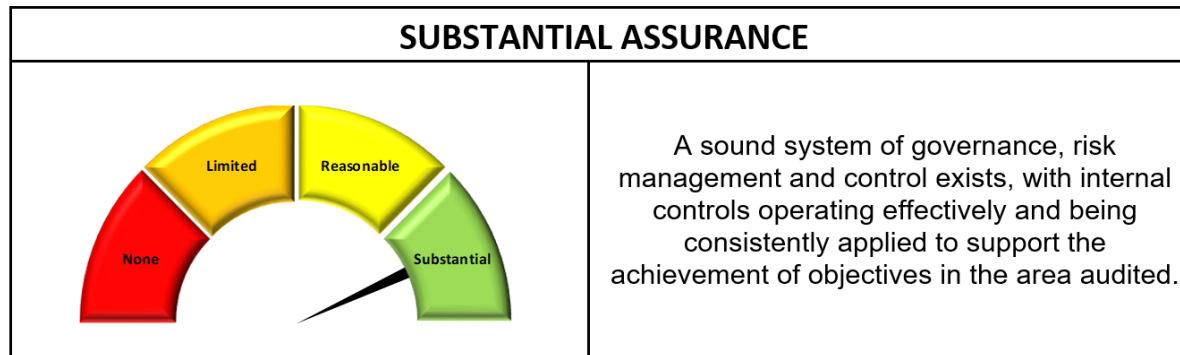
The main areas identified for improvement are:

- Procedures for processing payments without an invoice (Type 9).
- Deactivating access to Total for leavers.

Appendix 1

Two low priority recommendations were made.

Recommendation	Priority	Response/Agreed Action	Officer Responsible	Implementation Date
1 - Procedures should be drawn up which cover the processing and authorisation of Type 9 payments / payments without an invoice.	Low	Agreed	Exchequer Services Team Leader	March 2021
2 - Those staff identified as leavers from the sample should have their access to the Total system deactivated.	Low	Agreed	ICT Team Manager	Already implemented

HR and Payroll**Key Findings**

Areas of positive assurance identified during the audit:

- Sample testing confirmed that new starters, leavers and other changes to employee pay data are appropriately authorised and correctly actioned.
- Statutory and occupational payments in relation to sick and parental pay have been calculated correctly for the sample tested.
- Return to work interviews following sickness absence have continued as expected during the change to remote working.
- All expected reconciliations have been carried out throughout the year.
- Exception reports are independently monitored and suspense accounts reviewed and cleared.

The main area identified for improvement is to resume the periodic reviews of system users.

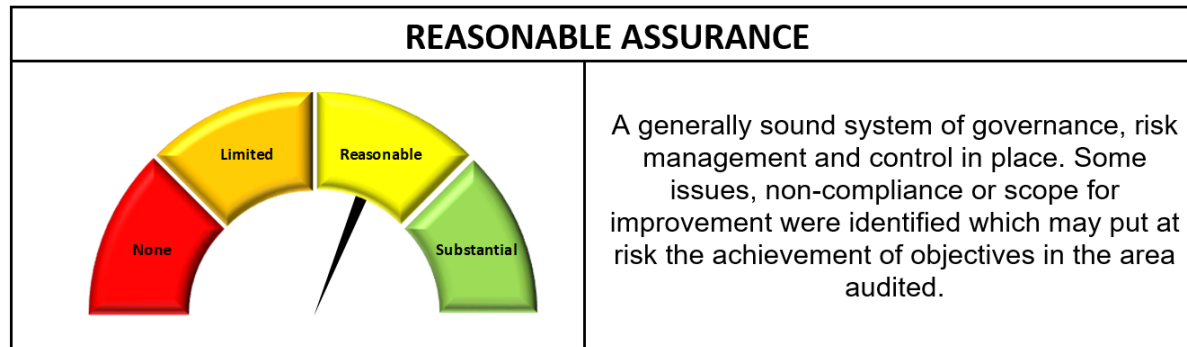
One medium and two low priority recommendations were made.

Recommendation	Priority	Response/Agreed Action	Officer Responsible	Implementation Date
1. The new HR officer formally documents her notes from the HR Analyst role shadowing during the monthly payroll runs.	Low	Agreed – the common tasks are being documented.	HR Analyst	31 st July 2021

Appendix 1

2. The monthly checklist checking and authorisation section should be updated to reflect the officers currently responsible for these tasks, and should be recorded each month when done.	Low	Agreed.	HR Analyst	31st March 2021
3. HR resume the periodic checks of system users and their access levels.	Medium	Agreed.	HR Analyst	30th April 2021 and ongoing.

Treasury Management



Key Findings

Areas of positive assurance identified during the audit:

- Adequate and up to date Treasury Management strategies are in place which comply with the CIPFA Treasury Management Code of Practice.
- Adequate separation of duties within the Treasury Management system.
- A detailed register of loans and investments is maintained.
- Investments with Local Authorities are subjected to enhanced due diligence checks by the S151/Deputy S151 Officer prior to lending.
- Performance is monitored and reported in line with the Treasury Management Strategy Statement.
- Access to the online banking system is restricted

The main areas identified for improvement are:

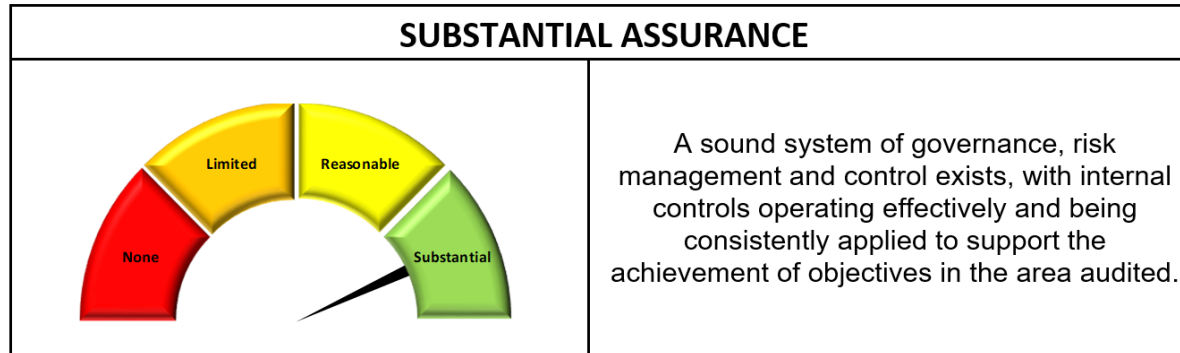
- Timeliness and review of reconciliations.
- Correction of Public Works Loan Board posting errors on the general ledger.
- Review and scrutiny of the Treasury Management Practices document.

Appendix 1

Three recommendations were made – one high, one medium and one low.

Recommendation	Priority	Response/Agreed Action	Officer Responsible	Implementation Date
1. Review and update the Treasury Management Practices document and subject it to scrutiny by the relevant Committee in line with Section 7 CIPFA Treasury Management Code of Practice.	Low	Agreed. Review has been delayed due to the impact of Covid-19 on resources. TMP's will be updated during 2021/22 Quarter 1 and will be presented to Audit and Governance Committee in July for approval.	Finance Team Manager	31 st July 2021
2. Reconciliations should be brought up to date and reviewed by the Finance Team Manager following completion, in line with the approach set out in the Treasury Management Practices.	High	Agreed. Due to the impact of COVID on the workload of the Finance Business Partner responsible for treasury, it was agreed to put the reconciliation on hold whilst higher priority tasks were completed (monitoring cashflow and COVID-19 returns). It has been agreed that one reconciliation will be completed each week, commencing from the 22nd February 2021.	Finance Team Manager	31st March 2021
3. The errors in the posting of the Public Works Loan Board payments on the general ledger should be corrected.	Medium	Agreed. This has occurred due a training issue with the replacement Finance Assistant which has now been rectified. The error would have been picked up when the reconciliations were completed.	Finance Business Partner - RV	Implemented

Income Collection



Key Findings

Areas of positive assurance identified during the audit:

- Income received is recorded accurately and promptly banked
- All expected reconciliations have been carried out throughout the year.
- Refunds tested were found to have been processed and authorised appropriately.
- There is a procedure in place should unusual or suspicious transaction be identified.
- Controlled stationery is held securely.
- Appropriate insurance is in place for the security and transfer of cash.
- Access to income management systems is appropriately controlled.

The main areas identified for improvement are:

- Updating of day to day procedures to reflect changes as a result of COVID.
- Timely allocation of unidentified income.

Appendix 1

Two recommendations were made – one high and one medium priority.

Recommendation	Priority	Response/Agreed Action	Officer Responsible	Implementation Date
1 - Where there have been changes to day to day procedures as a result of COVID-19 and homeworking the documented procedures should be updated accordingly.	Medium	Agreed	Exchequer Services Team Leader	June 2021
2 - The unidentified income spreadsheet should be regularly reviewed. This should include contacting services and consulting with Finance Business Partners particularly for high value payments. Any action to identify the income should be recorded on the spreadsheet. The unidentified income spreadsheet should be reviewed by the Exchequer Services Team Leader on at least a monthly basis.	High	Agreed. There will be an additional check added to the bank reconciliation to confirm that the unallocated income has been reviewed. This will require sign off by the Exchequer Services Team Leader.	Exchequer Services Team Leader	March 2021

Appendix C

RECOMMENDATIONS TRACKER – OVERDUE RECOMMENDATIONS AS AT 31ST MARCH 2021 (CRITICAL, HIGH AND MEDIUM ONLY)

Report		Recommendation		Rating	Officer Responsible	Target Date	Internal Audit Comments
2019/20 Audits							
9	General Fund Assets	1	A single asset register should be maintained which contains all council assets. Each asset should have a unique reference number in order that it can be easily identified and responsibility for maintaining the asset register should be clearly assigned.	Medium	Finance Team Manager in conjunction with Property Services Manager	31st May 2020 30th Sept 2020 31st Dec 2020 31 st May 2021	Covid-19 and staffing issues have delayed the implementation of this recommendation. Recent follow up work has established that property services is currently being reviewed by consultants and it is expected to be picked up as part of this.
11	Affordable Housing – S106/Commuted Sums	3	There should be a formal approval process in place to confirm agreement to the amount of commuted sum that is required in lieu of affordable housing. Details of how the sum has been arrived at and evidence to confirm this should be retained. Evidence that the approval process has been followed should accompany the request to Legal	High	Head of Planning and Infrastructure	31st August 2020 31 st May 2021	Follow up work in September 2020 found little progress due to other priorities (Covid-19) therefore extension agreed.

