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Meeting	AUDIT AND GOVERNANCE COMMITTEE
Time/Day/Date	6.30 pm on Wednesday, 4 June 2025
Location	Abbey Room, Stenson House, London Road, Coalville, LE67 3FN
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 interests you should make clear the nature of that interest and whether it is a disclosable pecuniary interest, registerable interest or other interest.	
3. MINUTES	
To confirm and sign the minutes of the meeting held on 23 April 2025	3 - 8
4. COMMITTEE WORK PLAN	
To note the Committee's work plan	9 - 12
5. EXTERNAL AUDIT PLAN 2024/25	
The report of the Strategic Director of Resources	13 - 48
6. FOLLOW UP TO OUTSTANDING INTERNAL AUDIT RECOMMENDATIONS	
Verbal update from invited officers	
7. INTERNAL AUDIT STRATEGY	
The report of the Audit Manager	49 - 66
8. STATEMENT OF ACCOUNTS 2023/24 UPDATE	
The report of the Strategic Director of Resources	67 - 72

9. TREASURY MANAGEMENT STEWARDSHIP REPORT 2024/25

The report of the Head of Finance

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Circulation:

Councillor P Moulton (Deputy Chair)
Councillor D Everitt
Councillor R Boam
Councillor D Cooper
Councillor R Johnson
Councillor G Rogers
Councillor J G Simmons
Councillor N Smith
Councillor R Sutton (Chair)
Councillor A Wilson
Ms E Hutchinson
Mr P Montgomery

MINUTES of a meeting of the AUDIT AND GOVERNANCE COMMITTEE held in the Abbey Room, Stenson House, London Road, Coalville, LE67 3FN on WEDNESDAY, 23 APRIL 2025

Present: Councillor P Moulton (Chair)

Councillors D Everitt, D Cooper, G Rogers, J G Simmons and R Sutton

In Attendance: Councillors

Officers: Ms K Beavis, Ms K Hiller, Mr P Stone, Ms L Flinders and Ms E Lant

54. APOLOGIES FOR ABSENCE

Apologies were received from Councillor A Barker, Councillor R Johnson and Councillor N Smith

55. DECLARATION OF INTERESTS

There were no declarations of interest.

56. MINUTES

Consideration was given to the minutes of the meeting held on 5 February 2025.

It was moved by Councillor Sutton, seconded by Councillor Rogers and

RESOLVED THAT:

The minutes of the meeting held on 5 February 2025 be confirmed as an accurate record of proceedings.

57. COMMITTEE WORK PLAN

Consideration was given to the committee work plan.

The committee work plan was noted.

58. EXTERNAL AUDIT PLAN

The internal component of the report was presented by the Strategic Director of Resources. The external component of the report was presented by the Head of Public Sector Audit for Azets.

A discussion was had between Members and the Head of Public Sector Audit. Members were assured that External Auditors liaise with the Internal Audit Team and internal findings inform external risk assessments, but other external processes were independent. Regarding concerns about the finance system, the Head of Public Sector Audit informed the Committee that Azets would not duplicate any work the Council had undertaken but would assess the system controls in place which focused on adequacy, timeliness and value for money. It was also assured that Azets provided specific work with the Council's manual records.

The discussion continued with the Head of Public Sector Audit informing members that having disclaimed audit opinions was difficult but they had worked with other authorities in this position, so they were experienced. Azets would review the audit opinion of 2020-21 and would work to build assurance. Due to the current high-risk position of the Council, Members were informed that Azets would approach the work differently, using different testing procedures and larger samples, for example.

Members were thanked for their comments and the report was noted.

59. STANDARDS AND ETHICS REPORT - QUARTER 4

The report was presented by the Head of Legal and Support Services.

A brief discussion followed with the Head of Legal and Support Services about details within the complaints process.

Members were thanked for their comments and the report was noted.

60. DRAFT MEMBER CODE OF CONDUCT ANNUAL REPORT

The report was presented by the Head of Legal and Support Services.

A brief discussion followed with the Head of Legal and Support Services about the complaints process. A member suggested that it may be important to make Committee Members that have not sat on the Assessment Sub Committee more aware of complaint procedures. Members supported the idea of a Code of Conduct refresher training session being delivered. In response to concerns about attendance, the Head of Legal and Support Services assured that the training would be mandatory.

1) Members were thanked for their comments and the report was noted.

It was moved by Councillor Sutton, seconded by Councillor Simmons and

RESOLVED THAT:

2) Authority was delegated to the Head of Legal and Support Services and Monitoring Officer to make any minor amendments to the report following comments from the Audit and Governance Committee.

3) The Committee approved the Annual Member Conduct Report 2024/25 prior to submission to Council on 17 June 2025.

61. QUARTER 4 AUDIT PROGRESS REPORT

Prior to the presentation of the report, the Strategic Director of Resources sent the Committee an email containing responses to questions from the meeting of 5 February 2025. After some time consulting the responses, the Strategic Director of Resources suggested that the report be presented before addressing any follow up questions.

The report was presented by the Audit Manager.

A discussion followed. Some Members highlighted payroll, with one requesting an update about its system in the future. The Strategic Director of Resources contributed to the discussion with the following statement:

The Director of Resources provided the committee with an update on the actions he has taken recently to address the finance system issues and other related matters in improving the Council's finance systems and processes.

He advised Members that they will be aware that the finance system was implemented two years ago and confirmed that the Council is still experiencing issues impacting on the Council's ability to close down the accounts. The Council has to work with an implementation partner rather than directly with the system supplier, Unit4. The Council's implementation partner is Embridge. Over the last two years, the Council has worked on

the basis of finding a problem and raising a ticket. This process tends to involve a lot of back and forth and can be a lengthy process. However, the Council has progressed a lot of issues.

In March this year, the Director of Resources described how he contacted Embridge and requested a meeting with their senior management team to highlight his concerns. At that meeting he opined that two years after implementation, the Council does not have a system that is fit for purpose. He stated to Embridge that he wanted all outstanding issues resolved. The Director of Resources highlighted to Embridge three priority areas that need to be addressed these being: an automated bank reconciliation, an issue with direct debits, and automating the payment of invoices to suppliers. He asked for these three areas to be given priority. Additionally, he has requested that any outstanding tickets are identified and progressed quickly.

The Council has now been allocated a dedicated project manager from Embridge who is now working with the finance teams to expedite progress. Furthermore, there is now a regular meeting with Embridge to resolve these issues, and a project board will be established to oversee the projects. The Director of Resources stated that he has made it clear that he wants these issues resolved within a matter of weeks. Embridge has agreed to put a consultant on-site at NWL to get a real grasp of the issues. There appears to be some momentum with this approach, and the Director of Resources is optimistic that he will see progress in the next two to three weeks.

The Director of Resources went on to describe the approach the Council had taken at the time of implementing the new system, unfortunately, it is apparent that approach was not the correct one. He described how the Council now needs to move on in resolving the issues which must be done quickly.

The Director of Resources then went on to describe how he has sought independent advice to review our systems and processes and identify areas for improvement with a particular focus on Exchequer Services. The Council has procured support from the Chartered Institute of Public Finance and Accountancy (CIPFA), who have been working with the Council since March this year. CIPFA are regularly liaising with Embridge, our implementation partner, and pushing them to take action.

Additionally, there's been a focus on our exchequer systems and processes, aiming to improve them. This will help by ensuring our priorities include having an automated bank reconciliation process. This in turn will help us to progress the closedown process for our Statement of Accounts 2023/24.

The Director of Resources described how one of the major priorities with regard to the finance system is automating invoice payments. Invoices will be scanned and processed significantly quicker in comparison to the current process. The implementation of the software was due to be implemented in March, however, there are issues with this which are beyond the Council's control. The Council is aware that other local authorities are experiencing similar issues so the Council is not alone in this.

Additionally, the Council is working with our CIPFA colleagues to review the structure within the finance teams with a view to ensuring that the structure meets the needs of not only the finance service, but explores how it can support our services across the Council. The budget for 2025/26 approved additional budget for an Insurance Officer role. This will enhance our insurance processes.

In addition to the above, the Council has established partnership working with V4 to enhance its procurement processes ensuring compliance with procurement regulations, in particular ensuring compliance with the Procurement Act 2023 requirements.

The Director of Resources concluded by confirming that the Council is continuing to work with our new external auditors, Azets, and will discuss a detailed timetable for closedown of the Statement of Accounts 2023/24 with them in the coming days.

In response, a request was made by the Chair for an update on the progress of actions being taken by the Strategic Director of Resources and Finance at the next meeting, and to discuss possible actions of the Committee.

A discussion on the report began. The Audit Manager explained that some of the payroll-related, high priority recommendations would be managed by the implementation of an externally managed payroll service in May 2025. The Strategic Director of Resources added that this decision was unrelated to a lack of resources within the Council and would remove potential internal control issues.

The discussion progressed onto Capital Programme Management. A Member raised concerns that there were no recent updates to these recommendations. It was explained by the Strategic Director of Resources that these recommendations relate to forms and processes for Officers across the Council to understand what is required of them, so they are ready for Capital Strategy Group. It was assured that the group regularly meets and worked very methodically with proper governance arrangements in place. There have been changes in the capital accountant position in the past 18 months which has slowed down progress however the current accountant understands the work required to progress these recommendations. Another concern was raised about tracking the expenditure of these programmes but was reassured that documentation was maintained and work will be completed to meet the recommendation.

The Committee were informed by the Audit Manager about a Corporate Compliance Group which had been set up recently. This was set up to ensure that compliance testing was performed according to procedures.

As proposed by the Chair, Members discussed whether to request the Strategic Director of Communities to attend Committee, particularly to provide further assurance on the management of Asbestos in the district.

It was moved but Councillor R Sutton, seconded by Councillor J Simmons and

RESOLVED THAT:

The Strategic Director of Communities to attend the next Audit and Governance Committee

After the motion, a member continued the discussion suggesting inviting another Head of Service to provide further assurance and updates regarding resources, recruitment and retention. It was suggested by the Head of Legal and Support Services that the Head of Human Resources was the most appropriate Officer.

It was moved by Councillor R Sutton, seconded by Councillor J Simmons and

RESOLVED THAT:

The Head of Human Resources to attend the next Audit and Governance Committee.

Members were thanked for their comments and the report was noted.

62. AUDIT PLAN

The report was presented by the Audit Manager

1)The report was noted.

It was moved by Councillor Simmons, seconded by Councillor Rogers and

RESOLVED THAT:

2) The Draft 2025/26 Internal Audit Annual Plan subject to any comments made under recommendation 1.

63. INTERNAL AUDIT CHARTER

The report was presented by the Audit Manager.

It was moved by Councillor Rogers, seconded by Councillor Sutton and

RESOLVED THAT:

The Committee approved the Internal Audit Charter at Appendix 1 of the report.

64. UPDATE ON ACTION PLAN IN RESPONSE TO ANNUAL AUDIT OPINION 2023/24

The report was presented by the Strategic Director of Resources

A discussion was had between Members, the Strategic Director of Resources and the Audit Manager. A member expressed disappointment that Internal Audit were not receiving invitations for Audit to attend DMT/SMT meetings or being involved in new grants. The Audit Manager assured that progress was being made. Internal Audit were being invited into more work within other teams with more work to be done. Projects, as well as grants, have been included and the team have considered controls, particularly to have duplication removed. The Business and Service plan processes were beginning to involve audit, also. The Strategic Director of Resources added that Business Services Planning will be involving Internal Audit. They will also remind colleagues to involve Internal Audit in Business Services Planning, projects and grants in future Corporate Leadership Team meetings.

The progress against the actions agreed in response to the Annual Internal Audit opinion 2023/24 was noted.

65. ANNUAL GOVERNANCE STATEMENT 2023-24

The report was presented by the Strategic Director of Resources.

A Member briefly reiterated concerns about workforce capacity in relation Principle E of the CIPFA/SOLACE principles.

It was moved by Councillor Simmons, seconded by Councillor Everitt and Members voted for the recommendations, with one abstention received from Councillor R Sutton.

RESOLVED THAT:

The Committee approves the Annual Governance Statement 2023/24.

66. APPOINTMENT OF INDEPENDENT MEMBERS OF AUDIT AND GOVERNANCE COMMITTEE

The report was presented by Strategic Director of Resources.

A brief discussion followed. Members commented that the appointment was great news, and the Committee was lucky to have recruited independent members with such expertise.

It was moved by Councillor Simmons, seconded by Councillor Cooper and

RESOLVED THAT:

The Committee approved the appointment of Paul Montgomery and Emma Hutchinson as Independent Persons on the Audit and Governance Committee.

67. CORPORATE RISK UPDATE

The report was presented by Strategic Director of Resources

A member expressed that further risks to the Freeport and Local Plan should be included. In response, the Strategic Director of Resources agreed to refer this to Planning colleagues.

Members were thanked for their comments and the report was noted.

68. SIRO (SENIOR INFORMATION RISK OFFICER) ANNUAL REPORT

The report was presented by the Head of Legal and Support Services

A Member thanked the Head of Legal and Support Services for a comprehensive and thorough report.

Members were thanked for their comments and the report was noted.

69. AUDIT AND GOVERNANCE COMMITTEE ANNUAL REPORT 2024/25

The report was presented by the Strategic Director of Resources

It was moved by Councillor Everitt, seconded by Councillor Simmons and

RESOLVED THAT:

The Committee approved the Draft Annual Report 2024/25 prior to submission to Council on 17 June 2025.

70. EXCLUSION OF PRESS AND PUBLIC

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 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.

Reason for decision: To enable the consideration of exempt information.

71. IT HEALTH CHECK RETEST UPDATE

The report was presented by the ICT team manager.

Members were thanked for their comments and the report was noted.

The meeting commenced at 6.30 pm

The Chairman closed the meeting at 9.02 pm

AUDIT AND GOVERNANCE COMMITTEE – WORK PROGRAMME (as at 27/05/25)

Issue	Report Author	Meeting at which will be reported
June 2025		
External Audit Plan 2024/25 Provides details of the external auditor's, Azets, Audit Plan for the Statement of Accounts 204/25	Paul Stone, Strategic Director of Resources (Section 151 Officer)	4 June 2025
Statement of Accounts 2023/24 Update Provides an update on the Council's progress in completing the Statement of Accounts 2023/24	Paul Stone, Strategic Director of Resources (Section 151 Officer)	4 June 2025
Internal Audit Strategy	Kerry Beavis, Audit Manager	4 June 2025
Treasury Management Stewardship Report 2024/25 To report the Treasury Management Stewardship Report 2024/25 to members	Anna Crouch, Head of Finance	4 June 2025
Follow up to outstanding Internal Audit recommendations Verbal update from invited officers	N/A	4 June 2025
August 2025		
Draft Accounting Policies 2024/25 To present the Draft Accounting Policies 2024/25 to members for approval	Anna Crouch, Head of Finance	6 August 2025
Treasury Management Update Report - Quarter 1	Anna Crouch, Head of Finance	6 August 2025
Internal Audit Progress Report	Kerry Beavis, Audit Manager	6 August 2025
Review of Corporate Governance Policies	Emma Lant	6 August 2025
Corporate Risk Update	Paul Stone, Strategic Director of Resources (Section 151 Officer)	6 August 2025
Standards and Ethics Report - Quarter 1	Emma Lant	6 August 2025
Local Government and Social Care Ombudsman Review Letter	Emma Lant	6 August 2025

Issue	Details	Report Author	Meeting at which will be reported
November 2025			
Internal Audit Progress Report		Kerry Beavis, Audit Manager	12 November 2025
Treasury Management Update Report - Quarter 2		Anna Crouch, Head of Finance	12 November 2025
Corporate Risk Update		Paul Stone, Strategic Director of Resources (Section 151 Officer)	12 November 2025
Standards and Ethics Report - Quarter 2		Emma Lant	12 November 2025
February 2026			
Internal Audit Progress Report		Kerry Beavis, Audit Manager	4 February 2026
Treasury Management Update Report - Quarter 3		Anna Crouch, Head of Finance	4 February 2026
Corporate Risk Update		Paul Stone, Strategic Director of Resources (Section 151 Officer)	4 February 2026
Standards and Ethics Report - Quarter 3		Emma Lant	4 February 2026
Annual Review of the Council's Constitution		Emma Lant	4 February 2026
Annual IT Health Check Report		Sam Outama, ICT Team Manager	4 February 2026
April 2026			
Internal Audit Progress Report		Kerry Beavis, Audit Manager	29 April 2026
Internal Audit Annual Plan		Kerry Beavis, Audit Manager	29 April 2026
Corporate Risk Update		Paul Stone, Strategic Director of Resources (Section 151 Officer)	29 April 2026
Audit and Governance Committee Annual Report		Paul Stone, Strategic Director of Resources (Section 151 Officer)	29 April 2026
Standards and Ethics Report - Quarter 4		Emma Lant	29 April 2026

Issue	Details	Report Author	Meeting at which will be reported
SIRO (Senior Information Risk Officer) Annual Report	Laurent Flinders, Information Governance Officer	29 April 2026	
Draft Member Code of Conduct Annual Report	Emma Lant	29 April 2026	

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NORTH WEST LEICESTERSHIRE DISTRICT COUNCIL

AUDIT AND GOVERNANCE COMMITTEE – WEDNESDAY, 4 JUNE 2025



Title of Report	EXTERNAL AUDIT PLAN 2024/25	
Presented by	Paul Stone Director of Resources	
Background Papers	External Audit Plan 2024/25 - Audit and Governance Committee 23 April 2025	Public Report: Yes
Financial Implications	There are no financial implications to be considered.	
	Signed off by the Section 151 Officer: yes	
Legal Implications	There are no legal implications to be considered.	
	Signed off by the Monitoring Officer: yes	
Staffing and Corporate Implications	There are no staffing and corporate implications to be considered.	
	Signed off by the Head of Paid Service: yes	
Purpose of Report	<p>The Committee's Terms of Reference, as set out in Section D7 of the Council's Constitution, describes how the Committee should consider relevant reports of the external auditor, in particular on the scope and depth of external audit work and to ensure it gives value for money.</p> <p>The report provides details of the external auditors, Azets, audit planning report for the financial year 2024/25.</p>	
Recommendations	THAT THE AUDIT AND GOVERNANCE COMMITTEE NOTES THE DETAILS OF THE EXTERNAL AUDIT PLAN 2024/25.	

1.0 BACKGROUND

- 1.1 The External Audit Plan highlights the key elements of the proposed strategy and provides an overview of the planned scope and timing of the statutory external audit of the Council for the year ended 31 March 2025.
- 1.2 The work will include an audit of the 2024/25 Statement of Accounts as well as an assessment of value for money.
- 1.3 One of the key objectives of the External Audit Plan is for Azets to obtain reasonable assurance that the financial statements are as a whole free from material misstatement and prepared in all material respects within the CIPFA Accounting Code of Practice.
- 1.4 Representatives from Azets will be presenting the Plan at this meeting.

Policies and other considerations, as appropriate	
Council Priorities:	A Well-Run Council
Policy Considerations:	None.
Safeguarding:	None.
Equalities/Diversity:	None.
Customer Impact:	None.
Economic and Social Impact:	None.
Environment, Climate Change and Zero Carbon	None.
Consultation/Community/Tenant Engagement:	None.
Risks:	<p>Without an external audit plan, there is a higher risk of financial mismanagement. External audits provide an independent review of financial statements, ensuring accuracy and compliance with regulations. Without this oversight, errors or fraudulent activities may go undetected, leading to significant financial losses.</p> <p>External audits help maintain transparency and accountability in the management of public funds. External audits ensure that a local authority complies with relevant laws and regulations. Without an audit plan, there is a risk of non-compliance, which can lead to legal penalties, fines, and other regulatory actions. This can further strain the authority's resources and reputation.</p> <p>External audits contribute to good governance by evaluating internal controls and risk management processes. Without an audit plan, there may be weaknesses in governance structures, leading to ineffective management and decision-making. This can hinder the authority's ability to achieve its objectives and deliver services effectively.</p>
Officer Contact	Paul Stone Director of Resources paul.stone@nwleicestershire.gov.uk



North West Leicestershire District Council

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External audit plan

Year ended 31 March 2025

April 2025



Contents

Your key team members

Laura Hinsley

Key Audit Partner

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Audit Director

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Simbongile Qupe

In-Charge auditor

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Introduction

Adding value through the audit

All of our clients demand of us a positive contribution to meeting their ever-changing business needs. Our aim is to add value to the Council through our external audit work by being constructive and forward looking, by identifying areas of improvement and by recommending and encouraging good practice. In this way, we aim to help the Council promote improved standards of governance, better management and decision making and more effective use of resources.

Purpose

This audit plan highlights the key elements of our proposed audit strategy and provides an overview of the planned scope and timing of the statutory external audit of North West Leicestershire District Council ('the Council') for the year ended 31 March 2025 for those charged with governance.

The core elements of our work include:

- An audit of the 2024/25 Statement of Accounts for the Council; and
- An assessment of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (our Value for Money work).

This document also includes our indicative plans for building back assurance for the Council over the coming years following the previous disclaimed audits.

We will conduct our audit in accordance with International Standards on Auditing (ISAs) (UK), the Local Audit and Accountability Act 2014 (the 'Act'), the National Audit Office Code of Audit Practice and associated guidance. The Code of Audit Practice sets out what local auditors of relevant local public bodies are required to do to fulfil their statutory responsibilities under the Act.

Auditor responsibilities

As auditor we have been appointed to perform an audit, in accordance with the Local Audit and Accountability Act 2014, the Code of Audit Practice issued by the National Audit Office and ISAs UK. Our primary responsibility is to form and express an independent opinion on the Council's financial statements, stating whether they provide a true and fair view and have been prepared properly in accordance with applicable law and the CIPFA Code of Practice on Local Authority Accounting in the UK (the 'CIPFA Code').

We are also required to:

- Report on whether the other information included in the Statement of Accounts (including the Narrative Report and Annual Governance Statement) is consistent with the financial statements;
- Report by exception if the disclosures in the Annual Governance Statement are incomplete or if the Annual Governance Statement is misleading or inconsistent with our knowledge acquired during the audit;
- Report by exception any significant weaknesses identified in arrangements for securing value for money and a summary of associated recommendations;
- Report by exception on the use of our other statutory powers and duties; and
- Certify completion of our audit.

continued.....

Introduction

We will conduct our audit in accordance with International Standards on Auditing (ISAs) (UK), the Local Audit and Accountability Act 2014 (the 'Act'), and the National Audit Office Code of Audit Practice. The Code of Audit Practice sets out what local auditors of relevant local public bodies are required to do to fulfil their statutory responsibilities under the Act.

This planning letter has been prepared for the sole use of those charged with governance and management and should not be relied upon by third parties. No responsibility is assumed by Azets Audit Services to third parties.

Auditor responsibilities (*....continued*)

We will issue our Audit Completion Report and an Auditor's Annual Report to the Audit Committee setting out the findings from our work.

Under the Act we have a broad range of reporting responsibilities and powers that are unique to the audit of local authorities in the United Kingdom. These include:

- Reporting matters in the public interest;
- Making written recommendations to the Council;
- Making an application to the court for a declaration that an item of account is contrary to law;
- Issuing and advisory notice; or
- Making an application for judicial review.

The Act also 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.

On completion of our audit work, we will issue an Audit Completion Report (prior to the approval of the financial statements), detailing our significant findings and other matters arising from the audit on the financial statements, together with an Auditor's Annual Report including our commentary on the value for money arrangements.

If, during the course of the audit, we identify any significant adverse or unexpected findings that we conclude should be communicated, we will do so on a timely basis, either informally or in writing.

The audit does not relieve management or the Audit Committee of your responsibilities, including those in relation to the preparation of the financial statements.

Council responsibilities

The Council has responsibility for:

- Preparing financial statements which give a true and fair view, in accordance with the applicable financial reporting framework and relevant legislation;
- Preparing and publishing, along with the financial statements, an annual governance statement and narrative report;
- Maintaining proper accounting records and preparing working papers to an acceptable professional standard that support its financial statements and related reports disclosures; and
- Ensuring the proper financial stewardship of public funds, complying with relevant legislation and establishing effective arrangements for governance, propriety and regularity.

Audit scope and general approach

This section of our letter sets out the scope and nature of our audit and should be considered in conjunction with the [Terms of Appointment](#) and [Statement of Responsibilities](#) issued by Public Sector Audit Appointments Limited (PSAA).

General approach

Our objective when performing an audit is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement and to issue an auditor's report that includes our auditor's opinion.

As part of our risk-based audit approach, we will:

- Perform risk assessment procedures including updating our understanding of the Council, including its environment, the financial reporting framework and its system of internal control;
- Review the design and implementation of key internal controls;
- Identify and assess the risks of material misstatement, whether due to fraud or error, at the financial statement level and the assertion level for classes of transaction, account balances and disclosures;

- Design and perform audit procedures responsive to those risks, to obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion; and
- Exercise professional judgment and maintain professional scepticism throughout the audit recognising that circumstances may exist that cause the financial statements to be materially misstated.

We will undertake a variety of audit procedures which, in a normal year, are designed to provide us with sufficient evidence to give us reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. We are unlikely to be able to obtain sufficient assurance in 2024/25 to reach this conclusion due to the previously disclaimed audits.

Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

We include an explanation in the auditor's report of the extent to which the audit was capable of detecting irregularities, including fraud and respective responsibilities for prevention and detection of fraud.

Audit scope and general approach

Materiality

We apply the concept of materiality both in planning and performing the audit, and in evaluating the effect of identified misstatements on the audit and of uncorrected misstatements.

Judgments about materiality are made in the light of surrounding circumstances and are affected by our perception of the financial information needs of users of the financial statements, and by the size or nature of a misstatement, or a combination of both. **The basis for our assessment of materiality for the year is set out on page 15.**

Any identified errors greater than our clearly trivial amount of **£39,000** will be recorded and discussed with you and, if not adjusted, confirmed as immaterial as part of your letter of representation to us.

Accounting systems and internal controls

The purpose of an audit is to express an opinion on the financial statements. We will follow a substantive testing approach to gain audit assurance rather than relying on tests of controls. As part of our work, we consider certain internal controls relevant to the preparation of the financial statements such that we are able to design appropriate audit procedures. However, this work does not cover all internal controls and is not designed for the purpose of expressing an opinion on the effectiveness of internal controls. If, as part of our consideration of internal controls, we identify significant deficiencies in controls, we will report these to you in writing.

Specialised skill or knowledge required to complete the audit procedures

We will use audit specialists to assist us in our audit work in the following areas:

- The audit of the actuarial assumptions used in the calculation of the defined benefit pension liability/asset.

We will consult internally with our Technology Risk team for them to support the audit team by assessing the information technology general controls (ITGC) of the following systems:

- Active Directory
- Unit4

Our Technology Risk team will also perform additional work on the implementation of Unit4 to support us in our work to address the significant risk associated with a new finance system, and our assessment of Value for Money arrangements.

Audit scope and general approach

Significant changes in the financial reporting framework

There has been one significant change in the financial reporting framework this year, including the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2024/25 (the 'CIPFA Code'). The new standard relating to IFRS 16 Leases issued in January 2016 has now been mandated for implementation from 1 April 2024 within the 2024/25 Code.

Significant changes in the Council's functions or activities

There have been no significant changes to the functions and activities of the Council or its structure.

Going concern

Management responsibility

Management is required to make and document an assessment of whether the Council is a going concern when preparing the financial statements. The review period should cover at least 12 months from the date of approval of the financial statements. Management are also required to make balanced, proportionate and clear disclosures about going concern within the financial statements where material uncertainties exist in order to give a true and fair view.

Going concern

Auditor responsibility

Under ISA (UK) 570, we are required to consider the appropriateness of management's use of the going concern assumption in the preparation of the financial statements and consider whether there are material uncertainties about the Council's ability to continue as a going concern that need to be disclosed in the financial statements.

In assessing going concern, we will consider the guidance published in the CIPFA Code and Practice Note 10 (PN10), which focusses on the anticipated future provision of services in the public sector rather than the future existence of the entity itself.

Audit scope and general approach

Related party transactions

ISA 550 requires that the audit process starts with the audited body providing a list of related parties to the auditor, including any entities under common control. During our initial audit planning you have informed us of the individuals and entities that you consider to be related parties. Please advise us of any changes as and when they arise.

Additional procedures for the NAO

2

The National Audit Office (the 'NAO') issues group audit instructions which set out additional audit requirements. We expect the procedures for this year to be similar to previous years.

The NAO audit team for the WGA request us to undertake specific audit procedures in order to provide them with additional assurance over the amounts recorded in WGA schedules. The extent of these procedures will depend on whether the Council has been selected by the NAO as a sampled component for 2024/25. As at the date of this report, the draft instructions have not yet been issued by the NAO and the NAO has not yet confirmed which entities will be sampled components.

We will seek to comply with the instructions and to report to the NAO in accordance with their requirements once instructions have been issued.

Building back assurance

Background to the approach regarding disclaimed audits in the local government landscape is set out in Appendix I.

Summary of why we will be issuing a disclaimer of opinion in 2024/25

Given the Council's disclaimed audit opinions for the financial years 2021/22 and 2022/23, and probable disclaimed opinion for 2023/24, we are unable to obtain assurance over the following in 2024/25:

1. Opening balances in the financial statements (Balance Sheet) and
2. Reserves balances (which have come from the movements within the Statement of Comprehensive Income over the past four years)

This means that we are unable to provide a “clean” opinion to the Council, unless we perform sufficient build back work to become comfortable over these balances and movements. This is likely to take a number of years due to capacity within our audit team and the Council's finance team.

As a result of the approach we will be adopting in 2023/24, we have developed our understanding of the Council's systems, processes, controls and arrangements for the preparation of the financial statements and have gathered information which may inform the process of rebuilding assurance in this and future years.

We have developed an indicative end-to-end build-back recovery plan for disclaimed audits. We set out this indicative plan for your Council here.

Building back assurance

Our overarching approach

Our approach to your audit from 2024/25 onwards comprises three distinct phases with the ultimate objective of returning to unmodified opinions in the future. These are set out in the table below:

Phase	Planned work	Timing	Included in scale fee?
1	Undertake the normal 'in-year' audit. This will provide assurance over some closing balances and most in-year movements.	Annually	Yes
2	Undertake 'build-back' testing back to the last clean opinion for specified balance sheet items where full assurance over the closing balance cannot be obtained without opening assurance.	To be agreed with Council	No (this will incur additional cost)
24 3	Undertake work on prior-year disclaimed CIES entries and reserve movements back to the last clean opinion (subject to Sandbox discussions).	To be agreed with Council	No (this will incur additional cost)

One of the contributing factors to the existing backlog of opinions was insufficient capacity across audit suppliers and, in some cases, within council finance teams. These capacity constraints continue. It is therefore not possible to rebuild all assurance within a one-year period.

In terms of the work required under phases 2 and 3 – which could be considerable – we will discuss with management the appropriate timing and year for such work.