Appendix 1

			Services when preparing the S106 agreement.				
13	Commercial Lettings	1	The service should review the procedures in place relating to Commercial Lettings. Where areas are identified that would benefit from there being written procedures in place these should be produced. As a priority this should include procedures for carrying out rent reviews to ensure these are reviewed on a timely basis.	High	Property Officer	30th Sep 2020 31 st March 2021	Due to staffing issues within the team combined with the impact of COVID-19 this recommendation has not yet been progressed therefore an extension has been agreed. Further Internal Audit follow up will take place in April 2021.
		2	Property Services should put in place a process whereby evidence is requested from tenants to confirm that they are complying with the terms of their lease agreement. Examples of this would be gas servicing / boiler maintenance, any relevant insurance etc.	Medium	Property Services Team Manager	30th Sep 2020 31 st March 2021	Due to staffing issues within the team combined with the impact of COVID-19 this recommendation has not yet been progressed therefore an extension has been agreed. Further Internal Audit follow up will take place in April 2021.

Appendix D

2020/21 INTERNAL AUDIT PERFORMANCE

Performance Measure	Position as at 31.03.21	Comments
Achievement of the Internal Audit Plan	73%	Up until the end of Q2 the audit team were mostly redeployed to support the COVID-19 response. In agreement with CLT the audit plan was reviewed and work started on the plan as soon as possible in Q3. It is expected that all audits will be completed before the Audit Manager prepares the overall annual opinion.
Quarterly Progress Reports to Management Team and Audit and Standards Committee	On track	
Follow up testing completed in month agreed in final report	On track	Follow up testing up to date however some delays to implementation of recommendations due to Covid-19.
Annual Opinion Report - July 2020 Audit and Standards Committee Meeting	Achieved	
100% Customer Satisfaction with the Internal Audit Service	100%	Based on 13 returns for 19/20 and 2 for 20/21.
Compliance with Public Sector Internal Audit Standards	Conforms	External inspection carried out w/c 30 th November 2020 which confirmed that we conform with the Public Sector Internal Audit Standards.

NORTH WEST LEICESTERSHIRE DISTRICT COUNCIL

**AUDIT AND GOVERNANCE COMMITTEE – WEDNESDAY, 21
APRIL 2021**



Title of Report	INTERNAL AUDIT 2021/22 ANNUAL AUDIT PLAN.	
Presented by	Lisa Marron Audit Manager	
Background Papers	Public Sector Internal Audit Standards	Public Report: Yes
Purpose of Report	To inform the Committee of the proposed Internal Audit Annual Plan for 2021/22 and allow them to comment and approve.	
Recommendations	THAT THE COMMITTEE 1. NOTES THIS REPORT AND COMMENTS AS APPROPRIATE. 2. APPROVES THE 2021/22 INTERNAL AUDIT ANNUAL PLAN.	

Policies and other considerations, as appropriate	
Council Priorities:	An effective internal audit service and risk based plan supports the delivery of all council priorities.
Consultation/Community Engagement:	The corporate leadership team have been consulted during the development of the plan.
Risks:	The absence of a risk based internal audit plan could lead to an inefficient internal audit service.
Officer Contact	Lisa Marron Audit Manager lisa.marron@nwleicestershire.gov.uk



INTERNAL AUDIT SHARED SERVICE

North West Leicestershire District Council

2021/22 Internal Audit Annual Plan

1. INTRODUCTION

- 1.1 The Public Sector Internal Audit Standards require the Chief Audit Executive (the Audit Manager for this Council) to develop a risk-based plan to determine the priorities of the internal audit activity, consistent with the organisation's goals. This document sets out the background and the approach to producing the annual plan, with the 2021/22 annual plan attached at Appendix A.

2. BACKGROUND

- 2.1. The Council is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements. Internal Audit play a vital role in advising the Council that these arrangements are in place and operating effectively. The Council's response to Internal Audit activity should lead to strengthening of the control environment and therefore contribute to the achievement of the organisation's objectives.
- 2.2. Internal Audit provide a combination of assurance and consulting/advisory activities. Assurance work involves assessing how well the systems are designed and working, with consulting or advisory activities available to help to improve those systems and processes where necessary. Internal Audit work should not be seen as a substitute for management's responsibilities for the design and operation of these systems.
- 2.3. The Internal Audit Charter sets out the purpose, authority and responsibilities of Internal Audit. The Charter:
- establishes Internal Audit's position within the organisation;
 - authorises access to records, personnel and physical properties relevant to the performance of engagements; and
 - defines the scope of Internal Audit activities.
- 2.4 The Three Lines of Defence Model (below) is a valuable framework that explains Internal Audit's role in providing assurance that the management arrangements over governance, risk and internal control are adequate and effective.



Source: Chartered Institute of Internal Auditors

3. INTERNAL AUDIT PLAN

3.1. Overall Strategy

- 3.1.1 The key aim of the service is to provide an independent, objective assurance and advisory function which is designed to add value and improve the Council's operations. This supports North West Leicestershire District Council in the achievement of its priorities and helps services to provide good value for money, as it brings a systematic disciplined approach to evaluating and improving the effectiveness of risk management and control and governance processes.
- 3.1.2 The Audit Manager has produced a risk-based annual audit plan for 2021/22. This is informed by a risk assessment which is based on a combination of:
- consulting with key stakeholders including senior management;
 - reviewing the strategic risk register and committee minutes;
 - reviewing reports from external agencies (for example external audit) and legislative updates;
 - factors such as changes in staffing, systems and processes; and
 - the Audit Manager's professional judgement.

This approach enables the finite resources of the team to be focussed on areas where it can add value and conforms to the Public Sector Internal Audit Standards.

- 3.1.3 The outcomes from each audit engagement undertaken as part of the annual audit plan underpin the Audit Manager's annual opinion on the Council's internal control environment. This opinion feeds into the Council's Annual Governance Statement.
- 3.1.4 It should be noted that the Public Sector Internal Audit Standards state that
- "The chief audit executive must review and adjust the plan, as necessary, in response to changes in the organisation's business, risks, operations, programmes, systems, and controls."*

The Audit Manager will ensure that the audit plan is regularly reviewed and adjusted as necessary throughout 2021/22. In practice this may mean that audits are added to or removed from the plan, with details included in the quarterly progress reports.

3.2. Resources Available

- 3.2.1 The Audit Team who will deliver the 2021/22 annual audit plan at North West Leicestershire District Council consists of the Audit Manager (0.32 FTE), Senior Auditor (0.2 FTE) and an Internal Auditor (0.69 FTE). Table 1 shows a calculation of the available audit days for 2021/22.

Table 1: Resources Available

Available Days	237
Team and Contract Management / Annual Opinion/ Annual Plan/Audit Committees/Progress Reports/External Audit	25
Corporate Meetings/General Admin/ Minutes Review/Regional Audit Groups	30
Available Audit Days	182

3.3. Internal Audit Annual Plan 2021/22

- 3.3.1 The proposed 2021/22 Annual Audit Plan is shown in Table 2 below and the detailed plan is shown in Appendix A. The Plan will be subject to ongoing review to ensure that it remains aligned with the Council's objectives and the risks identified by management and the audit team. Any changes will be reported to the Corporate Leadership Team and the Audit and Governance Committee.

Table 2: 2021/22 Annual Audit Plan

Risk Based Audit Work 2021/22 (see Appendix A)	122
Completion of 2020/21 Outstanding Audits	20
Follow up reviews	8
Advisory – Ad hoc	10
Public Sector Internal Audit Standards	4
NFI and RIPA	6
Risk Scrutiny	4
Contingency	8
Total Audit Days	182

- 3.3.1 Three of the Council's key financial systems (Benefits, Council Tax and NNDR) are provided by the Leicestershire Revenues and Benefits Partnership, and therefore the audits in relation to these systems will be undertaken by the internal auditors at Hinckley and Bosworth Borough Council. The Audit Manager will review the audit reports to take assurance from them.
- 3.3.2 The timings shown within the Internal Audit Annual Plan are estimates based on time taken on previous similar audits and a high-level consideration of the scope and existing arrangements. As part of the set-up process for each audit engagement the scope of the audit will be agreed in detail and a more accurate budget for audit days will be set. A contingency has been included in the plan to allow for variances in planned audits days against actual and for ad-hoc or fraud investigations that may arise during the year. Due to the limited resources available, only 8 days have been included at this time. However, 20 days have been allocated in the plan to respond to any Covid-19 related assurance which may be required but cannot be specified at this time. The quarterly progress reports to Audit and Governance Committee will include a comparison of planned to actual days for each audit undertaken.