2024/25 plan

For 2024/25 we anticipate there will be sufficient capacity to undertake:

- Phase 1 (2024/25 audit) and;
- Potentially some elements of phase 2. We are anticipating these to be:
 - Additions testing for the years 2021/22, 2022/23 and 2023/24
 - Disposals testing for the years 2021/22, 2022/23 and 2023/24.
 - Depreciation testing (where possible) for the years 2021/22, 2022/23 and 2023/24.
 - Reclassification testing for the years 2021/22, 2022/23 and 2023/24.

With the remainder of the indicative build back plan (phase 2 and phase 3) falling into future years.

Building back assurance

Phase 1: the ‘in-year’ audit and accretion of evidence

In 2024/25 and future years, our ‘in-year’ audit will enable us to reach one of the following conclusions for each balance sheet item of account. This approach is subject to the provision of appropriate and timely evidence which fully supports the balances in question, and whether our detailed work confirms our assumptions over which balances can be fully supported independently of the missing opening assurance:

Auditor Conclusion	Likely applicable balances
Assurance gained over the closing balance of the item of account (i.e. closing balance is not inherently tied to the opening position)	<ul style="list-style-type: none">• Other land and buildings valuation (due to full valuation undertaken in 2024/25)• Investments• Debtors• Creditors• Cash and cash equivalents• Borrowing• Provisions
Assurance gained in-year but lack of opening assurance means the closing balance / full year balance on CIES cannot be fully assured and remains disclaimed	<ul style="list-style-type: none">• Property plant and equipment (depending on build back work)• Long term debtors• Long term creditors• Long term lease liabilities• All reserves

The items in the first category will be rolled forward and accreted into future years as part of the overarching indicative build-back strategy. It will take a minimum of three years for the items in this first category to be fully assured across three closing balances. At this point, no retrospective build back should be required for these items of account.

The items in the second category will need further work to obtain full assurance, which form phases 2 and 3 of the overarching indicative build-back approach.

Building back assurance

Phase 2: build-back for specified balance sheet items where the closing position is inherently tied to the opening position

These closing balances can only be assured by undertaking work on these items of account in the disclaimed years, back to the last clean opinion.

We are not, at this stage, proposing to rebuild assurance for historic land and buildings and IAS19 pension valuations or CIES income and expenditure over the disclaimed years. This is considered further in Phase 3.

Obtaining full assurance over the pension liability valuation (IAS19) closing balance will not be possible until the completion of the next triennial valuation. This is because of missing assurance over the current position dating back to the previous triennial valuation. The next triennial valuation is due to be accounted for from 2025/26, and we will undertake work in respect of this in conjunction with the pension fund auditor during the 2025/26 audit year.

Phase 3: build-back on prior year disclaimed CIES entries and reserve movements back to the last clean opinion

The approach to this is being discussed by all firms within the 'Sandbox'. Firms, including Azets, will only use this approach if it is endorsed by the FRC.

If it is endorsed, we will employ the 'Sandbox' approach back to the last clean opinion to gain full assurance over prior years' CIES and reserves movements and, therefore, reserves closing balances. This may involve selective substantive testing of income and expenditure transactions within disclaimed years.

If the 'Sandbox' approach is not endorsed, we will need to undertake full CIES testing in previously disclaimed years. This will then enable us to undertake reserves testing for each disclaimed year, enabling us to rebuild the assurance over the reserves balances and provide assurance over the general fund, earmarked reserves and unusable reserves, as well as over the Council's Capital Financing Requirement (CFR) and Minimum Revenue Provision (MRP).

Indicative build-back planner

	Build back of specified closing balances				Recovery of closing balances	Recovery of reserves and CIES	
Item of account	Phase 1				Phase 2 (year and timing to be agreed with management)	Phase 3 (year and timing to be agreed with management)	Include d in scale fee?
	2024/25	2025/26	2026/27	2027/28			
Income in-year (<i>fees and charges, taxation, grants, other income</i>)	Yes	Yes	Yes	Yes			Yes
Expenditure in-year (<i>payroll, operating expenditure, other expenditure</i>)	Yes	Yes	Yes	Yes			Yes
Other land and buildings valuation, council dwellings valuation	Yes	Yes	Yes	Yes			Yes
Closing balances not inherently tied to the opening balance (<i>includes Investment properties, investments, debtors, creditors, cash and cash equivalents, borrowing, provisions</i>)	Yes	Yes	Yes	Yes			Yes
Pension liabilities (IAS19) (<i>triennial in 2025/26</i>)	No	Yes	Yes	Yes			Yes
Reserves and reserves movements in-year (<i>general fund, earmarked reserves, unusable reserves, CFR, MRP, disclaimed year CIES movements</i>)	Yes	Yes	Yes	Yes			Yes
Cash flow statement in-year	Yes	Yes	Yes	Yes			Yes
Collection fund in-year	Yes	Yes	Yes	Yes			Yes
Cash flow statement and related notes full assurance	Yes	Yes	Yes	Yes			Yes
PPE closing balances (<i>recovery of additions, disposals, depreciation and other capital movements</i>)	No	No	No	No	Yes (planned in 2024/25)	No	No
Closing balances inherently tied to the opening balances where prior year recovery is required (<i>Long term debtors, long term creditors, long term lease liabilities</i>)	No	No	No	No	Yes (in future years)	No	No
Collection fund surplus	No	No	No	No	Yes (in future years)	No	No
Reserves and reserves movements full assurance (<i>general fund, earmarked reserves, unusable reserves, CFR, MRP, disclaimed year CIES movements</i>)	No	No	No	No	No	Yes (in future years)	No

Anticipated audit reports by year

Year	Assurance gained							Reserves	Anticipated audit report
	Closing balances	Comparator closing balances	Comparator opening balances	Pensions IAS19 closing balance	Pensions IAS19 comparator closing balance	Pensions IAS19 comparator opening balance	Closing balances inherently tied to the opening balance		
2024/25	✓	X	X	X	X	X	X	X	Disclaimer
2025/26	✓	✓	X	✓	X	X	X	X	Disclaimer
2026/27	✓	✓	✓	✓	✓	X	X	X	Disclaimer
2027/28 (phase 1 only)	✓	✓	✓	✓	✓	✓	X	X	Disclaimer
2027/28 * (phase 1 and 2 only)	✓	✓	✓	✓	✓	✓	✓	X	Disclaimer
2027/28 * (phase 1, 2 and 3)	✓	✓	✓	✓	✓	✓	✓	✓	Clean

* Phase 2 (recovery of assurance back to the last clean opinion) and Phase 3 (recovery of general fund and reserves assurance) may be undertaken earlier than 2027/28 should there be sufficient capacity within the audit team and finance team, and subject to agreement of cost for this additional work.

Materiality

Whilst our audit procedures are designed to identify misstatements which are material to our audit opinion, we also report to those charged with governance and management any uncorrected misstatements of lower value errors to the extent that our audit identifies these. Under ISA (UK) 260 we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA (UK) 260 defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.

An omission or misstatement is regarded as material if it would reasonably influence the users of the financial statements. The assessment of what is material is a matter of professional judgement and is affected by our assessment of the risk profile of the Council and the needs of the users. When planning, we make judgements about the size of misstatements which we consider to be material, and which provide a basis for determining the nature and extent of our audit procedures. Materiality is revised as our audit progresses, should we become aware of any information that would have caused us to determine a different amount had we known about it during our planning.

Our assessment, at the planning stage, of materiality for the year ended 31 March 2025 was calculated as follows:

	Council £	Explanation
Overall materiality for the financial statements	780	Our initial assessment is based on approximately 1.25% of gross revenue expenditure as disclosed in the 2022/23 annual report and accounts. We consider this to be the principal consideration for the users of the financial statements when assessing financial performance of the Council. The financial statements are considered to be materially misstated where total errors exceed this value
Performance materiality	468	60% of materiality. Performance materiality is the working level of materiality used throughout the audit. We use performance materiality to determine the nature, timing and extent of audit procedures carried out. We perform audit procedures on all transactions, or groups of transactions, and balances that exceed our performance materiality. This means that we perform a greater level of testing on the areas deemed to be at significant risk of material misstatement. Performance materiality is set at a value less than overall materiality for the financial statements as a whole to reduce to an appropriately low level the probability that the aggregate of the uncorrected and undetected misstatements exceed overall materiality.
Trivial threshold	39	5% of overall materiality for the Council. Trivial misstatements are matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. Individual errors above this threshold are communicated to those charged with governance.

In addition to the above, we consider any areas for specific lower materiality. We have determined that no specific materiality levels need to be set for this audit.

Significant risks of material misstatement

Significant risks are risks that require special audit consideration and include identified risks of material misstatement that:

- Our risk assessment procedures have identified as being close to the upper range of the spectrum of inherent risk due to their nature and a combination of the likelihood and potential magnitude of misstatement; or
- Are required to be treated as significant risks due to requirements of ISAs (UK), for example in relation to management override of internal controls.

Significant risks at the financial statement level

The table below summarises significant risks of material misstatement identified at the financial statement level. These risks are considered to have a pervasive impact on the financial statements as a whole and potentially affect many assertions for classes of transaction, account balances and disclosures.

Identified risk	Planned audit procedures
<p>Management override of controls</p> <p>Auditing Standards require auditors to treat management override of controls as a significant risk on all audits. This is because management is in a unique position to perpetrate fraud by manipulating accounting records and overriding controls that otherwise appear to be operating effectively.</p> <p>Although the level of risk of management override of controls will vary from entity to entity, the risk is nevertheless present in all entities.</p> <p>Specific areas of potential risk including manual journals, management estimates and judgements and one-off transactions outside the ordinary course of the business.</p> <p>Risk of material misstatement: Very High</p>	<p>Procedures performed to mitigate risks of material misstatement in this area will include:</p> <ul style="list-style-type: none">• Documenting our understanding of the journals posting process and evaluating the design effectiveness of management controls over journals;• Analysing the journals listing and determining the criteria for selecting high risk and/or unusual journals;• Testing high risk and/or unusual journals posted during the year and after the draft accounts stage back to supporting documentation for appropriateness, corroboration and to ensure approval has been undertaken in line with the Council's journals policy;• Gaining an understanding of the key accounting estimates and critical judgements made by management. We will also challenge assumptions and consider for reasonableness and indicators of bias which could result in material misstatement due to fraud; and• Evaluating the rationale for any changes in accounting policies, estimate or significant unusual transactions.

Significant risks of material misstatement

Identified risk	Planned audit procedures
<p>Prior year opinion on the financial statements</p> <p>Your predecessor auditor were unable to complete their audits of the 2021/22 and 2022/23 financial years and issued disclaimed opinions for both years in December 2024. As a result of delays in the production of the 2023/24 accounts we have not yet been able to issue our audit opinion, thereby missing the backstop on 28 February 2025.</p> <p>As a result of prior year disclaimed audit opinion:</p> <ul style="list-style-type: none">• There is limited assurance available over the Council's opening balances, including those balances which involve higher levels of management judgement and more complex estimation techniques (e.g defined benefit pension valuations, land and building, council dwelling and investment property valuations, amongst others); and• Significant transactions, accounting treatment and management judgements may not have been subject to audits for one or more years – or at all. This may include management judgements and accounting treatment in respect of significant or complex schemes or transactions which came into effect during the qualified or disclaimed period/s. <p>The absence of prior year assurance raises a significant risk of material misstatement at the financial statement level that may require additional audit procedures.</p> <p>Inherent risk of material misstatement: Prior year opinion on the financial statements (financial statement level): Very High</p>	<p>Procedures performed to mitigate risks of material misstatement in this area will include:</p> <ul style="list-style-type: none">• Considering the findings and outcomes of prior year audits and their impact on the 2024/25 audit;• Considering the impact on our audit of qualified or disclaimed audit opinions, particularly regarding opening balances and 'unaudited' transactions and management judgements made in the previous years which continue into 2024/25;• Considering the impact of any changes in Code requirements for financial reporting in previous and current audit years; and• Commencing build back work for PPE additions, disposals, reclassifications and depreciation for 2021/22, 2022/23 and 2023/24.

Financial statements - significant audit risks

Identified risk	Planned audit procedures
<p>Implementation of new financial accounting software Unit4</p> <p>The Council has implemented a new financial accounting system (Unit4) which went live on 01 April 2023. When implementing a significant new accounting system, it is important to ensure that sufficient controls are in place which are designed and operating effectively to ensure the integrity of financial data.</p> <p>We have been made aware that a number of issues have occurred since the system has been in place which have made performing routine financial management tasks difficult. The implementation of the new system has also resulted in delays of the production of the 2023/24 financial statements.</p> <p>We have therefore identified this area as a significant risk with potential impact across all areas of the financial statements.</p> <p>Risk of material misstatement: High</p>	<p>Procedures performed to mitigate risks in this area will include:</p> <ul style="list-style-type: none"> • Obtaining an understanding of the process used for new system implementation; • Documenting and assessing the design of IT general controls; • Reviewing access rights granted to the users of the new ledger for reasonableness in the context of individual staff roles; and • Testing data migration activity on the opening trial balance as at 1 April 2023 to understand how the previous year closing trial balance as at 31 March 2023 has been migrated into the new system to ensure completeness and accuracy.

Significant risks of material misstatement

Significant risks at the assertion level for classes of transaction, account balances and disclosures

The table below summarises significant risks of material misstatement at the assertion level for classes of transaction, account balances and disclosures.

Identified risk	Planned audit procedures
<p>Fraud in revenue recognition and expenditure (rebutted)</p> <p>Material misstatement due to fraudulent financial reporting relating to revenue recognition is a rebuttable presumed risk in ISA (UK) 240.</p> <p>Having considered the nature of the revenue streams at the Council, we consider that the risk of fraud in revenue recognition can be rebutted due to:</p> <ul style="list-style-type: none">• Little incentive by management to manipulate revenue recognition;• Limited opportunity to manipulate revenue recognition; and• Lack of rationalisation of fraud within the entity due to the controls and processes in place. <p>We have also considered Practice Note 10, which comments that for certain public bodies, the risk of manipulating expenditure could exceed the risk of the manipulation of revenue. We have therefore also considered the risk of fraud in expenditure at the Council, and we are satisfied that this is not a significant risk for the reasons set out below:</p> <ul style="list-style-type: none">• Little incentive by management to manipulate expenditure recognition;• Limited opportunity to manipulate expenditure recognition; and• Lack of rationalisation of fraud within the entity due to the controls and processes in place. <p>Inherent risk of material misstatement: Revenue and expenditure recognition: Low</p>	<p>Whilst we have rebutted the risk of fraud in income and expenditure, we will perform the below procedures based on their value within the financial statements:</p> <ul style="list-style-type: none">• Documenting our understanding of the Council's systems for income and expenditure to identify significant classes of transactions, account balances and disclosures with a risk of material misstatement in the financial statements;• Evaluating the Council's accounting policies for recognition of income and expenditure and compliance with the CIPFA Code; and• Substantively testing material income and expenditure streams using analytical procedures and sample testing of transactions recognised in the year.