3.4 Limitations

- 3.4.1 The matters raised in the audit reports will only be those which come to our attention during internal audit work and are not necessarily a comprehensive statement of all the weaknesses that exist, or all the improvements that may be required. Whilst every care will be taken to ensure that the information contained in audit reports is as accurate as possible, based on the information provided and documentation reviewed, no complete guarantee or warranty can be given with regard to the advice and information contained therein. Our work does not provide absolute assurance that material errors, losses or fraud do not exist.

DRAFT

2021/22 INTERNAL AUDIT ANNUAL PLAN

AUDIT AREA	TYPE	TIMING	COUNCIL PRIORITY AREA/RISK REGISTER	PLANNED AUDIT DAYS
HR & ORGANISATIONAL DEVELOPMENT				
Project Management	Audit	Q4	All/RR 8	8
Subtotal				8
HOUSING				
Key Housing Systems	Audit	Q4	3	20
Fire Safety and Management	Audit	Q3/4	3	8
Green Homes Grant Phase 1b	Certification	Q2	3	5
Subtotal				33
COMMUNITY SERVICES				
Grounds Maintenance	Audit	Q3	5	8
CCTV	Audit	Q2/3	2	6
Leisure Recovery Support	Audit	Q1	2	6
Subtotal				20
FINANCE				
New finance system	Advisory	Q1-Q4	All/RR2 & 3	10
Subtotal				10
CUSTOMER SERVICES, CORPORATE PROPERTY AND ASSETS				
Estates Compliance Arrangements	Audit	Q2	All	8
Subtotal				8
PLANNING				
Building Control (Joint with CBC)	Audit	Q4	3	8
Subtotal				8

CROSS CUTTING				
High value grant claims	Audit	Q1	All/RR2 & 3	8
Covid-19 Related Assurance	TBC	As required	All	20
Risk Management	Audit	Q2/3	All/RR2 & 3	7
Subtotal				35
Total				122

Key

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

NORTH WEST LEICESTERSHIRE DISTRICT COUNCIL

**AUDIT AND GOVERNANCE COMMITTEE – WEDNESDAY, 21
APRIL 2021**



Title of Report	STANDARDS AND ETHICS - QUARTER 4 REPORT	
Presented by	Elizabeth Warhurst Head of Legal and Commercial Services and Monitoring Officer	
Background Papers	None	Public Report: Yes
Purpose of Report	To receive the figures for local determination of complaints and the ethical indicators for Quarter 4 of 2020/2021	
Recommendations	THE REPORT BE RECEIVED AND NOTED.	

1.0 BACKGROUND

- 1.1 The Standards and Ethics Report provides information in two categories: Local Determination of Complaints and Ethical Indicators.
- 1.2 The Quarter 3 Report follows the revised format and includes commentary where there is a variation in trends reported.

Policies and other considerations, as appropriate	
Council Priorities:	Our communities are safe, healthy and connected
Policy Considerations:	N/A
Safeguarding:	Safeguarding in relation to Modern Slavery
Equalities/Diversity:	N/A
Customer Impact:	Customers have the opportunity to report on measures that are included in this report.
Economic and Social Impact:	N/A
Environment and Climate Change:	N/A
Consultation/Community Engagement:	Customers have the opportunity to report on measures that are included in this report.
Risks:	By receiving this information members will be able to manage risks.
Officer Contact	Elizabeth Warhurst Head of Legal and Commercial Services elizabeth.warhurst@nwleicestershire.gov.uk

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Standards and Ethics

Quarter 4 Report

2020-2021

Contents

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Page 2 - Local Determinations of Complaints

Page 3 - Ethical Indicators

Page 4 - Freedom of Information Requests

Page 5 - Definitions

Introduction

This is the quarterly report to the Audit & Governance Committee detailing both the figures for the Ethical Indicators and the figures for the Local Determination of Complaints process for 2020/21.

For clarification purposes the months covered by the quarters are as follows:

Quarter 1 - 1 April to 30 June

Quarter 2 - 1 July to 30 September

Quarter 3 - 1 October to 31 December

Quarter 4 - 1 January to 31 March

The report is split into 2 parts for ease of reference; Part 1 refers to the local determination of complaints, part 2 is the table showing the ethical indicators figures.

The report will enable the Audit & Governance Committee to build up a picture over time of how many complaints are received and where these are coming from. The parts of the Code of Conduct which have been breached will also be recorded to enable training to be targeted effectively.

Local Determination of Complaints

The Monitoring Officer received 3 complaints in Quarter 4 of 2020/21.

1 complaint received in Q2 was withdrawn in Q4. 2 complaints received in Q4 were withdrawn in Q4. 1 complaint received in Q4 was unable to be progressed because the initial tests were not met.

2.1 Assessment Sub-committee Decisions

There has been 0 Assessment Sub-committee meetings in this quarter.

The Monitoring Officer pursues an informal dispute resolution process prior to initiating formal proceedings via the Sub-committee route.

1 complaint received in Q3 has been resolved informally in Quarter 4.

2.2 Timeliness of Decision

The Standards for England Guidance stated that the Assessment Sub-committee should complete its initial assessment of an allegation “within an average of 20 working days” to reach a decision on what should happen with the complaint. The Council has taken this standard and adapted it under the new rules to aim to hold an Assessment Sub-committee within 20 working days of notifying the parties that informal resolution is not possible.

2.3 Review Requests

There have been 0 review requests in Quarter 4. Review requests can only be made following a decision of ‘No further Action’ by the Assessment Sub-committee where there is submission of new evidence or information by the complainant.

2.4 Subsequent Referrals

None to report - see above.

2.5 Outcome of Investigations

There were no investigations concluded in this period.

2.6 Parts of the Code Breached

This section is intended to show where there are patterns forming to enable the Audit and Governance Committee to determine where there needs to be further training for Councillors. Targeting training in this way makes it more sustainable and, hopefully, more effective.

So far this year, the following areas of the code were found to have been breached:

N/A

Ethical Indicators

PERFORMANCE INDICATOR0	Q1			Q2			Q3			Q4		
	18/ 19	19/ 20	20/ 21	18/ 19	19/ 20	20/ 21	18/ 19	19/ 20	20/ 21	18/ 19	19/ 20	20/ 21
Instances of concerns raised re Modern Slavery	n/a	0	0	n/a	1	0	n/a	0	0	n/a	0	0
Instances of concerns raised re Modern Slavery referred to national agencies	n/a	1	0	n/a	1	0	n/a	0	0		0	0
Number of whistle blowing incidents reported	0	0	0	0	0	0	0	0	0	n/a	0	0
Number of Challenges to procurements	n/a	0	0	n/a	0	0	n/a	0	0		0	0
Public interest Reports	0	0	0	0	0	0	0	0	0		0	0
Objections to the Councils Accounts	0	0	0	0	0	0	0	0	0		0	0
Disciplinary action relating to breaches of the Member/Officer Protocol	0	0	0	0	0	0	0	0	0		0	0
Follow up action relating to breaches of the Member/Officer Protocol	0	0	0	0	0	0	0	0	0	n/a	0	0

Freedom of Information Requests

	Q1			Q2			Q3			Q4		
	18/19	19/20	20/21	18/19	19/20	20/21	18/19	19/20	20/21	18/19	19/20	20/21
Total Number (FOIs)	43	84	55	57	100	93	69	79	152	109	79	94
% answered on time	84%	99%	72.2%	96%	95.8%	84.1%	100%	99%	75%	91%	95.8%	86%
Average per month	14	28	18	19	33	31	23	26	51	36	26	31
Average response time (days)	12	11	15	9	10	13	11	10	17	10	11	11
Business as usual (BAUs)	58	59	27	86	73	24	55	62	26	73	65	11
Withheld due to exemption/fees (FOI and BAU)*	7	6	10	11	18	16	5	7	31	10	8	10
Transfers (TFRs)	29	18	14	32	22	18	32	30	25	42	33	23
Subject access requests (SARs)	3	2	3	3	12	6	2	6	12	7	5	5
Internal Reviews**	tbc	tbc	1	tbc	tbc	1	tbc	tbc	0	tbc	2	0
Environmental Information Requests/ Land Charges Searches (personal)	40	437	213	47	367	1	5	308	2		334	11

* Withheld due to exemptions has been moved up the table so that it sits below FOI's and BAU's thereby making it easier to compare and put into context the number of exemptions applied.

** Appeals has been amended to Internal Review as appeals were consistently zero but a number of reviews had been requested during 2019/2020.

All statistics presented from 19/20 Q4 should be viewed in the context of the pandemic and the subsequent disruption to services. FOI timescale for response is 20 days, however the ICO has expressed leniency given that work relating to the pandemic should be given priority over completing FOI work.

- Q4 has seen the **number of requests** received **return to more normal levels (94)** following the significant spike seen in the previous quarter (152). This is still a high number of requests though within expectations.
- The number of cases handled as **BAUs** has dropped further (11), however the **response time** has dropped to normal levels (**11 days**).
- Currently there are **20 outstanding requests**.
- The number of **SARs** received has reduced to **5**, a far more typical number of requests we would expect to see compared to Q3 (17).
- Overall, there is clearly some recovery following the surge seen in the previous quarter. Continuing into 2021/22, we may expect to see further improvements as the country slowly gets used to post-COVID life.

FOI Exemptions for Q4 20/21

Exemption	Description	FOI	BAU	Total
S21	Information Already Reasonably Accessible	4		4
S22	Information Intended for Future Publication	1	2	3
S27	International Relations			
S28	Relations within the UK			
S29	The Economy			
S30	Investigations			
S31	Law Enforcement	4	2	6
S32	Court Records			
S36	Effective Conduct of Public Affairs	1		1
S38	Endangering Health and Safety			
S39	Environmental Information			
S40	Personal Information of the Requester/Personal Information	2		2
S41	Confidentiality			
S42	Legal Professional Privilege			
S43	Trade Secrets and Prejudice to Commercial Interests			
S44	Prohibitions on Disclosure			
Total	<i>Number need not match the number of cases. Multiple exemptions may apply to one case.</i>	11	4	15

Definitions

Business as usual Information requested can be sent quickly and easily within the normal course of business

Land Charges specific information about a particular property

Ombudsman Complaint a customer has followed Stage 1 and 2 complaints procedure but unhappy with the outcome they are entitled to take complaint to the Local government Ombudsman who will decide if the Council has a case to answer.

Subject Access Request a request by an individual to see information an organisation holds on them

Transfers requests received that fall out of our remit i.e. Adult social Care or Highways

Environmental Information Request a right for any person to request access to environmental information held by public authorities.

NORTH WEST LEICESTERSHIRE DISTRICT COUNCIL

AUDIT AND GOVERNANCE COMMITTEE – WEDNESDAY, 21
APRIL 2021

Title of Report	DRAFT MEMBER CONDUCT ANNUAL REPORT	
Presented by	Elizabeth Warhurst Head of Legal & Commercial Services and Monitoring Officer	
Background Papers	Localism Act 2011 The Current NWL Code of Conduct is available on the Council's website and in the Constitution .	Public Report: Yes
Purpose of Report	To receive and note the draft Annual Report and authorise the Head of Legal & Commercial Services and Monitoring Officer to make any minor amendments before being recommended to Council.	
Recommendations	1) THAT THE DRAFT MEMBER CONDUCT ANNUAL REPORT 2020/21 BE RECEIVED AND NOTED; 2) THAT AUTHORITY BE DELEGATED TO THE HEAD OF LEGAL AND COMMERCIAL SERVICES AND MONITORING OFFICER TO MAKE ANY MINOR AMENDMENTS TO THE REPORT FOLLOWING COMMENTS FROM THE AUDIT AND GOVERNANCE COMMITTEE; 3) THAT COUNCIL BE RECOMMENDED TO ENDORSE THE MEMBER CONDUCT ANNUAL REPORT 2020/21.	

1.0 INTRODUCTION

- 1.1 It is important that the work of the Audit and Governance Committee should be visible to the Authority and wider public. It is felt that the annual report acts as a helpful tool in communicating the work undertaken by the Audit and Governance Committee to the public and to Members.
- 1.2 The Committee is recommended to receive and note the draft Member Conduct Annual Report 2020/21 and authorise the Head of Legal and Commercial Services and Monitoring Officer to make any necessary amendments following comments from this Committee before being recommended to Council for endorsement.

Policies and other considerations, as appropriate	
Council Priorities:	Supporting Coalville to be a more vibrant, family-friendly town Support for businesses and helping people into local jobs Developing a clean and green district Local people live in high quality, affordable homes Our communities are safe, healthy and connected
Policy Considerations:	Code of Conduct and Constitution
Safeguarding:	N/A
Equalities/Diversity:	Detailed in the Annual Report attached as an appendix.
Customer Impact:	N/A
Economic and Social Impact:	N/A
Environment and Climate Change:	N/A
Consultation/Community Engagement:	N/A
Risks:	By receiving this information members will be able to manage risks of misconduct.
Officer Contact	Elizabeth Warhurst Head of Legal and Commercial Services elizabeth.warhurst@nwleicestershire.gov.uk



MEMBER CONDUCT ANNUAL REPORT 2020-21

This is the Member Conduct Annual Report of North West Leicestershire District Council's Audit and Governance Committee and covers the period from 1 April 2020 to 31 March 2021.

In addition to the responsibilities detailed in the Terms of Reference below, the Audit and Governance Committee promotes high standards of conduct by District Council Members and Members of Town / Parish Councils in North West Leicestershire. The Audit and Governance Committee complies with the requirements of the Localism Act 2011, the Regulations and the guidance provided under that legislation, together with Council's adopted Arrangements.

On 27 June 2012 Council adopted the North West Leicestershire Code of Conduct for Members which had been drafted by Members for Members. The Code incorporates all the legislative requirements under the Localism Act 2011 in relation to Disclosable Pecuniary Interests together with retaining the personal obligations in existence under the previous regime.

2. Audit and Governance Committee Terms of Reference

Membership: Ten District Councillors

Quorum: Three District Councillors

Terms of Reference during the 2020-2021 financial year:

Statement of purpose

1. The Audit & Governance Committee is a key component of North West Leicestershire District Council's corporate governance. It provides an independent and high-level focus on the audit, assurance and reporting arrangements that underpin good governance and financial standards.
2. The purpose of the Audit & Governance Committee is to provide independent assurance to those charged with governance of the adequacy of the risk management framework and the internal control environment. It provides independent review of North West Leicestershire District Council's governance, risk management and control frameworks and oversees the financial reporting and annual governance processes. It oversees internal audit and external audit arrangements, helping to ensure efficient and effective assurance mechanisms are in place.

Governance, risk and control

3. To review the council's corporate governance arrangements against the good governance framework, including the ethical framework and consider the local code of governance.
4. To review the Annual Governance Statement prior to approval and consider whether it properly reflects the risk environment and supporting assurances, taking into account internal audit's opinion on the overall adequacy and effectiveness of the council's framework of governance, risk management and control.
5. To consider the council's arrangements to secure value for money and review assurances and assessments on the effectiveness of these arrangements.
6. To consider the council's framework of assurance and ensure that it adequately addresses the risks and priorities of the council.
7. To monitor and provide scrutiny over the effective development and operation of risk management in the council.
8. To monitor progress in addressing risk-related issues reported to the committee such as the Corporate Risk Register.

9. To consider reports on the effectiveness of internal controls and monitor the implementation of agreed actions.
10. To review the assessment of fraud risks and potential harm to the council from fraud and corruption.
11. To monitor the Anti-Fraud and Corruption strategy, actions and resources.

Internal audit

12. To approve the internal audit charter.
13. To approve (but not direct) the risk-based internal audit plan, including internal audit's resource requirements, the approach to using other sources of assurance and any work required to place reliance upon those other sources.
14. To approve significant interim changes to the risk-based internal audit plan and resource requirements.
15. To make appropriate enquiries of both management and the head of internal audit to determine if there are any inappropriate scope or resource limitations.
16. To consider any impairments to independence or objectivity arising from additional roles or responsibilities outside of internal auditing of the head of internal audit. To approve and periodically review safeguards to limit such impairments.
17. To consider progress reports from the head of internal audit on internal audit's performance during the year
18. To consider the head of internal audit's annual report, including the statement of the level of conformance with the Public Sector Internal Audit Standards and the results of the Quality Assurance and Improvement Programme that supports the statement. Fundamental to the annual report is the opinion on the overall adequacy and effectiveness of the council's framework of governance, risk management and control together with the summary of the work supporting the opinion. These will assist the committee in reviewing the Annual Governance Statement.
19. To consider summaries of specific internal audit reports in accordance with agreed protocols.
20. To receive reports outlining the action taken where the head of internal audit has concluded that management has accepted a level of risk that may be unacceptable to the authority or there are concerns about progress with the implementation of agreed actions.
21. To contribute to the QAIP and in particular, to the external quality assessment of internal audit that takes place at least once every five years.
22. To provide free and unfettered access to the audit committee chair for the head of internal audit, including the opportunity for a private meeting with the committee.

External audit

23. To support the independence of external audit through consideration of the external auditor's annual assessment of its independence and review of any issues raised.
24. To consider the external auditor's annual letter, relevant reports and the report to those charged with governance.
25. To consider specific reports as agreed with the external auditor.

26. To comment on the scope and depth of external audit work and to ensure it gives value for money.

Financial reporting

27. To review the annual statement of accounts. Specifically, to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the council.
28. To consider the external auditor's report to those charged with governance on issues arising from the audit of the accounts.
29. To seek assurances that the council has complied with the Treasury Management Strategy and Practices by demonstrating effective control of the associated risks and pursuing optimum performance consistent with those risks.

Accountability arrangements

30. To report to those charged with governance on the committee's findings, conclusions and recommendations concerning the adequacy and effectiveness of their governance, risk management and internal control frameworks, financial reporting arrangements, and internal and external audit functions.
31. To report to full council on a regular basis on the committee's performance in relation to the terms of reference and the effectiveness of the committee in meeting its purpose.
32. To publish an annual report on the work of the committee.

Functions	Matters reserved for a Decision
The Council has determined under the powers conferred on it by Section 28(6) of the Localism Act 2011 to appoint an Audit and Governance Committee and it has the following roles and functions:	To determine any issues referred to the Committee (except for any matter reserved to the Council).
Promoting and maintaining high standards of conduct by councillors and co-optees Assisting the councillors and co-optees to observe the Members' Code of Conduct Advising the Council on the adoption or revision of the Members' Code of Conduct Monitoring the operation of the Members' Code of Conduct Advising, training or arranging to train councillors and co-opted members on matters relating to the Members' Code of Conduct Granting dispensations to councillors who require such dispensations for more than one meeting or on more than one occasion from requirements relating to interests set out in the Members Code of Conduct as appropriate	

<p>Dealing with any report from the Monitoring Officer on any matter concerning Governance</p> <p>To establish Sub-committees for the Assessment of Determination of matters concerning allegations of Members Conduct</p> <p>And in addition the Audit and Governance Committee also oversees the ethical framework of the Council including oversight of:</p> <ul style="list-style-type: none"> • the Whistle Blowing Policy • complaints handling • Ombudsman investigations 	
<p>To exercise the above functions for the parish councils wholly or mainly in its area and the members of those parish councils.</p>	

Sub-committees of the Audit and Governance Committee

All Audit and Governance Committee members will form a pool from which members will be drawn based on their availability and the requirements of the particular Sub-committee as and when required.