Significant risks of material misstatement

Identified risk	Planned audit procedures
<p>Valuation of council dwellings, other land and buildings and investment property (key accounting estimate)</p> <p>Revaluation of other land and buildings should be performed with sufficient regularity so that carrying amounts are not materially misstated. It is our understanding that the Council undertakes this annually.</p> <p>The Council carries out a full revaluation each year of its council dwellings which are valued using the beacon method. A discount factor is applied to reflect the lower rent yield from social housing compared to market rates. Investment property is valued annually at fair value, in line with the CIPFA Code.</p> <p>Management engage the services of a qualified valuer, who is a Regulated Member of the Royal Institute of Chartered Surveyors (RICS) to undertake these valuations as of 31 March 2025. The valuations involve a wide range of assumptions and source data and are therefore sensitive to changes in market conditions. ISAs (UK) 500 and 540 require us to undertake audit procedures on the use of external expert valuers and the methods, assumptions and source data underlying the fair value estimates.</p> <p>These valuations represent key accounting estimates made by management within the financial statements due to the size of the values involved, the subjectivity of the measurement and the sensitive nature of the estimate to changes in key assumptions. We have therefore identified the valuation of other land and buildings, council dwellings and investment property as a significant risk.</p> <p>Inherent risk of material misstatement: Council dwellings, land and buildings and investment property (valuation): High</p>	<p>Procedures performed to mitigate risks of material misstatement in this area will include:</p> <ul style="list-style-type: none"> • Evaluating management processes and assumptions for the calculation of the estimate, the instructions issued to the valuation experts and the scope of their work; • Evaluating the competence, capabilities and objectivity of management's valuation expert; • Considering the basis on which the valuations are carried out and challenging the key assumptions applied; • Evaluating the reasonableness of the valuation movements for assets revalued during the year, with reference to market data. We will consider whether we require an auditor's expert; • For unusual or unexpected valuation movements, testing the information used by the valuer to ensure it is complete and consistent with our understanding; • Ensuring revaluations made during the year have been input correctly to the fixed asset register and the accounting treatment within the financial statements is correct; and • Evaluating the assumptions made by management for any assets not revalued during the year and how management are satisfied that these are not materially different to the current value.

Significant risks of material misstatement

Identified risk	Planned audit procedures
<p>Valuation of the defined pension fund net liability/asset (key accounting estimate)</p> <p>An actuarial estimate of the net defined pension liability/asset is calculated on an annual basis under IAS 19 'Employee Benefits', and on a triennial funding basis, by an independent firm of actuaries with specialist knowledge and experience. The triennial estimates are based on the most up to date membership data held by the pension fund and a roll forward approach is used in intervening years, as permitted by the CIPFA Code.</p> <p>The calculations involve a number of key assumptions, such as discount rates and inflation and local factors such as mortality rates and expected pay rises. The estimates are highly sensitive to changes in these assumptions and the calculation of any asset ceiling when determining the value of a pension asset (where relevant). ISAs (UK) 500 and 540 require us to undertake audit procedures on the use of external experts (the actuary) and the methods, assumptions and source data underlying the estimates.</p> <p>This represents a key accounting estimate made by management within the financial statements due to the size of the values involved, the subjectivity of the measurement and the sensitive nature of the estimate to changes in key assumptions. We have therefore identified the valuation of the net pension liability/asset as a significant risk.</p> <p>Inherent risk of material misstatement: Defined pension fund net liability/asset (valuation): High</p>	<p>Procedures performed to mitigate risks of material misstatement in this area will include:</p> <ul style="list-style-type: none"> • Evaluating management's processes for the calculation of the estimate, the instructions issued to management's expert (the actuary) and the scope of their work; • Evaluating the competence, capabilities and objectivity of the actuary; • Assessing the controls in place to ensure that the data provided to the actuary by the Council and their pension fund was accurate and complete; • Evaluating the methods, assumptions and source data used by the actuary in their valuations, with the support of an auditor's expert; • Evaluating whether any asset ceiling was appropriately considered (if applicable) when determining the value of any pension asset included in the financial statements; • Assessing the impact of any significant differences between the estimated gross asset valuations included in the financial statements and the Council's share of the investment valuations in the audited pension fund accounts' and • Ensuring pension valuation movements for the year and related disclosures have been correctly reflected in the financial statements.

Significant risks of material misstatement

Identified risk	Planned audit procedures
<p>Implementation of IFRS 16</p> <p>IFRS 16 was adopted and implemented by local government bodies under the Code of Audit Practice from 1 April 2024. Under IFRS 16 a lessee is required to recognise a right of use asset and associated lease liability in its Balance Sheet. This will result in significant changes to the accounting for leased assets and the associated disclosures within the financial statements for the year ended 31 March 2025.</p> <p>The implementation of this new accounting standard also represents a key accounting estimate made by management within the financial statements due to the size of the values involved, the subjectivity of the measurement upon recognition of the right of use asset and associated lease liability. We have therefore identified the implementation of IFRS 16 as a significant risk.</p> <p>Inherent risk of material misstatement: Lease liability following implementation of IFRS 16 (completeness): Moderate</p>	<p>Procedures performed to mitigate risks of material misstatement in this area will include:</p> <ul style="list-style-type: none"> • Perform a walkthrough of the council's systems and processes to capture the data required to account for right of use lease assets and associated liability in accordance with IFRS 16; • Review the council's accounting policies for the year ended 31 March 2025 to reflect the requirements of the new accounting standard; • Assess the council's processes for identifying leases and determining whether they are in scope for IFRS 16. • Evaluate whether RoU assets and lease liabilities have been appropriately remeasured in line with the requirements of IFRS 16 as set out in the CIPFA Code.

Other risks of material misstatement

Other identified risks

Other identified risks are those which, although not considered to be significant, will require specific consideration during the audit.

We have not identified any to report to you.

Other material balances and transactions

Under International Standards on Auditing, “irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure”. All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as those adopted for the risks identified in this report.

Value for money

Under the Code of Audit Practice, we must satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources (referred to here as “Value for Money”, or “VFM”).

NAO Auditor Guidance Note 03 ‘Auditors’ Work on Value for Money Arrangements’ (“AGN 03”) was updated and issued on 14 November 2024 and requires us to provide an annual commentary on arrangements, which will be published as part of the Auditor’s Annual Report. Such commentary will highlight any significant weaknesses in arrangements, along with recommendations for improvements.



When reporting on such arrangements, the Code of Practice requires us to structure our commentary under three specified reporting criteria:

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
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

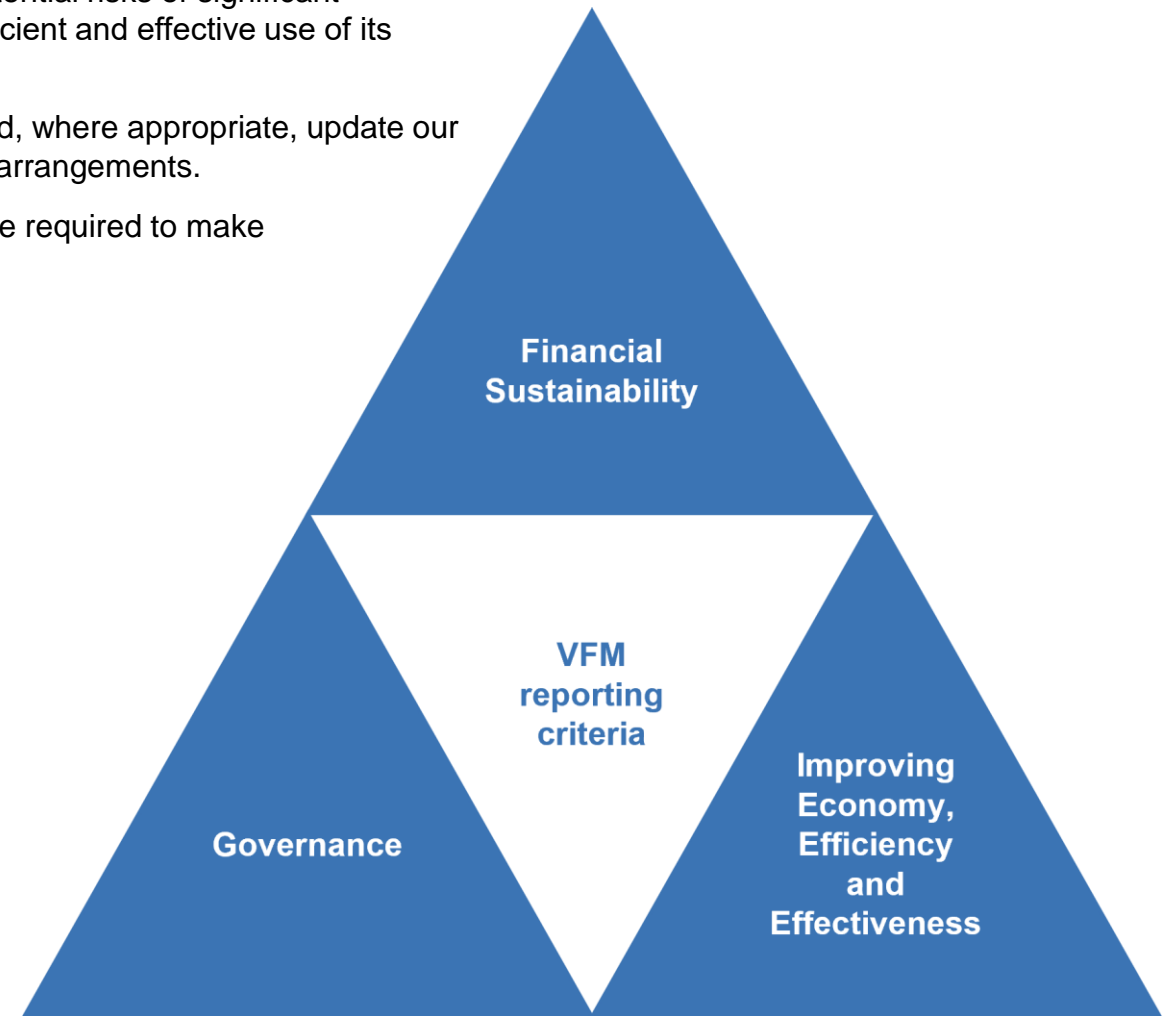
Value for Money

As part of the planning process, we are required to perform procedures to identify potential risks of significant weaknesses in the Council's arrangements to secure VFM through the economic, efficient and effective use of its resources.

We are required to re-evaluate this risk assessment during the course of the audit and, where appropriate, update our work to reflect emerging risks or findings that may suggest a significant weakness in arrangements.

Where we identify significant weaknesses in arrangements as part of our work, we are required to make recommendations setting out:

- Our judgement on the nature of the weakness identified;
- The evidence on which our view is based;
- ⌘ The impact on the local body; and
- The action the body needs to take to address the weakness.



Value for Money arrangements

Risks of significant weakness in VFM arrangements

We have carried out an initial risk assessment to identify any risks of significant weakness in respect of the three specific areas of proper arrangements using the guidance contained in AGN 03. A significant weakness is a risk requiring audit consideration and procedures to address the likelihood that proper arrangements are not in place at the body to deliver value for money.

We will re-evaluate this risk assessment during the course of the audit and, where appropriate, update our work to reflect emerging risks or findings that may suggest a significant weakness in arrangements.

When considering the Council's arrangements, we will have regard to the three reporting criteria set out in AGN03, as well as performing additional work in the areas identified below which are the potential areas of significant weaknesses, we have identified at the planning stage.

Criteria	Potential risk of significant weakness	Our risk based procedures and evaluation approach includes (but is not limited to)
Financial sustainability	No potential risks of significant weakness have been identified from the planning procedures.	We have not at this stage identified any risks of significant weakness that require specific audit procedures. However, we have identified area of focus for detailed follow up in fieldwork stage. This includes reviewing the redesign of the Medium Term Financial Strategy.
Governance	We have identified a risk of significant weakness regarding the delays to the production of the 2023/24 financial statements, including the impact of the implementation of Unit4.	We will review the decision-making process and key judgements made by the Council in the procurement and implementation of Unit4 accounting software. We will assess the adequacy and timeliness of any arrangements that the Council has made to resolve the issues encountered following implementation. We will also consider whether concerns raised by Mazars regarding capacity of the finance team have been adequately addressed.
Improving economy, efficiency and effectiveness	No potential risks of significant weakness have been identified from the planning procedures.	We have not at this stage identified any risks of significant weakness that require specific audit procedures.

Weaknesses or risks identified by auditors are only those which have come to their attention during their normal audit work in accordance with the Code of Audit Practice and may not be all that exist.

Audit team and logistics

Your audit team

Role	Name	Contact details
Key Audit Partner	Laura Hinsley	Laura.Hinsley@azets.co.uk
Engagement Manager	Helen Parks	Helen.parks@azets.co.uk
In-charge auditor	Simbongile Qupe	Simbongile.qupe@azets.co.uk

Timetable

Event	Date
Planning and risk assessment	Jan-March 2025
Reporting of plan to Audit and Governance Committee	23 April 2025
Year end audit	TBC
Publication of draft accounts	TBC
Reporting of Audit (ISA260)	TBC
Auditor's Annual Report (AAR)	TBC
Target date of approval of accounts	TBC
Accounts publication deadline (as specified in the Accounts and Audit (Amendment) Regulations 2024)	27 February 2026

Our expectations and requirements

For us to be able to deliver the audit in line with the agreed fee and timetable, we require the following:

- Draft financial statements to be produced to a good quality by the deadlines you have agreed with us. These should be complete including all notes, the Narrative Statement and the Annual Governance Statement;
- The provision of good quality working papers at the same time as the draft financial statements. These will be discussed with you in advance to ensure clarity over our expectations;
- The provision of agreed data reports at the start of the audit, fully reconciled to the values in the accounts, to facilitate our selection of samples for testing;
- Ensuring staff are available and on site (as agreed) during the period of the audit;
- Prompt and sufficient responses to audit queries within two working days (unless otherwise agreed) to minimise delays.

The audit process is underpinned by effective project management to ensure that we co-ordinate and apply our resources efficiently to meet your deadlines. It is therefore essential that the audit team and the Council's finance team work closely together to achieve this timetable.

Independence, objectivity and other services provided

Auditor independence

We confirm that we comply with the Financial Reporting Council's (FRC) Ethical Standard and are able to issue an objective opinion on the financial statements. We have also complied with the NAOs Auditor Guidance Note 01, issued in September 2022, which contains supplementary guidance on ethical requirements for auditors of local public bodies. We have considered our integrity, independence and objectivity in respect of audit services provided and we do not believe that there are any significant threats or matters which should be brought to your attention.

Other services

We have detailed in the table below any other services provided to the Council, the threats to our independence these present and the safeguards we have put in place to mitigate these threats.

Service	Fee	Threats identified and safeguards to mitigate threats to independence
Audit related: Certification of Housing Benefit Assurance Process (HBAP) claim ((2022/23, 2023/24 and 2024/25)	£28,000 (plus £2,000 for each additional workbook) Fee for 22/23 £50,000 Expected fee for 2023/24 and 2024/25 - TBC	Self-interest: Given this is likely to be a recurring fee, we consider a threat present. However, the fee is not significant to Azets Audit Services or North West Leicestershire District Council. The fee is fixed and is not contingent in nature. Self-review: Whilst housing benefit revenue and expenditure streams are within the financial statements, we do not complete the claim form. The focus of our work is solely testing the data in the claim form prepared by the management. Management: As above, the claim form is completed by management and any adjustments or amendments identified to the form during the certification work are discussed and agreed by management prior to submission of the certification report. We therefore consider these risks sufficiently mitigated.
Audit related: Certification of pooling of Housing Capital Receipts return (2024/25)	£10,000	Self-interest: The fee is not significant to Azets Audit Services or North West Leicestershire District Council. The fee is fixed and not contingent in nature. Self-review: Whilst HRA right to buy proceeds are included within the financial statements, we do not complete the claim form. The focus of our work is solely testing the data in the claim form prepared by the management. Management: the claim form is completed by management and any adjustments or amendments identified to the form during the certification work are discussed and agreed by management prior to submission of the certification report. We therefore consider these risks sufficiently mitigated.

Fees

PSAA set a fee scale for each audit that assumes the audited body has sound governance arrangements in place, has been operating effectively throughout the year, prepares comprehensive and accurate draft accounts and meets the agreed timetable for audit. This fee scale is reviewed by PSAA each year and adjusted, if necessary, based on auditors' experience, new requirements, or significant changes to the audited body. The fee may be varied above the fee scale to reflect the circumstances and local risks within the audited body.

Our estimated fee (excluding VAT) is as follows. This fee is estimated based on our understanding at this point in time and may be subject to change. Our planned fee is on the basis that our expectations set out on pages 4 and 31 are met.

Audit fee	2024/25 £
Scale fee: base fee for the audit of the Council's financial statements (as set out in the fee scales issued by PSAA)	163,742
IFRS16: work needed to audit the new standard. PSAA have confirmed this work is not included in the above scale fee	TBC
Disclaimer work (note 1)	TBC
Build back work (note 2)	TBC
Total audit fee for North West Leicestershire District Council	TBC

Note 1: this includes the additional annual work required to consider the disclaimed audits from prior years, development of revised approach for the Council in response to the missing assurance, the production, agreement and reporting of additional interim progress reports to management and the Audit Committee, the development and reporting of a revised 'Audit Completion Report' for reporting the additional considerations arising from the disclaimers, the drafting of a disclaimed audit report and the various risk, compliance and technical consultations arising as a result of this unique and unprecedented situation.

Note 2: this includes all work for phases 2 and 3 which require building back assurance to the last clean opinion

It is our policy to seek fee variations for overruns or scope extensions, for example where we have incurred delays, deliverables have been late or of poor quality, where key personnel have not been available, or we have been asked to do extra work. Any such fee variations are subject to agreement with Public Sector Audit Appointments Ltd (PSAA).

We will bill the scale fee in quarterly instalments in line with billing milestones as set out in our contract with PSAA.

The approximate total fees charged to the Council for the provision of services in 2024/25 is as follows:

Total Audit fee for Council	2024/25 £
Audit of the Council (as to the left)	TBC
Total audit fee	TBC
Non-audit related services 2024/25 (per page 28)	TBC
Total fees for the Council	TBC

Appendix I: Building back assurance

Statutory backstop dates and disclaimed audits

Statutory Instrument (2024) No. 907 - “*The Accounts and Audit (Amendment) Regulations 2024*”, imposed annual statutory backstop dates up to and including the 2027/28 year of account for the publication by the Council of its final Statement of Accounts. The Code of Audit Practice specifies that auditors are required to issue their auditor’s report before these dates, even if planned audit procedures are not fully complete, so that local government bodies can comply with the statutory reporting deadline.

4

This legislation provides the following statutory backstop dates:

- 13 December 2024 Audits from 2015/16 to 2022/23
- 28 February 2025 2023/24 audit
- 28 February 2026 2024/25 audit
- 31 January 2027 2025/26 audit
- 30 November 2027 2026/27 audit
- 30 November 2028 2027/28 audit

As a consequence, the statutory backstop has resulted in the audits of the Council’s accounts being disclaimed for 2021/22, 2022/23 and 2023/24. The previous clean opinion, where the closing balances were assured by the auditor, was 2020/21. The closing balances as at 31 March 2021 are therefore our required starting point for building back assurance.

Building back assurance

Government’s expectation is that auditors and councils build back assurance to enable, at some point in the future, the return to unmodified (clean) opinions. The recovery period has been designed to allow auditors to rebuild assurance for balances from disclaimed years over multiple audit cycles, reducing the risk of the backlog recurring. Because auditors will need to make prioritisation decisions to issue audit opinions ahead of the backstop dates, they may not be able to obtain sufficient evidence to support all balances nor all in-year and comparative expenditure, income, cash flow and reserves movements.

As a firm we have invested considerable resources in developing our overall response to the disclaimed periods of assurance, the impact this has on our audit responsibilities and what an indicative build-back plan may involve. Due to the complexities caused by the disclaiming of previous audits our work has required greater involvement from senior members of the audit team than would normally be the case. PSAA has made clear that this additional work is over and above the annual scale fee.

Our planning takes into account the guidance contained in the [Local Audit Reset and Recovery Implementation Guidance](#) (LARRIG), numbers 1 to 5. LARRIGs are prepared and published by the National Audit Office (NAO) on behalf of the Comptroller and Auditor General (C&AG) who has power to issue guidance to auditors under Schedule 6 paragraph 9 of the *Local Audit and Accountability Act 2014* (the Act). LARRIGs are prepared and published with the endorsement of the Financial Reporting Council (FRC) and are intended to support the reset and recovery of local audit in England. The guidance in LARRIGs supports auditors in meeting their requirements under the Act and the [Code of Audit Practice](#) published by the NAO on behalf of the C&AG.

Building back assurance

Our planning also takes into account the guidance contained in the FRC's document [Local Audit Backlog Rebuilding Assurance](#). Alongside the backlog measures, the Government has announced its intention to 'overhaul the local audit system.'

The FRC's guidance states: *"Recovery from the backlog is a shared endeavour between auditors and local bodies. Accounts preparers have a vital part to play, providing good quality draft financial statements supported by comprehensive working papers and supporting evidence to auditors. The success of these proposals relies on both auditors and accounts preparers working closely together to agree jointly-owned delivery plans for each year's audit. Chartered Institute of Public Finance and Accountancy (CIPFA) are responsible for the production of guidance to support accounts preparers. Audit Committees should ensure that they are planning and able to play their full part in the process."*

Elements of building back assurance are subject to detailed discussion within a cross-firm working group, also attended by the FRC, known as 'the Sandbox'. We will ensure our build-back approach is fully ISA compliant and, where it relies on the eventual outcome of Sandbox discussions, we will only utilise this approach where it has been endorsed by the FRC.

As part of our work in 2023/24, we began assessing what work, carried out in 2023/24, can be used to inform the process of rebuilding assurance in future years. Where work was able to be undertaken in 2023/24, we intend to accrete this work into this and future audit periods to inform the future building back of assurance. The build-back approach will require us to apply a process of rebuilding assurance over all financial years for which disclaimers of opinion have been issued.

As a result of the approach we adopted in 2023/24 we have developed our understanding of the Council's systems, processes, controls and arrangements for the preparation of the financial statements and have gathered information which may inform the process of rebuilding assurance in this and future years.

We have developed an indicative end-to-end build-back recovery plan for disclaimed audits. We set out this indicative plan for your Council here.

Indicative assurance over build-back period

	Build back of specified closing balances through in-year audit				Recovery of closing balances	Recovery of reserves and CIES
	Phase 1				Phase 2 (year and timing to be agreed with management)	Phase 3 (year and timing to be agreed with management)
	2024/25	2025/26	2026/27	2027/28		
Assurance gained over specific balance sheet closing balances which are not inherently tied to the opening balance, EXCEPT FOR pensions IAS19 balance (Phase 1a)	Yes	Yes	Yes	Yes		
Assurance gained over specific balance sheet closing balances which are not inherently tied to the opening balance, INCLUDING pensions IAS19 balance (Phase 1b)	No	Yes	Yes	Yes		
Assurance gained over comparator closing balance for specific balance sheet items not inherently tied to the opening balance (Phase 1c)	No	No	Yes	Yes		
Assurance gained over comparator opening balance for specific balance sheet items not inherently tied to the opening balance (Phase 1d)	No	No	No	Yes		
Assurance gained over balance sheet balances which are inherently tied to the opening balance – current year closing, prior year closing, prior year opening (Phase 2)					Yes	N/A
Assurance gained over general fund, earmarked reserves, unusable reserves, collection fund surplus (Phase 3)					N/A	Yes
Full assurance gained for each phase?	No	No	No	Yes	Yes	Yes
Is missing assurance pervasive?	Yes	Yes	Yes	Yes (phase 1 obtained only)	Yes (phase 1 and 2 obtained only)	No (provided also have full phase 1 and 2)
Anticipated opinion	Disclaimer	Disclaimer	Disclaimer	Disclaimer	Disclaimer	Clean
Additional fee – disclaimer	Yes	Yes	Yes	Yes	Yes	No
Additional fee – build back					Yes	Yes



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NORTH WEST LEICESTERSHIRE DISTRICT COUNCIL

AUDIT AND GOVERNANCE COMMITTEE – WEDNESDAY, 4 JUNE 2025



Title of Report	AUDIT STRATEGY	
Presented by	Kerry Beavis Audit Manager	
Background Papers	Global Internal Audit Standards CIPFA Application Note: Global Internal Audit Standards in the UK Public Sector CIPFA Code of Practice for the Governance of Internal Audit in UK Local Government	Public Report: Yes
Financial Implications	None arising from this report.	
	Signed off by the Section 151 Officer: Yes	
Legal Implications	None arising from this report.	
	Signed off by the Monitoring Officer: Yes	
Staffing and Corporate Implications	None arising from this report.	
	Signed off by the Head of Paid Service: Yes	
Purpose of Report	<p>It is a requirement of the Global Internal Audit Standards (GIAS) for the Chief Audit Executive to develop and implement a strategy for the Internal Audit Service that supports the strategic priorities and success of the organisation and aligns with the expectations of the board, senior management, and other key stakeholders.</p> <p>Within its terms of reference, the Audit and Governance Committee has a clear role in relation to oversight of the Council's Internal Audit Service.</p>	
Recommendations	THAT THE COMMITTEE APPROVES THE INTERNAL AUDIT STRATEGY 2025/26 – 2027/28.	

1.0 BACKGROUND

- 1.1 The report outlines a Strategy for the Internal Audit Service, detailing its purpose, mission, and vision. It underscores the Service's role in providing independent assurance, supporting the Council's priorities. The Strategy considers the organisational alignment of the Internal Audit Service, evaluates strengths, weaknesses, opportunities, and threats, and identifies the critical success factors, along with the initiatives, required to achieve them.

2.0 Internal Audit Strategy Introduction

- 2.1 **Principle 9 (Plan Strategically) of the GIAS states that** "The Chief Audit Executive plans strategically to position the internal audit function to fulfil its mandate and achieve long-term success".

The mandate specifies the authority, role, and responsibilities of the internal audit function and is documented in the Internal Audit Charter. The mandate empowers the Internal Audit Service to provide both the Corporate Leadership Team and Audit and Governance Committee with objective assurance, advice, insight and foresight.

- 2.2 **Under Principle 9 of the GIAS, Standard 9.2. (Internal Audit Strategy) states that** "The Chief Audit Executive must develop and implement a strategy for the internal audit function that supports the strategic objectives and success of the organisation and aligns with the expectations of the board (the Audit and Governance Committee), senior management (CLT), and other stakeholders".

"An internal audit strategy is a plan of action designed to achieve a long-term or overall objective. The internal audit strategy must include a vision, strategic objectives, and supporting initiatives for the internal audit function. An internal audit strategy helps guide the internal audit function toward the fulfilment of the internal audit mandate, including opportunities for internal auditors to develop their competencies, integrating technology for enhanced efficiency and effectiveness, and implementing initiatives to improve the internal audit function as a whole.

"The Chief Audit Executive must review the internal audit strategy with the board and senior management periodically".

To comply with GIAS in the UK Public Sector an Internal Audit Strategy has been developed for consideration by the Audit and Governance Committee. This is set out at Appendix 1 to the report.

2.3 Defining the Purpose, Mission and Vision

Standard 9.2 - The Chief Audit Executive must develop a strategy including a vision, strategic objectives and supporting initiatives for the internal audit function. Defining the purpose, mission and vision are crucial elements of the Internal Audit Strategy, as they define the long-term aspirations, core functions, and underlying reason for the internal audit function's existence.

The Purpose of the Internal Audit Service, as set out in the Internal Audit Charter, is "to strengthen North West Leicestershire District Council's ability to create, protect, and sustain value by providing the Audit and Governance committee and management with independent, risk-based, and objective assurance, advice, insight, and foresight, that meets rigorous professional standards".

The Strategy's Mission is "to protect and enhance organisational value through risk-based assurance and advice, supported by evidence".

The Strategy's Vision is "To be a trusted advisor and promoter for continuous improvement, helping the Council optimise efficiency, achieve goals and priorities, and stay resilient in the evolving public sector.

2.4 Organisational Alignment and Governance of internal Audit

Standard 9.1 – Understanding Governance, Risk Management, and Control Processes

It is important to gain a thorough understanding of the Council's purpose, objectives, plans and key performance indicators. By aligning internal audit work with the Council's direction and priorities, the Internal Audit Service can effectively support its success.

The governance of the Internal Audit Service, as outlined in the Internal Audit Charter (which includes the mandate), aligns with:

- the requirements of the GIAS,
- the CIPFA Application Note (a framework for internal audit practice in the UK public sector, when combined with the GIAS)
- the CIPFA Code of Practice for the Governance of Internal Audit in UK Local Government (which complements the GIAS from the perspective of the Audit Manager).

The charter details the independence, organisational position, reporting relationships (with the Corporate Leadership Team and the Audit and Governance Committee), and the role and responsibilities of the Audit Manager, all of which comply with these guidelines (in so far as permitted by the public sector).

To help understand governance risk management and control processes, the Audit Service:

- a) keeps abreast of the organisational context/landscape (e.g. local and national developments).
- b) regularly reviews the Council's corporate and strategic risks.
- c) keeps up to date with internal audit standards and guidance.

2.5 Stakeholder Engagement

Standard 11.1 – Building Relationships and Communicating with Stakeholders

The Internal Audit Service has various stakeholders. The main internal stakeholders are the Corporate Leadership Team and the Audit and Governance Committee. The Director of Resources (S151 Officer) (part of CLT) has the responsibility, through S151 and statutory duties, to ensure there is an adequate and effective system of internal audit. Other internal stakeholders are senior management and other providers of assurance, as well as the Internal Audit Team itself.

External stakeholders are mainly the Professional Bodies (CIPFA and IIA), External Auditor (Azets), and Government Bodies who require the Internal Audit Service to carry out specific pieces of work, predominately grant returns.

The Strategy includes an analysis of Stakeholder Expectations and the frequency of communication with the Internal Audit Service.

2.6 Internal Audit Maturity Analysis

Standard 12.1 – Internal Quality Assessment

To identify the key internal and external environments that are important to achieve the Strategy, the Internal Audit Service conducted an analysis of strengths, weaknesses, opportunities, and threats (SWOT) against the mission and critical success factors. This exercise grouped information into two main categories: Internal factors which include the strengths and weaknesses, and external factors which include opportunities and threats. Appendix B includes the output of the analysis. Further analysis of the maturity levels will be carried out during the year. This will ensure that the Internal Audit Service can plan to improve its capabilities, impact, and alignment with the Council's objectives and priorities, thereby increasing its value to the Council.

2.7 Skills, Competencies, and Capabilities

Standard 10.2 – Human Resources Management

39. An annual assessment of skills will be undertaken to ensure that any development needs are identified to ensure the Internal Audit Service has a well-rounded balance of knowledge, skills and attributes.

2.8 Primary Objectives and Critical Success Factors

The primary strategic objectives of the Internal Audit Service (detailed in full in the Strategy) are:

- Independent Assurance
- Risk Management
- Compliance
- Operational Efficiency
- Strategic Support
- Continuous Improvement

These objectives align with the Service's purpose, mission, and vision to help achieve the Council's goals.