Assessment Sub-committee

Assessment of complaints in accordance with the Council's Guidance and to either:

- Accept the Monitoring Officer's recommendation of no failure to comply with the Code of Conduct
- Refer the matter for full investigation
- Refer the matter for other action

Review Sub-committee

Consideration of requests for a review in accordance with the Council's Guidance.

Determinations Sub-committee

To receive reports from the Monitoring Officer or her appointed investigating officer and to decide either:

- To determine finding of no failure to comply with the Code of Conduct
- To determine finding of failure to comply with the Code of Conduct and impose relevant sanctions
- Refer the matter for other action

in accordance with the Council Guidance

3. Composition

District Councillors

All appointed by Council on 23 June 2020

Chairman: Councillor S Gillard
Deputy Chairman: Councillor D Harrison
Councillor C Benfield
Councillor D Bigby
Councillor J Clarke
Councillor M Hay
Councillor K Merrie
Councillor V Richichi
Councillor S Sheahan
Councillor M Wyatt

Parish Representatives

The following parish councillors were appointed as Parish Representatives with effect from 8 September 2020 for the remainder of the Administration (May 2023):

Councillor Patricia Thomas – Ashby Woulds Town Council
Councillor Ray Woodward – Whitwick Parish Council
Councillor Stephen Leary – Measham Parish Council
Councillor Brian Beggan – Ashby Town Council

Independent Persons

The legislation requires the Council to appoint at least one Independent person who potentially advises all those involved in a Standards complaint, including the Monitoring Officer, and who must be consulted prior to the determination of a complaint.

Through an open advertising process conducted with partner authorities the Council appointed the following pool of independent persons from whom one can be drawn as and when required:

Michael Pearson
Mark Shaw
Christine Howell
Gordon Grimes
Richard Gough

The main officer support for the Committee is provided by the Monitoring Officer (Elizabeth Warhurst), the Deputy Monitoring Officer (Kate Hiller) and the Democratic Support Officer (Rachel Wallace).

4. Meetings and Work Programme

The Audit and Governance Committee meets a minimum of four times per annum. In addition to its scheduled meetings, sub committees still meet on an ad hoc basis in order to consider and determine allegations of Member conduct. The Committee has its main work planned in advance through a Work Programme which enables it to be more proactive, strategic and focused in its approach to key issues.

5. Reporting Arrangements

The Audit and Governance Committee receives quarterly reports which have enabled Members to be reminded of the issues it has dealt with during each quarter and address any issues which this has highlighted.

6. Procedures and Workloads

(a) Dispensations

During 2020/21, there were no applications received for a dispensation from either District or Parish members.

(b) Complaints made to the Monitoring Officer under the Code of Conduct during 2020/21

Complaints made: 22

by Members of the Public	13
by Parish Councillors	7
by District Councillors	2
by Parish Clerk	0
by Council Officer	0

Complaints against:

a Parish Councillor	16
a District Councillor	6

From the above mentioned complaints:

3 complaints were resolved informally:

These complaints relate to unprofessional conduct of councillors.

10 complaints were withdrawn.

6 complaints did not meet the Code of Conduct criteria.

0 complaints are at informal resolution stage.

There has been a significant rise in complaints in the year 20/21 compared to 19/20 whereby there was only 1 complaint. This is likely due to current the effect of the COVID 19 pandemic. This has increased peoples free time, access to and use of social media.

Where several complaints were related to a single issue this was recorded as only one complaint as one issue resulted in over 20 individual complaints.

The complaints were grouped under the following headings:

Social media	5
BLM	5
COVID 19	2
Comments in meeting/email between councillors	10

(c) Complaints referred to the Standards Assessment Sub Committee

From the above-mentioned complaints: - 3

(d) Members' Register of Interests

The Democratic Services Officers undertake regular checks of the Register of Members' Interests and provide advice and assistance to Parish Councils on the completion of the Registers.

(e) Advice and Training

The Monitoring Officer and Deputy Monitoring Officer continue to provide both parish and district members with advice, both proactively and on request, on member's interests and all aspects of corporate governance.

Following the District and Parish Council Elections in May 2019, training on the Code of Conduct was offered to all District and Parish Members.

Training is also currently being provided to members on all aspects of data protection and freedom of information.

7. Policies & Procedures

The Audit and Governance Committee oversees the ethical framework of the Council including oversight of:

- the Whistle Blowing Policy
- complaints handling
- Ombudsman investigations.
- Freedom of Information and Data Protection
- Anti Fraud and Corruption Policy
- Anti Money Laundering Policy
- Risk Management Policy
- RIPA Policy
- Information Management Policy
- Data Protection Policy
- ICT & Cyber Security Policy
- Local Code of Corporate Governance

Elizabeth Warhurst
Monitoring Officer

Councillor S Gillard Chairman

OUR VISION

North West Leicestershire will be a place where people and businesses feel they belong and are proud to call home

Legal and Support Services
North West Leicestershire District Council

NORTH WEST LEICESTERSHIRE DISTRICT COUNCIL

AUDIT AND GOVERNANCE COMMITTEE – WEDNESDAY,
21 APRIL 2021



Title of Report	CORPORATE RISK UPDATE	
Presented by	Andy Barton Strategic Director	
Background Papers	None	Public Report: Yes
Purpose of Report	To provide Committee members with an update in respect of the Council's corporate risk register.	
Recommendations	THAT THE AUDIT AND GOVERNANCE COMMITTEE NOTES AND COMMENTS ON THE LATEST CORPORATE RISK REGISTER FOR CONSIDERATION BY THE RISK SCRUTINY GROUP.	

1.0 BACKGROUND

- 1.1 As part of the agreed Risk Management approach this report presents the latest version of the Corporate Risk Register as reviewed at the last meeting of the Risk Scrutiny Group on 16 March 2021. In line with the policy, members of this Committee, and Cabinet are to receive periodic updates on risks monitored through the Corporate Risk Register.
- 1.2 In reflecting the discussion at the last meeting of the committee a more in-depth consideration into the remaining 'red' risks has been carried out which has seen movement in a number of scores as summarised in the table below. Out of the 14 active risks, 0 are Red, 10 are Amber and 4 are Green.
- 1.3 A new potential risk has been identified as Risk 15 which is related to possible long medium term impacts of post COVID on both council service provision and demand for services. As this is a new risk it will be monitored over the next cycle and more fully reported to the committee should it develop further.
- 1.4 The updated Risk Register can be found at Appendix 1 and a summary of changes since the last update in Jan 2021 is set out below.

Risk Ref	Risk Title	Summary of Change
1	SOCIAL/POLITICAL/LEGAL Death / serious harm to a vulnerable person receiving a council service and safeguarding compliance	Reduced Residual Risk Likelihood reduced - recent Audit result shows progress shows a reasonable level of assurance and an action plan is in place, with continued monitoring via Audit & Governance Committee

4	LEGAL / FINANCIAL Contracts are not properly procured and managed	Reduced Residual Risk Scores reduced to reflect progress with contract management processes, and procurement changes. As this develops score predicted to drop further. Oversight Boards in place covering all major projects, and a statutory compliance group formed considering addressing these issues in contracts
5	LEGAL / TECHNOLOGICAL Loss or unlawful use of personal data constituting breach of data protection legislation	Residual Risk Reduced Scores reduced to reflect high assurance audit review and assessment of compliance
8	COMMERCIAL/POLITICAL/ FINANCIAL Projects are poorly managed	Residual Risk Reduced Work to address this area is ongoing. Board structure covering all major projects now in place providing senior management oversight and cabinet member clarity. On large scale projects a greater use of external PM is in place and reaping benefits for new and continuing major projects. Methodology internally being revisited to provide clarity to staff.
10	FINANCIAL/LEGAL/ REPUTATIONAL Council is subject to fraud, corruption or theft	Residual Risk Reduced Scores reduced on reassessment and update of actions including recent audit work, Annual Governance Statement and Fraud training refresh mandatory for all staff. Some outstanding audit work around COVID related grants (but planned resources to enable to take place)
12	"POLITICAL/ ORGANISATIONAL The Council is affected by Local Government Reorganisation"	Residual Risk Reduced Likelihood reduced to 2 - reflecting the time period should any change come forward. At present no white paper has been published and there is no open round for reorganisation bids. Government recent stance has been due to the Pandemic work that this is not the time for reorganisation.
13	POLITICAL / ORGANISATIONAL The Council is affected by the UK's departure from the EU, including a potential 'no deal' Brexit	Residual Risk Reduced Impacts on council have been minimal at current point. Continued watching brief for planned furthering of border controls, mitigation and funding already in place to address expected impacts on NWL services as new alignment beds in.
14	ORGANISATIONAL/FINANCIAL Council is subject to large scale and medium term reduction in	Residual Risk Reduced Balanced budget achieved with additional funding from government to cover extenuating

	staffing/supplies/increase in restrictions etc leading to risks and ongoing medium/long term impacts on either the financial or reputational standing of the Council	costs related to pandemic. Funding etc is however only secured for set periods and hence ensuring awareness and engagement in place, as well as lobbying in appropriate forums. Some services (waste in particular) still remain challenged in providing full services within the timelines desired.
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- 1.5 The Strategic Director acts as lead for corporate risk and is satisfied that the main risks posed to the organisation have been captured within the risk register and that control measures to mitigate these risks are appropriate. The report is based on an update in March 2021, any further update on significant changes in risk will be provided at the meeting.
- 1.6 The Audit and Governance Committee are asked to review and note this risk update, and provide any feedback they wish to be considered by the Risk Scrutiny Group at its next meeting.