Critical success factors (CSFs) are specific elements or activities that are essential for the Internal Audit Service to achieve its purpose, mission, vision, and the primary strategic objectives of the Internal Audit Service. The key CSFs (detailed in the Strategy) are identified as:

- Management Support
- Independence and Objectivity
- Resources/ Skilled and Competent Staff
- Effective Communication and Collaboration
- Risk-based approach
- Continuous Improvement
- Alignment with Organisational Goals

Compliance with the GIAS in the UK Public Sector will significantly contribute to achieving the primary strategic objectives and critical success factors. An initial self-assessment of the Internal Audit Service against the GIAS in the UK Public Sector demonstrates a high level of compliance, with a few areas identified for improvement before an external assessment due December 2025.

2.9 Initiatives to support the achievement of the Critical Success Factors

Considering the operational framework of the Internal Audit Service within the Council, the evaluation against the GIAS in the UK Public Sector, and the insights derived from the previously detailed steps, **three key areas** have been identified for improvement to better achieve the Service's CSFs. These areas are specifically highlighted under the weaknesses, opportunities, and threats in the SWOT analysis.

Management Support

Management support is crucial for the Internal Audit Service to be effective and impactful within the Council. When management actively endorses and supports internal audit activities, it sends a clear message about the importance of governance, risk management, and internal controls. This support helps to ensure that the findings and recommendations of internal audits are taken seriously and acted upon. It also fosters a culture of accountability and continuous improvement, where employees understand the value of internal audits and are more likely to cooperate and implement suggested changes. Furthermore, management backing provides the Internal Audit Service with the necessary resources and authority to perform their duties effectively, ultimately leading to enhanced performance and achievement of strategic objectives.

Resources / Skilled and Competent Staff

Whilst minimum audit coverage is not stipulated, the Audit Manager, when assessing whether the available resources are adequate, must consider whether enough audit work can be undertaken to derive an annual year-end opinion on the overall adequacy of the Council's governance, risk and internal control environment.

The current structure of the Internal Audit Service is considered sufficient to achieve strategic objectives and provide an annual opinion (taking into account current demand from external sources). Therefore, it is important to maintain the current structure, as any reduction could affect the ability to meet these objectives.

Continuous Improvement

In today's rapidly evolving business environment, it is essential for the Internal Audit Service to become more data-savvy and embrace innovations like artificial intelligence. Leveraging data analytics and advanced technologies enables auditors to analyse vast amounts of information quickly and accurately, uncovering insights that might be missed through traditional methods. Tools such as Microsoft Copilot can enhance audit processes by automating routine tasks, providing real-time data analysis, and offering predictive insights, which allows auditors to focus on more strategic activities. This not only improves the efficiency and effectiveness of audits but also helps in identifying emerging risks and opportunities, thereby adding greater value to the Council. Embracing these innovations ensures that Internal Audit Service will remain relevant, proactive, and capable of supporting the Council's objectives. **Appendix C** provides the actions and initiatives to support the achievement of these key areas, including a timeline for completion.

2.10 Performance Metrics

Standard 12.2 Performance Measurement states that "The Chief Audit Executive must develop objectives to evaluate the internal audit function's performance. The chief audit executive must consider the input and expectations of the board and senior management when developing the performance objectives.

The chief audit executive must develop a performance measurement methodology to assess progress toward achieving the function's objectives and to promote the continuous improvement of the internal audit function.

When assessing the internal audit function's performance, the Chief Audit Executive must solicit feedback from the board and senior management as appropriate."

A set of key performance indicators (KPIs) for 2025/26 has been established to evaluate the performance of the Internal Audit Service. These indicators measure the operational efficiency of the Service, considering factors such as management support, staff skills and competencies, resource availability, and ongoing improvement initiatives. The KPIs, are detailed in **Appendix D**.

3.0 Appendix

3.1 Appendix 1 – Internal Audit Strategy 2025/26 -2027/28

Policies and other considerations, as appropriate	
Council Priorities:	An effective Internal Audit Service that conforms to the relevant Standards and Legislation supports the delivery of all council priorities.
Policy Considerations:	None
Safeguarding:	None
Equalities/Diversity:	None
Customer Impact:	None
Economic and Social Impact:	None
Environment, Climate Change and Zero Carbon	None
Consultation/Community/Tenant Engagement:	The Strategy was presented to the Corporate Leadership Team on 26 March 2025.
Risks:	Failure to have an Internal Audit Strategy will lead to non-conformance with relevant Standards and Legislation.
Officer Contact	Kerry Beavis Audit Manager Kerry.beavis@nwleicestershire.gov.uk



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INTERNAL AUDIT STRATEGY

2025/26 – 2027/28

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1. Internal Audit Vision

To be a trusted advisor and promoter for continuous improvement, helping the Council optimise efficiency, achieve goals and priorities, and stay resilient in the evolving public sector.

2. Internal Audit Mission

To protect and enhance organisational value through risk-based assurance and advice, supported by evidence.

3. Strategic Objectives and Critical Success Factors

The primary strategic objectives of the Internal Audit Service are:

- **Independent Assurance:** Providing independent assurance that the Council's risk management, governance, and internal control processes are operating effectively.
- **Risk Management:** Identifying and assessing risks to the Council and ensuring that appropriate measures are in place to mitigate these risks.
- **Compliance:** Ensuring that the Council complies with relevant laws, regulations, and internal policies.
- **Operational Efficiency:** Evaluating the efficiency and effectiveness of operations and recommending improvements to enhance performance.
- **Strategic Support:** Offering insights and recommendations that support the Council's priorities and help achieve long-term goals.
- **Continuous Improvement:** Promoting a culture of continuous improvement by identifying opportunities for process enhancements and innovation.

Critical success factors (CSFs) are specific elements or activities that are essential for the Internal Audit Service to achieve its purpose, mission, vision, and the primary strategic objectives of the Internal Audit Service. The key CSFs are identified as:

- **Management Support:** Strong backing from senior management ensures that the internal audit function has the necessary resources, authority, and visibility to perform its duties effectively.
- **Independence and Objectivity:** Maintaining independence from the areas being audited and ensuring objectivity in reporting findings are crucial for the credibility and reliability of the Internal Audit Service.
- **Resources/Skilled and Competent Staff:** Having a team of well-trained, knowledgeable, and skilled auditors is essential for conducting thorough and effective audits.
- **Effective Communication and Collaboration:** Clear and consistent communication with stakeholders, including CLT and the Audit Committee,

helps in understanding expectations and ensuring that audit findings are acted upon. Collaborating with professional bodies and other public sector internal audit bodies is key to ensuring that the Internal Audit Service stays attuned to internal audit practice.

- **Risk-Based Approach:** Focusing on areas of highest risk to the Council ensures that audit resources are used efficiently and that the most critical issues are addressed.
- **Continuous Improvement:** Regularly updating audit methodologies and practices to incorporate new technologies and respond to changing risks helps maintain the relevance and effectiveness of the Internal Audit Service.
- **Alignment with Organisational Goals:** Ensuring that the internal audit activities are aligned with the objectives and priorities of the Council helps in providing valuable insights and recommendations that support overall aims.

4. Supporting Initiatives

Considering the operational framework of the Internal Audit Service within the Council, the evaluation against the GIAS in the UK Public Sector, and the insights derived from the aforementioned steps, three key areas have been identified for improvement to better achieve the Service's Critical Success Factors (CSFs). These areas are specifically highlighted under the weaknesses, opportunities, and threats in the SWOT analysis.

5. Stakeholder Engagement

The Internal Audit Service has various stakeholders. The main internal stakeholders are the Corporate Leadership Team and the Audit and Governance Committee. The Director of Resources (S151) (part of the Corporate Leadership Team) has the responsibility, through S151 and statutory duties, to ensure there is an adequate and effective system of internal audit. Other internal stakeholders are senior management and other providers of assurance, as well as the Internal Audit Team itself.

External stakeholders are mainly the Professional Bodies (CIPFA and IIA), External Auditor (Azets), and Government Bodies who require the Internal Audit Service to carry out specific pieces of work, predominately grant returns.

ANALYSIS OF STAKEHOLDER EXPECTATIONS

Appendix A

	Stakeholder	Influence	Interest	Internal Audit Action	Frequency of Communication	Stakeholder Expectations
External Stakeholders	External Auditor	Medium	Medium	Keep Satisfied	As required	<ul style="list-style-type: none"> Provide support and co-ordination.
	Government Bodies	Medium	Medium	Keep Satisfied	As required	<ul style="list-style-type: none"> Deliver audit work to meet grant determinations/ other specifications.
	Professional Bodies	High	Low	Keep Satisfied	As required	<ul style="list-style-type: none"> Compliance with GIAS in the UK Public Sector.
	The Public	Low	Low	Monitor	As required	<ul style="list-style-type: none"> Transparency of outcomes in Internal Audit.
Internal Stakeholders	Audit and Governance Committee	High	High	Manage Closely	TBA following review	<ul style="list-style-type: none"> Compliance with GIAS in the UK Public Sector. Help in achieving the A&G Committee responsibilities as stated in its Terms of Reference. Deliver audit work to help inform an overall opinion on the governance, risk, and control environment. Provide high quality, informative summarised reporting of key issues.
	Corporate Leadership Team	High	High	Manage Closely	Monthly	<ul style="list-style-type: none"> Help the A&G Committee to achieve its duties as stated in its Terms of Reference. Compliance with GIAS in the UK Public Sector Provide ongoing updates on the results of the Internal Audit work, status of management action plan implementations. Brief on key issues identified
	Director of Resources (S151)	High	High	Manage Closely	Three weekly	<ul style="list-style-type: none"> Help in achieving S151 responsibilities and statutory duties Ensuring “an adequate and effective system of internal audit”
	Senior Management	Medium	High	Keep Informed	As required	<ul style="list-style-type: none"> Provide business acumen Provide added value to services.
	Providers of Assurance	Medium	Medium	Keep Informed	Various	<ul style="list-style-type: none"> Share knowledge, advice and updates on the internal control environment.
	Internal Audit Team	High	High	Monitor Closely	Daily	<ul style="list-style-type: none"> Keep the Internal Audit Team motivated. Provide ongoing training and career development.

Stakeholder Expectations Analysis

Influence is the level of power or authority a stakeholder has over the internal audit function's strategic direction, resources, and decision-making.

- High influence: The stakeholder has significant power to impact the internal audit function's strategy, resources, and key decisions.
- Medium influence: The stakeholder has moderate power to influence the internal audit function's direction and decisions.
- Low influence: The stakeholder has minimal power to affect the internal audit function's strategy and decision-making.

Interest is the level of interest a stakeholder has in the internal audit function's activities and outcomes.

- High interest: The stakeholder is actively involved and highly concerned about the internal audit function's performance and results.
- Medium interest: The stakeholder has a moderate level of interest in the internal audit function's activities and outcomes.
- Low interest: The stakeholder has minimal interest in the internal audit function's day-to-day operations and results.

Internal Audit Action

- Manage Closely: High interest and high influence stakeholders require close collaboration, regular communication (e.g., monthly), and active involvement in the internal audit function's strategic planning and decision-making processes.
- Keep Satisfied: High influence but low interest stakeholders should be kept satisfied with the internal audit function's performance and outcomes. Provide them with regular updates and address their concerns promptly.
- Keep Informed: High interest but low influence stakeholders should be kept informed about the internal audit function's activities, and achievements. Provide them with timely and relevant information to maintain their engagement and support.
- Monitor: Low interest and low influence stakeholders require minimal engagement. Monitor their interest and influence levels and provide them with general information as needed.

Strengths, Weaknesses, Opportunities and Threats (SWOT) analysis 2025/26

Strengths

Providing audit expertise and public sector knowledge
 Being independent
 Providing innovative planning process provides flexibility
 Seeking efficiencies
 Reading the current climate / getting the balance right
 Sharing best practice (collaboration)
 GIAS in the UK Public Sector compliance helps create efficiencies

Weaknesses

Having a low profile/ misconception of role
 Being kept informed of organisational developments/ issues
 Accessing services
 Being impacted by resource and budget constraints
 Accessing data
 Being competent in the effective use of data analytical tools/ artificial intelligence

Opportunities

Benefiting from digital transformation
 Improving collaboration
 Providing awareness of GIAS in the UK Public Sector to Corporate Leadership Team and Audit and Governance Committee
 Opportunities for training and development
 Emerging devolution/ Local Government Reorganisation agenda

Threats

Current public sector and local landscape could make auditing more difficult
 Increasing demand on Internal Audit Service impacts on ability to undertake enough audit coverage to provide a meaningful year-end opinion/ non-compliance with GIAS in the UK Public Sector
 Undertaking reactive fraud investigations impacts on internal audit resource
 Budget constraints
 Increasing risk of tolerance and less action taken as a result of audit findings

Initiatives to support the achievement of the Critical Success Factors.

Critical Success Factor Area: Management Support			
CSF 1: Strong backing from senior management ensures that the internal audit function has the necessary resources, authority, and visibility to perform its duties effectively.			
The Internal Audit Service aims to secure support from senior management and the Audit Committee to facilitate its efficient and effective operation.			
Initiatives <ul style="list-style-type: none"> Internal Audit Manager to provide Corporate Leadership Team with an overview of the GIAS in the UK Public Sector, in particular Domain 3 and the underpinning documentation for 2025/26 (i.e. Charter / Mandate / Strategy). Time Frame: July 2025 Internal Audit Manager to provide relevant training to the Audit & Governance Committee, as identified in the skills and knowledge questionnaires. Time Frame: March 2026 Internal Audit Manager to present annual Internal Audit Report and Opinion to the Corporate Leadership Team in advance of reporting to the Audit and Governance Committee. Time Frame: July 2025 Develop Internal Audit intranet page. Time Frame: July 2025 Optimise working together with other risk and control monitoring functions. Time Frame: March 2026 Undertake External Quality Assessment against the requirements of the GIAS in the UK Public Sector to include senior management and Audit Committee members. Time Frame: October 2025 	SWOT Mapping	Strengths <ul style="list-style-type: none"> Independence 	Weaknesses <ul style="list-style-type: none"> Access to data and services
		Opportunities <ul style="list-style-type: none"> GIAS in the UK Public Sector awareness to Corporate Leadership Team and Audit and Governance Committee 	Threats <p>Current public sector and local landscape could make auditing more difficult.</p> <p>Less action taken as a result of audit findings (greater risk tolerance)</p> <p>Resource and budget constraints within the Internal Audit Service.</p>

Critical Success Factor Area: Resources/ Skilled and Competent Staff

CSF2: Having a team of well-trained, knowledgeable, and skilled auditors is essential for conducting thorough and effective audits

The Internal Audit Service aims to ensure that its auditors are thoroughly trained, knowledgeable, and proficient, thereby maintaining a robust and comprehensive skills-mix within the Service.

<p>Initiatives</p> <ul style="list-style-type: none"> Internal Audit manager to report annually to the Audit and Governance Committee on Internal Audit resource levels and any implications. Time Frame: September 2025 Internal Audit staff to complete an annual assessment of skills (via Audit Skills Matrix). Internal Audit Manager to assess skills and determine training and development needs. Time Frame: September 2025 (initial self-assessment) November 2025 (review/ ensure skills mix exists/ identify team/ individual training and development needs to feed into PDR process). Basic data analytics training for Internal Audit staff Time Frame: March 2026 	<p>SWOT Mapping</p>	<p>Strengths</p> <ul style="list-style-type: none"> Expertise and knowledge Planning process provides flexibility GIAS in the UK Public Sector compliance helps create efficiencies 	<p>Weaknesses</p> <ul style="list-style-type: none"> Resource Constraints ICT auditing skills gap
		<p>Opportunities</p> <ul style="list-style-type: none"> Skills gap analysis has identified areas for training and development 	<p>Threats</p> <ul style="list-style-type: none"> Ability to provide a meaningful opinion as demand on services increases Reactive fraud demand impacts on internal audit resource Budget constraints in relation to keeping audit staff up to date in current auditing practices. Suitably trained and competent staff not available to undertake the roles required.