Policies and other considerations, as appropriate	
Council Priorities:	Effective risk management underpins the ability of the Council to deliver against all its priorities.
Policy Considerations:	None
Safeguarding:	None
Equalities/Diversity:	None
Customer Impact:	None
Economic and Social Impact:	None
Environment and Climate Change:	None
Consultation/Community Engagement:	None
Risks:	The Council manages its risks within existing budgets. Effective risk management protects the Council from insurance and/or compensation claims, fraud, and a range of other financial and non financial risks
Officer Contact	Andy Barton Strategic Director Andy.Barton@nwleicestershire.gov.uk

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Corporate Risk Register													
Ref No.	Risk Description	Consequence	Cause	Inherent Risk			Responsibility of	Responsible to	Control Measures	Residual Risk			Movement of Risk
				Impact	Likelihood	Rating				Impact	Likelihood	Rating	
1	SOCIAL/ POLITICAL/ LEGAL Death / serious harm to a vulnerable person receiving a council service and safeguarding compliance	A serious case review arising from death/serious harm to a vulnerable person. Reputational damage to council. Loss of confidence in ability of council to deliver services. Ensuring compliance with Safeguarding legislation and practise.	Lack of response to a safeguarding report. Service failure. Modern slavery. poor safeguarding assurance	4	3	12	Community Safety Manager	Head of Communities	The organisation has the following structures in place; A recent audit with action plan of reasonable assurance An identified Corporate Lead (Head of Service) with a Portfolio Holder lead (temp cover during recruitment) An identified Team responsible for Safeguarding (Safer & Stronger) with responsibility embedded into Team Leader role and an officer (Child & Adults at risk Officer) An agreed Safeguarding Policy refreshed as required with delegation to Director of Housing and Customer Services for updates An identified group of Designated Safeguarding Officers (DSO's) in most service areas A programme of regular DSO meetings which consider training, best practice and case issues An annual training programme to ensure new DSO's are well informed and trained A quarterly senior management review of all cases to check progress/close cases A quarterly briefing with the Chief Executive, a 6 monthly report to CLT and an annual report to Cabinet Annual report reviews previous year and endorses an action plan for the year ahead. A computerised system of reporting and managing reports introduced in 2019, will ensure constant reminders of new cases, sending alerts at all points in the procedure.	3	2	6	Reduced
2	FINANCIAL/ COMMERCIAL/ REPUTATIONAL Mismanagement of council	Central Government intervention/special measures. Adverse publicity. Possible litigation. Withdrawal of services.	Mis-interpreting of or not responding appropriately to a change in fiscal policy.	4	4	16	Head of Finance	Strategic Director	Commitment to raise awareness of the scale and extent of modern slavery in the UK and ensure our contracts and supplies don't contribute to modern day slavery	4	1	4	Stable

Corporate Risk Register													
Ref No.	Risk Description	Consequence	Cause	Inherent Risk			Responsibility of	Responsible to	Control Measures	Residual Risk			Movement of Risk
				Impact	Likelihood	Rating				Impact	Likelihood	Rating	
	finances		Poor budget planning / management. <										

Corporate Risk Register													
Ref No.	Risk Description	Consequence	Cause	Inherent Risk			Responsibility of	Responsible to	Control Measures	Residual Risk			Movement of Risk
				Impact	Likelihood	Rating				Impact	Likelihood	Rating	
									Best Employee Experience is a programme to attract and develop the right skills, and promoting existing staff talent through secondments and tailored development programmes. Apprenticeships allow the Council to 'grow our own'.				
157	4 LEGAL / FINANCIAL Contracts are not properly procured and managed	Council liable to incur additional costs, contract overrun, litigation and potential health & safety issues as well as service disruptions.	Failure to monitor contractors appropriately.	3	3	9	Finance Team Manager. All Team Managers.	All Heads of Service	Oversight Board structure in place to oversee major project work & compliance group now in place to oversee these elements of contracted work.	2	3	6	Reduced
			Legal and procurement teams not consulted when contractors are engaged. Loss of key staff or supplier.						Corporate procurement officer and legal team to support where necessary on contract management. Policies and procedures are in place. Reserve contractor in place where appropriate.				
			Procurement procedures are not followed.						A Senior Procurement Officer oversees a procurement planning process. Training programme previously in place now under review and due to be redesigned. Roadmap to procurement changes starting to be enacted and recruitment underway				
			The council contributes to modern slavery via it's contracts and supplies.						Commitment to ensure our contracts and supplies don't contribute to modern day slavery and exploitation.				
	5 LEGAL / TECHNOLOGICAL Loss or unlawful use of personal data constituting breach of data protection legislation	Monetary penalties from ICO, adverse publicity, private litigation and personal criminal liability of officers.	Systems not in place to protect sensitive data.	3	3	9	Legal Services Team Manager	Head of Legal & Support Services	Policies and procedures are in place and rolled out. Regularly reviewed and compliance is monitored.	2	2	4	Reduced
			Staff are not properly trained in managing information, and do not follow internal procedures.						Corporate Governance training is undertaken annually and includes information governance as appropriate to reflect changes in legislation. E-learning module updated in 2019 and rolled out as mandatory annual training for all staff.				
			Changes in working practises casuing unintended risk/exposure						The Council has a dedicated SIRO and DPO. Corporate Governance Groups are in place to scrutinise impacts/issues arising.				

	Corporate Risk Register												
Ref No.	Risk Description	Consequence	Cause	Inherent Risk			Responsibility of	Responsible to	Control Measures	Residual Risk			Movement of Risk
				Impact	Likelihood	Rating				Impact	Likelihood	Rating	
									Internal audit was carried out in December 2019. The outcome of the audit was a Grade 1. One medium risk recommendation				
6	LEGAL / REPUTATIONAL / COMMERCIAL Failure to respond to an emergency in an appropriate manner	General public at risk of harm or unable to access relevant services (e.g. emergency accommodation or rest centre).	Lack of planning, training and exercising of Emergency plans	4	3	12	Head of Human Resources and Organisation Development	Chief Executive	Information Governance Team to cooperate with the supervisory authority and monitor compliance with Data Protection laws.	4	1	4	Stable
		Adverse publicity. “Business as usual” not possible without appropriate business continuity plan in place.	Inadequate Corporate Business Continuity Management.						Business continuity plans have been documented, policies and procedures are in place.				
		Breakdown in relationship with other responders.	Lack of procedural understanding						The LRF partnership arrangement with all Leicestershire and Rutland authorities provide resilience during civil emergency situations.				
158	7 LEGAL/ TECHNOLOGICAL/ COMMERCIAL Infiltration of ICT systems	“Business as usual” would not be possible. Cost of repelling cyber threat and enhancing security features.	Systems not in place or kept current to deflect any foreseeable cyber attack.	4	4	16	ICT Manager	Head of Customer Services	Business Continuity exercises show the readiness of the Council to deal with emergencies. System of ICO / FLM duty rotas is in place & continued reassessment for ongoing incidents. Strengthening of available out of hours cover in times of multiple events in place for NY period 2020/21.	3	2	6	Stable
			Limited staff awareness of possible threats.						Fully resilient environment in place with no single points of failure for core systems, other critical systems use cold standby equipment. Yearly IT security health check and PEN (penetration) testing carried out, by a CREST security accredited supplier, with remediation action plan in place to mitigate any risks found.				
			Lapse in security awareness and basic processes from a technical and human perspective.						Phishing campaigns ran twice a year to test staff security awareness and feed back results to CLT, with improvement plans in place for those who have not passed the test. Quarterly Cyber Security awareness training held for staff and new starters, to protect staff at work and in the office.				

Corporate Risk Register													
Ref No.	Risk Description	Consequence	Cause	Inherent Risk			Responsibility of	Responsible to	Control Measures	Residual Risk			Movement of Risk
				Impact	Likelihood	Rating				Impact	Likelihood	Rating	
									New business services are run in remote fully resilient data centres and existing systems are being progressively migrated to these cloud computing centres. Phishing campaigns ran twice a year to test staff security awareness and feed back results to CLT, with improvement plans in place for those who have not passed the test.				
8	COMMERCIAL / POLITICAL / FINANCIAL Projects are poorly managed	Failure of proposed projects could result in failure to achieve overall objectives. Inefficient use / waste of resources.	Failure to implement project management techniques. Poor corporate oversight of projects. Inadequate controls on expenditure and poor budget monitoring. Inadequate monitoring of external contracts. Failure to engage project management expertise when required.	3	4	12	Head of Human Resources and Organisation Development	Chief Executive	Improved business recovery arrangements have been implemented to minimise recovery time. Accreditation to Cyber Essentials Plus and the Public Services Network. Greater use of professional project managers for key projects. Work ongoing to address project methodologies deployed across the council. Greater use of external / out of subject board members. Board structure covering all major projects in place An annual external audit of IT assessed the organisation’s IT arrangements in a range of areas against best practice. (The outcome of the audit in 2020 was, GRADE 1, with one recommendation, which has already been addressed and provides assurance that the organisation’s IT arrangements are solid, sound and secure).	3	2	6	Reduced
9	LEGAL / POLITICAL / REPUTATIONAL Council makes ultra vires (beyond the council's powers and functions) decisions	Potential litigation against the Council, resulting in increased costs / compensation. Reputational damage.	Staff / Members proceeding without established governance arrangements. Failure to consult with Legal / Monitoring Officer. Lack of understanding of the implications of dealing with a particular matter.	4	3	12	Legal Services Team Manager	Head of Legal & Support Services	Properly convened project teams with PID and project plan in place, including project risk registers. Progress on corporate projects scrutinised by CLT. Implementation of contract management framework for outsourced services. Scrutiny of quarterly monitoring reports on capital expenditure.	4	1	4	Stable