Critical Success Factor Area: Continuous Improvement

CSF 3: Regularly updating audit methodologies and practices to incorporate new technologies and respond to changing risks helps maintain the relevance and effectiveness of the Internal Audit Service.

The Internal Audit Service seeks to grow understanding and development of related technologies to improve the efficiency and effectiveness of the Service.

<div>64</div> <div>Initiatives</div> <ul style="list-style-type: none">Invest time in utilising artificial intelligence/ analytics tools Time Frame: March 2026Consider data requirements and availability in the audit planning stage Time Frame: April 2025Begin to incorporate analytics into fieldwork and testing. Time Frame: December 2025Enhance root cause analysis Time Frame: March 2026Support innovation within the Internal Audit Service to continuously improve Time Frame: March 2028	SWOT Mapping	Strengths <ul style="list-style-type: none">Innovative and seeking efficiencies	Weaknesses <ul style="list-style-type: none">Competence in effective use of data analytical tools/ AI
		Opportunities <ul style="list-style-type: none">Digital transformationEnhanced collaborationDevolution/ LGR	Threats <ul style="list-style-type: none">Efficiencies will not materialise.AI is not used appropriately both with the Internal Audit Service and across the Council.

Performance Objectives

Objective	Measurement
Compliance with Global Internal Audit Standards in the UK Public Sector	For 2025/26, measurement will be achieved via internal processes (see separate indicator), and full assessment by external independent assessor.
Quality assurance reviews confirm that adequate competencies are in place to comply with the Internal Audit Standards.	Completion of planned QAIP audits and all actions arising are implemented.
Customers / clients are satisfied with the Internal Audit experience.	Achieve minimum 95% customer satisfaction with audit from customer surveys.
To ensure audit coverage is sufficient to enable the Audit Manager to provide a year-end opinion on the governance, risk and control environment.	There is enough supporting evidence to enable the Audit Manager to provide a year-end opinion (via direct internal audit work and / or via other assurance providers).
To provide an efficient and compliant audit service	Fieldwork is completed within two months of the start date.
	Management Debriefs are scheduled within two weeks of field work being completed.
	*Management Responses are received within two weeks of the debrief meeting.
	Draft audit reports are issued within one week of receipt of full management responses
	Final audit reports are issued within one week of draft audit reports.
Agreed actions are completed and result in the desired outcomes.	*, **75% of agreed actions are subsequently signed off as implemented within the agreed time scale. This will increase to 85% in 2026/27 and 100% in 2027/28.
To implement Critical Success Factor actions, as outlined in the Internal Audit Strategy.	Completion of Critical Success Factor action plan.

**This measure is not exclusively a reflection on the Internal Audit Service's performance.*

***Whilst Internal Audit will track the implementation of agreed actions, management is responsible for completing the actions and ensuring that desired outcomes are achieved.*

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NORTH WEST LEICESTERSHIRE DISTRICT COUNCIL

AUDIT AND GOVERNANCE COMMITTEE – WEDNESDAY, 4
JUNE 2025

Title of Report	STATEMENT OF ACCOUNTS 2023/24 UPDATE	
Presented by	Anna Crouch Head of Finance	
Background Papers	Statement of Accounts Update - Council 5 November 2024 Statement of Accounts Update - Council 22 February 2024 Statement of Accounts - Audit and Governance Committee 5 February 2025	Public Report: Yes
Financial Implications	There are no financial implications arising from this report.	
	Signed off by the Section 151 Officer: yes	
Legal Implications	The Accounts and Audit Regulations 2015, along with their subsequent amendments, set out detailed requirements for the preparation, approval, and publication of financial statements by local authorities and other relevant bodies in England.	
	Signed off by the Monitoring Officer: yes	
Staffing and Corporate Implications	There are no staffing or corporate implications arising from this report.	
	Signed off by the Head of Paid Service: yes	
Purpose of Report	To provide the Committee with an update in respect of the Council's Statement of Accounts 2023/24.	
Recommendations	THAT AUDIT AND GOVERNANCE COMMITTEE: 1) NOTES THE UPDATE ON THE COUNCIL'S STATEMENT OF ACCOUNTS FOR 2023/24. 2) RECOGNISES AND ENDORSES THE STEPS BEING TAKEN BY THE DIRECTOR OF RESOURCES TO RESOLVE THE DELAYS TO THE PUBLICATION OF THESE ACCOUNTS.	

1.0 BACKGROUND

- 1.1 Reports were considered by Council on 22 February 2024 and 5 November 2024, and Audit and Governance Committee on 5 February 2025, which provided details of the Government's proposals for addressing the audit backlog, as well as outlining the Council's position in respect of its Statement of Accounts. Additionally, the Director of Resources provided a verbal update to this Committee on 23 April 2025. At that meeting, Members of the Committee requested that the Director of Resources provide a written update.
- 1.2 In the February 2025 report to this Committee, it noted that the Council had informed the Ministry for Housing, Communities and Local Government that it would not be able to meet the backstop date of 28 February 2025 for publishing the Statement of Accounts for 2023/24.
- 1.3 Regulation 9A (6) of the Accounts and Audit Regulations 2015, as recently amended, sets out the requirements for any (non-exempt) body that does not comply with a backstop date. These requirements include publishing an explanation, sending a copy of this to the Secretary of State and publishing audited accounts as soon as practicable. The Government intends to publish a list of bodies and auditors that do not meet the backstop dates, which will make clear where unaudited (draft) accounts have also not been published.
- 1.4 On 2 May 2025, a letter was received from the Ministry of Housing, Communities and Local Government (MHCLG) confirming its intention to publish a list of bodies, in May 2025, that did not publish audited 2023/24 accounts by 28 February 2025. A copy of this letter is attached at Appendix One.
- 1.5 The Council has published the reasons on its website setting out why it has been unable to publish its accounts, in compliance with current regulations.

2.0 ADDRESSING THE BACKLOG

- 2.1 In previous reports, the Council has set out the reasons for being unable to publish timely accounts which include the challenges of implementing a new finance system and recruitment and retention to key posts within the finance team.
- 2.2 In response to these challenges, the Council has implemented several measures to ensure the timely publication of its Statement of Accounts. In March 2025, the Council enlisted the expertise of the Chartered Institute of Public Finance and Accountancy (CIPFA). The primary focus has been on reviewing and enhancing systems and processes within the Exchequer function. CIPFA colleagues have collaborated with Council staff and partners to address ongoing issues with the finance system. Additionally, they have assisted in developing job descriptions for key positions, which are currently being advertised.
- 2.3 There has been a significant focus on the bank reconciliation process, particularly because the new finance system has not been able to automate this task since its implementation. This has necessitated a thorough review and manual intervention to ensure accuracy and timeliness in reconciling transactions. The Council, with the assistance of CIPFA, is working diligently to address these issues and streamline the reconciliation process.
- 2.4 Additionally, the Council has engaged with the finance system implementation partner, Embridge, to address several long-standing issues. The focus has been on three key

priorities: automating the bank reconciliation process, resolving direct debit issues, and ensuring the automated invoice processing system is fully functional. Both parties are committed to prioritising these matters, although progress has been hampered by persistent system bugs.

- 2.5 To manage and monitor these efforts, a project board has been established. Furthermore, an additional third party with expertise in Unit 4 has been brought in to work alongside Embridge. The Council has also appointed a temporary project manager to oversee these enhancements. Several other third-party finance systems, which integrate with the main finance system, are also under review. These systems are crucial for various functions, such as enabling customers to make payments by debit or credit card.
- 2.6 Furthermore, due to the Council's challenges in recruiting for key positions and advancing the closedown process swiftly, third-party support has been enlisted to assist with critical reconciliations. An agreement is currently being finalised, and the Head of Finance will provide a verbal update at the meeting.
- 2.7 The Council remains in close communication with its external auditors, Azets. During a meeting in May, an indicative timetable for the publication of the Statement of Accounts for 2023/24 and 2024/25 was agreed upon, with the dates set for August 2025 and November 2025, respectively, subject to agreement from Azets.

Policies and other considerations, as appropriate	
Council Priorities:	- A Well-Run Council
Policy Considerations:	None.
Safeguarding:	None.
Equalities/Diversity:	None.
Customer Impact:	None.
Economic and Social Impact:	None.
Environment, Climate Change and Zero Carbon	None.
Consultation/Community/Tenant Engagement:	The Council has responded to Government consultations in respect of backstop dates and the recent consultation in respect of the Government's Local Audit Strategy.
Risks:	<ul style="list-style-type: none"> - Loss of public trust and confidence in the Council's financial management and governance. - Reduced transparency and accountability to the Council's stakeholders, including taxpayers, service users, creditors, grant providers and regulators. - Increased scrutiny and intervention from external bodies, such as the Department for Levelling Up, Housing and Communities and Local Government, the National Audit Office, the Local Government Association and the Public Sector Audit

	<p>Appointments.</p> <ul style="list-style-type: none"> - Potential legal challenges or claims from aggrieved parties who may rely on the accuracy and timeliness of the financial information in the Statement of Accounts. - Additional costs and resources required to resolve the audit issues and complete the audit process.
Officer Contact	<p>Paul Stone Director of Resources paul.stone@nwleicestershire.gov.uk</p>



Ministry of Housing,
Communities &
Local Government

Rosie Seymour
*Deputy Director, Local Audit
Reform*
2 Marsham Street
London SW1P 4DF

To Chief Executives, Chief
Financial Officers, Local Authority
Leaders and Audit Committee Chairs

2 May 2025

Dear colleagues,

PUBLICATION OF AUDITED ACCOUNTS FOR FINANCIAL YEAR 2023/24

I am writing to your authority and a number of others regarding the government's measures to tackle the local audit backlog. My understanding is that your body did not publish its audited accounts for 2023/24 by the statutory backstop date of 28 February 2025.

To comply with a backstop, the [Accounts and Audit Regulations 2015](#), as amended, require bodies to publish audited accounts, which includes publication on their website (specifically, their accountability statements, defined in regulation 9A(9), which includes the audit opinion) by statutory backstop dates. For 2023/24, these had to be published on or by 28 February 2025.

The only circumstances in which bodies may be exempt from meeting a backstop are outlined in regulation 9A (4)-(5) of the 2015 Regulations. Non-exempt bodies that miss a backstop must publish an explanation and send it to the Secretary of State (via localaudit@communities.gov.uk) promptly after the backstop date and publish audited accounts as soon as practicable. If your authority has not yet published its explanation for the late publication or sent this to the Secretary of State, I would be grateful if you could do so as soon as practicable.

As with the [13 December 2024 backstop](#) for financial years up to and including 2022/23, the government will shortly publish a list of bodies and their auditors that did not publish audited 2023/24 accounts by the 28 February 2025. Our intention is to publish this in May, once local elections in England have concluded. The list will make clear where unaudited accounts were not published by 16 January 2025 (the deadline to enable the public inspection period to conclude by 27 February 2025) and whether bodies have subsequently published their audited accounts. As your body did not publish its audited accounts in time, it will be included on this list.

I understand that aspects of the measures to clear the local audit backlog are uncomfortable, particularly the issue of modified or disclaimed opinions and the subsequent need to rebuild audit assurance. The department [recently announced](#) funding of up to £49 million to help councils to clear their backlogs and cover the additional cost of restoring audit assurance. The release of funds to councils will be reliant on compliance with statutory backstops and linked to the publication of audited accounts and audit fees being paid.

Timely publication of draft and audited accounts is crucial to preventing backlogs from reemerging, supporting auditors with the timely rebuilding of assurance, and providing transparency for taxpayers. The next backstop, for financial year 2024/25, is 27 February 2026. If you anticipate any issues meeting this backstop, following engagement with your auditors, please contact the department (localaudit@communities.gov.uk) at the earliest opportunity.

Finally, if you believe that this letter has been sent to your authority in error, and you believe that you did publish your audited accounts on or by 28 February 2025, I would be grateful if you could supply evidence of this by 16 May 2025 to localaudit@communities.gov.uk.

Yours sincerely,

Rosie Seymour
Deputy Director, Local Audit Reform

NORTH WEST LEICESTERSHIRE DISTRICT COUNCIL

AUDIT AND GOVERNANCE COMMITTEE – WEDNESDAY, 4 JUNE 2025



Title of Report	TREASURY MANAGEMENT STEWARDSHIP REPORT 2024/25	
Presented by	Anna Crouch Head of Finance	
Background Papers	Council 22 February 2024 Capital Strategy, Treasury Management Strategy and Prudential Indicators Audit and Governance Committee 5 February 2025 Treasury Management Update Report – Quarter 3	Public Report: Yes
Financial Implications	There are no financial implications as a direct result of this report.	
	Signed off by the Section 151 Officer: yes	
Legal Implications	There are no legal implications as a direct result of this report.	
	Signed off by the Monitoring Officer: yes	
Staffing and Corporate Implications	There are no staffing or corporate implications as a direct result of this report.	
	Signed off by the Head of Paid Service: yes	
Purpose of Report	For the Committee to consider the draft Treasury Management Stewardship Report 2024/25 before consideration by Cabinet in June 2025.	
Recommendations	THAT THE AUDIT AND GOVERNANCE COMMITTEE NOTES THE DRAFT TREASURY MANAGEMENT STEWARDSHIP REPORT AND PROVIDES ANY COMMENTS FOR CONSIDERATION BY CABINET AT ITS MEETING ON 24 JUNE 2025.	

1.0 BACKGROUND

- 1.1 Treasury Management activity is underpinned by the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice (the CIPFA Code), which requires local authorities to produce Prudential Indicators and a Treasury Management Strategy Statement annually on the likely financing and investment activity. The Prudential Indicators and Treasury Strategies were approved by Council on the 22 February 2024.

- 1.2 As a minimum, the CIPFA Code also requires that the Council reports on the performance of the Treasury Management function at least twice yearly (mid-year and at year end). The year-end report and the fourth to be presented in relation to 2024/25 is attached at Appendix A. The report is designed to inform Members of the Council's treasury activity and enable scrutiny of activity and performance.
- 1.3 The Audit and Governance Committee are being asked to note the draft Treasury Management Stewardship Report (Appendix A) and provide any comments for consideration by Cabinet at its meeting on the 24 June 2025.

2.0 SUMMARY

- 2.1 In compliance with the requirements of the CIPFA code of practice, Appendix A provides Members with a summary report of the Treasury Management activity for the period April 2024 to March 2025. A prudent approach has been taken in relation to investment activity with priority being given to security and liquidity over yield.
- 2.2 For the reporting period, there has been no breaches of Treasury Management Strategy Statement that need bringing to the attention of the Committee.

Policies and other considerations, as appropriate	
Council Priorities:	A Well-Run Council
Policy Considerations:	Not applicable
Safeguarding:	Not applicable
Equalities/Diversity:	Not applicable
Customer Impact:	Not applicable
Economic and Social Impact:	Not applicable
Environment, Climate Change and Zero Carbon	Not applicable
Consultation/Community/Tenant 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 Crouch Head of Finance anna.crouch@nwleicestershire.gov.uk

Treasury Management Stewardship Report 2024/25

1. Introduction

- 1.1 The Council has adopted the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice (the CIPFA Code) which requires the Council to approve treasury management semi-annual and annual reports.
- 1.2 The Council goes beyond this requirement by issuing quarterly reports which provide additional updates and include the new requirement in the 2021 Code, mandatory from 1 April 2023, of quarterly reporting of the treasury management prudential indicators.
- 1.3 This report is the annual review of the financial year 2024/25.
- 1.4 The Council's treasury management strategy for 2024/25 was approved at the Council meeting on 22 February 2024. The Council has invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk remains central to the Council's treasury management strategy.