Corporate Risk Register													
Ref No.	Risk Description	Consequence	Cause	Inherent Risk			Responsibility of	Responsible to	Control Measures	Residual Risk			Movement of Risk
				Impact	Likelihood	Rating				Impact	Likelihood	Rating	
10	FINANCIAL / LEGAL / REPUTATIONAL Council is subject to fraud, corruption or theft	Financial, reputational and political damage to Council.	Lack of checks and balances within financial regulations.	4	3	12	Head of Finance. All Team Managers & Heads of Service.	Directors	Utilising Internal Audit to conduct audits of individual projects or Project management more widely. Use of external resources to be used to support the Coalville and Leisure projects. Scrutiny of risk registers or project management framework of individual projects by Risk Scrutiny Group.	3	2	6	Reduced
			Poor budget / contract management.						Policies & procedures in place, governance processes are documented and in operation, ongoing assessments and reviews are performed. Completion of the Annual Governance statement.				
			Poor monitoring of / adherence to financial systems						A policy framework that includes Anti-Fraud and Corruption Policy, Confidential Reporting (Whistleblowing) Policy and Anti-Money Laundering Policy. Policy Refreshed late 2020 - refresh of training underway.				
			Changes in working practises casuing unintended risk/exposure						The Internal Audit annual planning process takes into account high risk areas, which considers fraud risks. Fraud risks are considered as part of specific audits with testing designed to detect fraud where possible. The Council is also subject to External Audit. New Covid related Grants all subject to external audit and compliance checks. Internal control and governance arrangements such as segregation of duties, schemes of delegation, bank reconciliations of fund movements, and verification processes. Participation and strengthening of involvement in National Fraud Initiative (mandatory) and Leicestershire Fraud Intelligence Hub (voluntary and due to cease from April 2020).				

Corporate Risk Register													
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				Impact	Likelihood	Rating				Impact	Likelihood	Rating	Movement of Risk
									Leicestershire Revenues and Benefits Partnership have two trained officers working solely on Council Tax Reduction Scheme Fraud and act as Single Point of Contact for DWP referrals.				
									Information on how to report fraud is on the website including relevant links.				
11	FINANCIAL / COMMERCIAL / ECONOMIC The Council is subject to a reduction in income	Services are unable to be delivered. Potential staff redundancies. Funding of external groups is withdrawn. Potential breach of statutory duties.	Reduction in government grant. Changes to the local authority financial settlement. Economic downturn / recession. Commercial opportunities not progressed. Changing rent policies.	3	4	12	Head of Finance. All Heads of Service.	Directors. Chief Executive.	Medium Term Financial Strategy in place, with comprehensive scenario analysis of worst and best case funding scenarios and changes in economic climate. Self-Sufficiency Programme developed to manage the council's ongoing financial sustainability. Self-Sufficiency reserve established fund transformation and commercial activities to sustain financial position. Bi-annual review of Medium Term Financial Plan. Head of Finance monitoring of Local Government funding reviews. Funding advisor engaged. Economic Development Team promotes business offer. Participation in Business Rates Pilots. Accessing external funding where appropriate. Income collection procedures in Revs & Bens Service and Housing.	2	3	6	Stable

Corporate Risk Register													
Ref No.	Risk Description	Consequence	Cause	Inherent Risk			Responsibility of	Responsible to	Control Measures	Residual Risk			Movement of Risk
				Impact	Likelihood	Rating				Impact	Likelihood	Rating	
12	POLITICAL / ORGANISATIONAL The Council is affected by Local Government Reorganisation	a) Change to Local Government structure in Leicestershire/East Midlands, including potential merger of district councils/county council or development of a Combined Authority for the East Midlands, either of which could lead to: - Change in location for service delivery/staff - Reduction of control over local matters - Change in financial situation - Staff redundancies - Alternative political structure and governance arrangements - Changes in services to be provided and organisation culture - Deterioration in staff morale and negative effect on staff recruitment and retention - Ineffective engagement with staff, Members and residents in considering, and responding to, proposals. - Diversion of senior staff resources to respond to proposals.	Political direction to consolidate local government tiers to potentially seek greater efficiency and co-ordination	4	3	12	Chief Executive and Head of Legal and Support Services.	Chief Executive	Active engagement with political leaders and Chief Executives across the County and East Midlands so NWL's needs are taken into account in any proposals. Open and transparent communication of NWL position to all stakeholders. Senior management and politicians stay close to project and monitor progress. Internal and external communication plans in place, including for key decision points. External resources to be utilised in assessing any proposals.	3	2	6	Reduced
13	POLITICAL / ORGANISATIONAL The Council is affected by the UK's departure from the EU, including a potential 'no deal' Brexit	The UK's departure from the EU, including an inability to agree the terms of the exit by 31 October 2019 could lead to: - increase in checks on goods by Environmental Officers at East Midlands Airport meaning increase in resources / costs. - uncertainty and subsequent regime around tariffs, access to markets, migrant labour and transport of goods in / out of EU could impact on businesses in district / region leading to decline in business rates and employment levels. - potential need for increased storage facilities at entry / exit points and associated increases in freight traffic, putting pressure on local infrastructure - potential withdrawal of access to EU wide IT systems (e.g. relating to imported foodstuffs) -diversion of staff resources into contingency planning.	UK departure from EU, including inability of the EU and UK govt to agree terms by 31 January 2020 of the UK's exit. Deal then to be negotiated by End 2020.	4	4	16	Chief Executive and Head of Economic Regeneration	Strategic Director & Chief Executive	Engage with National Local Authority steering groups for border control at strategic & operational levels. Implement communication strategy for local businesses so technical notices are shared, with appropriate signposting. Work with LLEP and Chamber of Commerce to provide business advice and support to address changes to legislation & certification. Monitor political developments on EU withdrawal closely. Establish contingency plans after scenario based assessment of resources required for increase in checks and controls, & access to alternative IT systems. Watching brief localised assessment of potential impact around East Midlands Airport. Participate in Multi-agency Leicestershire Resilience Forum framework , with risk assessment and mitigation plan to be prepared. Applied for and gained additional support funding for Port activity	2	3	6	Reduced

	Corporate Risk Register												
Ref No.	Risk Description	Consequence	Cause	Inherent Risk			Responsibility of	Responsible to	Control Measures	Residual Risk			Movement of Risk
				Impact	Likelihood	Rating				Impact	Likelihood	Rating	
14	ORGANISATIONAL/FINANCIAL Council is subject to large scale and medium term reduction in staffing/supplies/increase in restrictions etc leading to risks and ongoing medium/long term impacts on either the financial or reputational standing of the Council	Financial, reputational and political damage to Council.	Pandemic, national/global infrastructure interruption, supply chain mass failure over medium / long time period	4	4	16	Chief Executive, Directors, Heads of Service	Chief Executive	Balanced budget achieved with additional government grant support. Continued active engagement and lobbying to ensure that all options for support are considered and actioned where possible. Are some service areas that continue to struggle to maintain services due to restrictions / staffing shortages.	3	2	6	Reduced
15	ORGANISATIONAL/FINANCIAL/SOCIAL Long medium term impacts of post COVID on both council service provision and demand for services. (NOTE - new and developing risk which will be refined over time)	Service reductions, delays, inability to fund or deliver service	Pandemic and post recovery for community or council service provision	NOT YET SCORED	NOT YET SCORED	NOT YET SCORED	Chief Executive, Directors, Heads of Service	Chief Executive	Work on going - see committee report	NOT YET SCORED	NOT YET SCORED	NOT YET SCORED	NEW

	Corporate Risk Register												
Ref No.	Risk Description	Consequence	Cause	Inherent Risk			Responsibility of	Responsible to	Control Measures	Residual Risk			
				Impact	Likelihood	Rating				Impact	Likelihood	Rating	Movement of Risk

Assessing the likelihood of a risk:

1 <i>Low</i>	Likely to occur once in every ten years or more
2 <i>Medium</i>	Likely to occur once in every two to three years
3 <i>High</i>	Likely to occur once a year
4 <i>Very high</i>	Likely to occur at least twice in a year

Assessing the impact of a risk:

1 <i>Low</i>	Loss of a service for up to one day, Objectives of individuals are not met No injuries Financial loss below £10,000 No media attention No breaches in council working practices No complaints / litigation
2 <i>Medium</i>	Loss of a service for up to one week with limited impact on the general public Service objectives of a service unit are not met Injury to an employee or member of the public requiring medical treatment Financial loss over £10,000 Adverse regional or local media attention – televised or newspaper report Potential for a complaint Litigation possible Breaches of regulations / standards
3 <i>High</i>	Loss of a critical service for one week or more with significant impact on the public and partner organisations Service objectives of the directorate of a critical nature are not met Non- statutory duties are not achieved Permanent injury to an employee or member of the public Financial loss over £100,000 Adverse national or regional media attention – national newspaper report Litigation to be expected Breaches of law punishable by fine
4 <i>Very high</i>	An incident so severe in its effects that a critical service or project will be unavailable permanently Strategic priorities of a critical nature are not met Statutory duties are not achieved Death of an employee or member of the public Financial loss over £1m. Adverse national media attention – national televised news report Litigation almost certain and difficult to defend Breaches of law punishable by imprisonment

NORTH WEST LEICESTERSHIRE DISTRICT COUNCIL

AUDIT AND GOVERNANCE COMMITTEE – WEDNESDAY,
21 APRIL 2021



Title of Report	RENEWABLE HEATING INCETIVE (RHI) - UPDATE REPORT	
Presented by	Andy Barton Strategic Director	
Background Papers	Annual Governance Statement 2020/1	Public Report: Yes
Purpose of Report	To furnish the committee with the outstanding detail requested at its last meeting regarding the RHI grant claims.	
Recommendations	THAT THE COMMITTEE: <ol style="list-style-type: none"> 1. NOTE THE ADDITIONAL DETAILS REQUESTED AT THE COMMITTEES LAST MEETING 2. NOTE THE ACTIONS REGARDING THE CLAIM UPDATE CONTAINED IN THE REPORT 3. NOTE THE MONITORING / AUDIT ARRANGEMENTS HAVE BEEN ACTIONED AS AGREED AT THE LAST MEETING. 	

1.0 BACKGROUND

- 1.1 At its meeting of the 20 January 2021, the Committee received a confidential report regarding a loss of £667k to the HRA capital fund, due to failing to claim grants from a government programme. The issue commenced in 2018/9 and was identified in 2019/20. This loss takes the form of a series of grant payments over a seven year period. At that meeting the Committee wished for the item to be reported in the Annual Governance Statement for 2019/20 which was completed and outstanding actions will therefore be monitored through this mechanism.
- 1.2 This report completes the remaining actions outstanding from the last committee namely :
 - i. a more detailed timeline of events
 - ii. the remedial actions put in place through the management report,
 - iii. Further consideration as to whether any retrospective action can be progressed regarding claiming the funds back from either the Government department or OfGem.
- 1.3 Members are reminded that the contents of the report to the committee in January 2021 remain confidential and, to accord with the Committee's wishes, this report is

open. However this does restrict some elements of detail still being released and reference should not be made to the January reports contents unless the Committee moves into private session.

2.0 Timeline

- 2.1 Attached in Annex A to this report members will find a more detailed timeline of the events. Due to the time elapsed and lack of all members of staff remaining in employment there are some areas lacking full detail (ie exact dates). However, where possible, known and corroborated dates are shown.
- 2.2 Some individual actions are redacted due to them relating to Human Resources issues and would require the committee to move into confidential session for discussion, however they do not change the timeline as presented.

3.0 Remedial Actions

- 3.1 As mentioned in the January report to the Committee, a management investigation was undertaken and the investigation report concluded with a number of actions. These are set out in Annex B to this report. These have also been summarised as part of the Annual Governance Statement for 2019/20 which can be found on our website and is referred to as a background papers to this report.
- 3.2 All actions are complete or passed to other mechanisms for monitoring bar the Audit being undertaken (but it has been added to the work programme and features on this meetings agenda) and the Asset Team Plan (due to the recruitment of the Team Leader completing in mid-February. This action will be completed as part of them joining the council in May 2021 and monitored via the induction process).

4.0 Legal Action and Opinion

- 4.1 At the last meeting of the Committee members requested that the Head of Legal and Commercial Services review the legal position in respect of the regulations which govern the grant process. There has been correspondence with BEIS and Ofgem and further legal advice is being sought. Should members wish to discuss the legal issues in detail, the meeting will be advised to move into confidential session.
- 4.2 It is worth noting that, in response to COVID recovery, BEIS have issued a change in regulation meaning that, of the 125 missing claims, 4 additional claims will now be possible (as a relaxation of the rules has been granted covering the period to March 2020). This equates to around £34k reclaimed, reducing the £667k lost funds to c£633k over the 7 year period. This is being actioned by the housing team.

5.0 Summary

- 5.1 This report has set out the outstanding issues regarding the RHI grant loss. All actions from the reports are either completed, or where outstanding will be monitored via either the Audit Plan or Annual Governance Statement.

Policies and other considerations, as appropriate	
Council Priorities:	Insert relevant Council Priorities: Developing a clean and green district Local people live in high quality, affordable homes
Policy Considerations:	None
Safeguarding:	None
Equalities/Diversity:	None
Customer Impact:	None
Economic and Social Impact:	None
Environment and Climate Change:	RHI and Heat Pump installation will assist with overall Carbon Reduction.
Consultation/Community Engagement:	None
Risks:	Addressed via the Governance Statement or Audit Plans as they come forward.
Officer Contact	Andy Barton Strategic Director Andy.barton@nwleicestershire.gov.uk

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Timeline RHI (redacted for open report)

Time Period	Activity / Event (redacted / anonymised for publication)
12/12/17	Cabinet agrees Heat Pump Programme
Feb 2018	Programme of work commences
March / April 2019	Internal secondment of some staff to other priority area
July 2019	HR event (redacted)
27 Aug 2019	Head of Service queries income levels in finance clinic. Team Manager asked to investigate.
Oct 2019	Investigations ongoing to the source of low income. Budget was already met (but transpired was set low compared to expected, therefore masked reduced income).
26 Nov 2019	Issue identified as claims missing payment and commencement of trawl and work through outstanding applications (111 installs missed between 26/2/18-26/11/18 – therefore time expired when trawling started). Immediately following this OfGem request (denied) and then BEIS request to allow late submissions made.
18/12/19	BEIS response no option to late submission – paper drafted for Cabinet Member and leadership
31/12/19	HR event (redacted)
22/1/20	Strategy Group advised of issue.
04/2/20	Cabinet Briefing given – advised that until investigation completed, needs to maintain confidential due to possible HR implications
Feb 2020	Management Investigation Starts in earnest HR Event (redacted) Existing Alternative Team Manager temporarily takes responsibility for team COVID 19 Pandemic starts to emerge
March 20	Internal Audit work to check robustness and detail missed payments – Further 14 missed claims for installations between Nov 18-March 2019 – notified to team 23 March 20 (claiming dates expired for these further claims).
March 20 – July 20	HR Event (redacted) Investigation continues including interviews with key witnesses etc – includes housing teams, audit, finance, senior management – jointly by second Head of Service and HR.
31 July 2020	HR Event (redacted)

August 2020	Report drafting and internal validation checking – some re interviewing of witnesses
Sept 2020	Draft Report and check back with interviewees
Nov 2020	Internal Report Completed
Dec 2020	Members briefed including all party leaders group and decision to go forward via A&G committee
Jan 2021	A&G Committee confidential report
Feb 2021	<p>Direct follow up with BEIS from legal re interpretation of ability to allow retrospective claims</p> <p>Awareness in of planned time extension (COVID change from BEIS) meaning 4 of the 125 will be able to be claimed</p> <p>Council Statement</p>
April 2021	Follow up report to A&G

Annex B – RHI Management Actions

Report Ref (no order)	Recommendation	Response	Timeline	Status
A	How financial performance and budget monitoring can be automated, or system led to reduce the reliance on human intervention to identify issues and shortfall. The new finance system may provide this opportunity.	<p>The new finance system (in process of being installed) will contain the functionality to do this. Budget monitoring and especially projected/forecast budget income versus actual should pick a similar issue up (as it did in the RHI instance but its reactive due to the nature of our financial monitoring – linked again to system).</p> <p>With item D below an interim position has been put in place to increase and focus monitoring on similar issues.</p> <p>New Board structure in place to monitor all major projects including RHI and ongoing similar schemes.</p>	<p>New System in place – during 2021/22</p> <p>Interim monitoring etc and focus on similar issues for finance monitoring – already in place</p>	All actions put in place – closed
B	Future contracts could consider whether responsibility for claiming could be encompassed within the contract, for the supplier to action.	<p>This is a lessons learnt across the piece in terms of similar types of contracts irrespective of service.</p> <p>Addressed via procurement and lessons learnt for any similar activity, including briefing CLT colleagues.</p>	Already undertaken	All actions put in place – closed

C	That a remedial business plan is produced, for the Asset Management team that addresses structural gaps in cover. Consideration should also be given to any systemic barriers to recruitment in this area. Continuity plans should also be reviewed to consider how, at times of future absence gaps such as this are not generated. Any interim cover arrangements are treated as such and more permanent changes are identified and implemented.	In part already in train – senior post recruited and set to join in May 21. Junior temp cover in post until senior is in post to recruit formally. Once a permanent new manager in post a full recovery plan will be developed and deployed.	Main actions undertaken regarding recruitment. Action plan will be part of induction workplan and aims to complete Q3 2021.	Monitored via the induction process and planned regular audit / compliance testing.
D	A review of the performance and KPI management of the service is completed, with a renewed focus on important income streams.	This is wider than just housing. Linked to E below and A above, and will be a wider look at the KPIs and the way we monitor performance overall (finance and other). This issue is partly being addressed by the new finance system and via the performance monitoring framework. RHI data is reported to HoS as part of ongoing work as well as new oversight Boards in place.	Actions already taken to ensure similar issues / areas of income are now a feature of finance clinics going forward. Also picked up with performance team re monitoring / reporting	Actions completed through named routes – action closed from RHI perspective.
E	A future audit of grant and or income management is commissioned.	This will be part of the audit plan for year 2021/22 – and needs to cover all similar processes (not just in housing). Numerous grant streams exist, and this will provide the assurance required that a similar issue cannot reoccur.	See Audit Plan on agenda of A&G April 2021.	Action regarding RHI specific closed and tracked via Audit reporting.

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