2. External Context (provided by Arlingclose)

- 2.1 **Economic background:** Both the United Kingdom (UK) and United States (US) elected new governments during the period, whose policy decisions impacted on the economic outlook. The Chancellor of the Exchequer delivered her Spring Statement in March 2025, following her Budget in October 2024. Based on the plans announced, the Office for Budget Responsibility downgraded its predictions for UK growth in 2025 to 1% from 2%. However, it upgraded its predictions for the four subsequent years. Inflation predictions for 2025 were pushed up, to 3.2% from 2.6%, before seen as falling back to target in 2027. The market reaction to the Spring Statement was more muted compared to the Budget, with very recent market turbulence being driven more by US trade policy decisions and President Trump.
- 2.2 After revising its interest rate forecast in November following the Budget, the council's treasury management advisor, Arlingclose, maintained its stance that Bank Rate will fall to 3.75% in 2025.
- 2.3 UK annual Consumer Price Index (CPI) inflation continued to stay above the 2% Bank of England (BoE) target in the later part of the period. The Office for National Statistics (ONS) reported headline consumer prices at 2.8% in February 2025, down from 3.0% in the previous month and below expectations. Core CPI also remained elevated, falling slightly in February to 3.5% from 3.7% in January, just below expectations for 3.6% but higher than the last three months of the calendar year.
- 2.4 The UK economy Gross Domestic Product (GDP) grew by 0.1% between October and December 2024, unrevised from the initial estimate. This was an improvement on the zero growth in the previous quarter, but down from the 0.4% growth between April and June 2024. Of the monthly GDP figures, the economy was estimated to have contracted by 0.1% in January, worse than expectations for a 0.1% gain.
- 2.5 The labour market continued to cool, but the ONS data still require treating with caution. Recent data showed the unemployment rate rose to 4.4% (3mth/year) in the three months to January 2025 while the economic inactivity rate fell again to 21.5%.

The ONS reported pay growth over the same three-month period at 5.9% for regular earnings (excluding bonuses) and 5.8% for total earnings.

- 2.6 The BoE's Monetary Policy Committee (MPC) held Bank Rate at 4.5% at its March 2025 meeting, having reduced it in February. This follows earlier 0.25% cuts in November and August 2024 from the 5.25% peak. At the March MPC meeting, members voted 8-1 to maintain Bank Rate at 4.5%, with the lone dissenter preferring another 25 basis points cut. The meeting minutes implied a slightly more hawkish tilt compared to February when two MPC members wanted a 50bps cut. In the minutes, the Bank also upgraded its Q1 2025 GDP forecast to around 0.25% from the previous estimate of 0.1%.
- 2.7 The February Monetary Policy Report (MPR) showed the BoE expected GDP growth in 2025 to be significantly weaker compared to the November MPR. GDP is forecast to rise by 0.1% in Q1 2025, less than the previous estimate of 0.4%. Four-quarter GDP growth is expected to pick up from the middle of 2025, to over 1.5% by the end of the forecast period. The outlook for CPI inflation showed it remaining above the MPC's 2% target throughout 2025. It is expected to hit around 3.5% by June before peaking at 3.7% in Q3 and then easing towards the end of the year but staying above the 2% target. The unemployment rate was expected to rise steadily to around 4.75% by the end of the forecast horizon, above the assumed medium-term equilibrium unemployment rate of 4.5%.
- 2.8 Arlingclose, the Council's treasury adviser, maintained its central view that Bank Rate would continue to fall throughout 2025. From the cuts in August and November 2024 and February 2025, which took Bank Rate to 4.50%, May is considered the likely month for the next reduction, with other cuts following in line with MPR months to take Bank Rate down to around 3.75% by the end of 2025.
- 2.9 The US Federal Reserve paused its cutting cycle in the first three months of 2025, having reduced the Fed Funds Rate by 0.25% to a range of 4.25%-4.50% in December, the third cut in succession. Fed policymakers noted uncertainty around the economic outlook but were anticipating around 0.50% of further cuts in the policy rate in 2025. Economic growth continued to rise at a reasonable pace, expanding at an annualised rate of 2.4% in Q4 2024 while inflation remained elevated over the period. However, growth is now expected to weaken by more than previously expected in 2025, to 1.7% from 2.1%. The uncertainty that President Trump has brought both before and since his inauguration in January is expected to continue.
- 2.10 The European Central Bank (ECB) continued its rate cutting cycle over the period, reducing its three key policy rates by another 0.25% in March, acknowledging that monetary policy is becoming meaningfully less restrictive. Euro zone inflation has decreased steadily in 2025, falling to 2.2% in March, the lowest level since November 2024. Over the current calendar year, inflation is expected to average 2.3%. GDP growth stagnated in the last quarter of the 2024 calendar year, after expanding by 0.4% in the previous quarter. For 2025, economic growth forecasts were revised downwards to 0.9%.
- 2.11 **Financial markets:** Financial market sentiment was reasonably positive over most of the period, but economic, financial and geopolitical issues meant the trend of market volatility remained. In the latter part of the period, volatility increased, and bond yields started to fall following a January peak, as the economic uncertainty around likely US trade policy impacted financial markets. Yields in the UK and US started to diverge in the last month of the period, with the former rising around concerns over the fiscal implications on the UK government from weaker growth, business sentiment and

higher rates, while the latter started falling on potential recession fears due to the unpredictable nature of policy announcements by the US President and their potential impact.

- 2.12 The 10-year UK benchmark gilt yield started the period at 3.94% and ended at 4.69%, having reached a low of 3.76% in September and a high of 4.90% in January in between. While the 20-year gilt started at 4.40% and ended at 5.22%, hitting a low of 4.27% in September and a high of 5.40% in January. The Sterling Overnight Rate (SONIA) averaged 4.90% over the period.
- 2.13 *The period in question ended shortly before US President Donald Trump announced his package of 'reciprocal tariffs', the immediate aftermath of which saw stock prices and government bond yields falling and introduced further uncertainty over the economic outlook.*
- 2.14 **Credit review:** In October, Arlingclose revised its advised recommended maximum unsecured duration limit on most banks on its counterparty list to six months. Duration advice for the remaining five institutions, including the newly added Lloyds Bank Corporate Markets, was kept to a maximum of 100 days. This advice remained in place at the end of the period.
- 2.15 Fitch revised the outlook on Commonwealth Bank of Australia (CBA) to positive from stable while affirming its long-term rating at AA-, citing its consistent strong earnings and profitability.
- 2.16 Other than CBA, the last three months of the period were relatively quiet on the bank credit rating front, with a small number of updates issued for a number of lenders not on the Arlingclose recommended counterparty list.
- 2.17 On local authorities, S&P assigned a BBB+ to Warrington Council, having previously withdrawn its rating earlier in 2024, and withdrew its rating for Lancashire County Council due to the council deciding to stop maintaining a credit rating. However, it still holds a rating with Fitch and Moody's. Moody's withdrew its rating of Cornwall Council after it chose to no longer maintain a rating.
- 2.18 Credit default swap prices generally trended lower over the period but did start to rise modestly in March, but not to any levels considered concerning. Once again, **price volatility over the** period remained generally more muted compared to previous periods.
- 2.19 Financial market volatility is expected to remain a feature, at least in the near term and, credit default swap levels will be monitored for signs of ongoing credit stress. As ever, the institutions and durations on the Council's counterparty list recommended by Arlingclose remain under constant review.

3. Local Context

- 3.1 On 31 March 2025, the Council had net borrowing of £25.6m arising from its revenue and capital income and expenditure. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. These factors are summarised in Table 1 below.

Table 1: Balance Sheet Summary

	31.03.24 Estimated £m	31.03.25 Estimated £m
General Fund CFR	36.03	34.83
HRA CFR	52.15	54.72
Total CFR	88.18	89.55
External borrowing	56.34	55.08
Internal borrowing	31.84	34.47
Total Borrowing	88.18	89.55

- 3.2 The treasury management position on 31 March 2025 and the change over the twelve months is shown in Table 2 below.

Table 2: Treasury Management Summary

	31.03.24 Balance £m	Movement £m	31.03.25 Balance £m	31.03.25 Rate %
Long-term borrowing	55.1	-1.3	53.8	3.52%
Short-term borrowing	1.3	-0.0	1.3	2.25%
Total borrowing	56.4	-1.3	55.1	3.49%
Long-term investments	0.0	0.0	0.0	0.00%
Short-term investments	25.0	-15.0	10.0	5.70%
Cash and cash equivalents	5.0	14.5	19.5	4.51%
Total investments	30.0	-0.5	29.5	4.91%
Net borrowing	26.4	-0.8	25.6	

4. Borrowing

- 4.1 CIPFA's 2021 Prudential Code is clear that local authorities must not borrow to invest primarily for financial return and that it is not prudent for local authorities to make any investment or spending decision that will increase the capital financing requirement, and so may lead to new borrowing, unless directly and primarily related to the functions of the Council.
- 4.2 Public Works Loan Board (PWLB) loans are no longer available to local authorities planning to buy investment assets primarily for yield and the Council intends to avoid this activity to retain its access to PWLB loans.
- 4.3 The Council currently holds circa £9m in commercial investments that were purchased prior to the change in the CIPFA Prudential Code. These commercial investments are primarily for local regeneration and growth with a secondary objective of financial return. Before undertaking further additional borrowing the Council will review the options for exiting these investments.
- 4.4 As shown in table 1 the Council has internally borrowed £34.41m on 31 March 2025. This internal borrowing foregoes a potential interest income rate of 4.91%. Current one-year external borrowing rates with the PWLB (Certainty Rate) are 4.82% as of 31 March 2025. An additional rate for HRA specific borrowing has been implemented from June 2023 which is 0.4% lower than standard PWLB rates.

- 4.5 Whilst the current average interest rate is higher than the PWLB certainty rate, this is due mainly to two short-term investments at an average rate of 5.7%. Once these mature in August the average rate is likely to fall significantly. It is, therefore, appropriate to remain internally borrowed at this point.

5. Borrowing Strategy and Activity

- 5.1 As outlined in the treasury strategy, the Council's chief objective when borrowing has been to strike an appropriate risk balance between securing lower interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the Council's long-term plans change being a secondary objective. The Council's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio.
- 5.2 After substantial rises in interest rates since 2021, many central banks have now begun to reduce their policy rates, albeit slowly. Gilt yields were volatile but have increased overall during the period. Much of the increase has been in response to market concerns that policies introduced by the Labour government will be inflationary and lead to higher levels of government borrowing. The election of Donald Trump in the US in November is also expected to lead to inflationary trade policies.
- 5.3 The PWLB certainty rate for 10-year maturity loans was 4.80% at the beginning of the period and 5.42% at the end. The lowest available 10-year maturity rate was 4.52% and the highest was 5.71%. Rates for 20-year maturity loans ranged from 5.01% to 6.14% during the period, and 50-year maturity loans ranged from 4.87% to 5.87%.
- 5.4 Whilst the cost of short-term borrowing from other local authorities spiked to around 7% in late March 2024, primarily due a dearth of LA-LA lending/borrowing activity during that month, as expected shorter-term rates reverted to a more market-consistent range and were generally around 5.00% - 5.5%. Rising rates were seen towards the end of the period in the LA-LA market.
- 5.5 CIPFA's 2021 Prudential Code is clear that local authorities must not borrow to invest primarily for financial return and that it is not prudent for local authorities to make any investment or spending decision that will increase the capital financing requirement and so may lead to new borrowing, unless directly and primarily related to the functions of the Council. PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield unless these loans are for refinancing purposes. The Council has no new plans to borrow to invest primarily for financial return.
- 5.6 On 31 March 2025, the Council held £55.1m of loans, there has been a decrease of £1.3m since 31 March 2024 due to principal repayments. A breakdown of outstanding loans is shown below in table 3.

Table 3: Borrowing Position

	31.03.24 Balance £m	Net Movement £m	31.03.25 Balance £m	31.03.25 Weighted Average Rate %	31.03.25 Weighted Average Maturity (years)
Public Works Loan Board	52.4	-1.3	51.1	3.40%	13.8
Banks (LOBO)	0.0	0.0	0.0	0.00%	0.0
Banks (fixed-term)	3.9	0.0	3.9	4.68%	2.1
Local authorities (long-term)	0.1	-0.0	0.1	0.04%	0.0
Local authorities (short-term)	0.0	0.0	0.0	0.00%	0.0
Total borrowing	56.4	-1.3	55.1	3.49%	15.9

- 5.7 There remains a strong argument for diversifying funding sources, particularly if rates can be achieved on alternatives which are below gilt yields + 0.80%. The Council will evaluate and pursue these lower cost solutions and opportunities with its advisor Arlingclose.

6. Treasury Investment Activity

- 6.1 CIPFA revised Treasury Management Code defines treasury management investments as those which arise from the Council's cash flows or treasury risk management activity that ultimately represents balances which need to be invested until the cash is required for use in the course of business.
- 6.2 The Council holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. During the year, the Council's investment balances have ranged between £26.27m and £48.95m due to timing differences between income and expenditure. The investment position is shown in table 4 below.

Table 4: Treasury Investment Position

	31.03.24 Balance £m	Net Movement £m	31.03.2025 Balance £m	31.03.2025 Income Return %	31.03.2025 Weighted Average Maturity days
Banks & building societies (unsecured)	0.0	0.0	0.0	0.00%	0.00
Government (incl. local authorities)	30.0	-20.0	10.0	5.70%	61.36
Money Market Funds	0.0	19.5	19.5	4.51%	0.66
Total investments	30.0	-0.5	29.5	4.91%	62.02

- 6.3 Both the CIPFA Code and government guidance require the Council to invest its funds prudently, and to have regard to the security and liquidity of its treasury investments before seeking the optimum rate of return, or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

- 6.4 As demonstrated by the liability benchmark in this report, the Council expects to be a long-term investor and treasury investments therefore include both short-term low risk instruments to manage day-to-day cash flows and longer-term instruments where limited additional risk is accepted in return for higher investment income to support local public services.
- 6.5 Bank Rate reduced from 5.25% to 5.00% in August 2024 and again to 4.75% in November 2024 with short term interest rates largely being around these levels. The rates on Debt Management Account Deposit Facility (DMADF), ranged between 5.19% and 4.45% and money market rates between 5.24% and 4.42%. All rates reduced gradually through the financial year.
- 6.6 The progression of risk and return metrics are shown in the extracts from Arlingclose's quarterly investment benchmarking in Table 5 below. It should be noted that during the final quarter of last year the Council Investment rate of return was higher than its peers within the benchmarking group of 122 Local Authorities and 45 Non-Met District Authorities.

Table 5: Investment Benchmarking – Treasury investments managed in-house

	Credit Score	Credit Rating	Bail-in Exposure	Weighted Average Maturity (days)	Rate of Return %
31/03/2025	5.30	A+	66%	7	4.91%
Similar Las	4.79	A+	63%	12	4.77%
All Las	4.77	A+	64%	11	4.80%

- 6.7 In financial markets the April – January period was characterised by overall positive equity market performance, rising global yields and bond market volatility, central bank interest rate cuts and changing expectations of the path of future cuts. However, from February the markets were impacted by actions proposed by the US President, and the markets fell significantly, against a background of uncertainty and volatility.
- 6.8 The Council has budgeted £696,200 interest income from investments after deductions in 2024/25. The actual income received by 31 March 2025 was £1.54m.
- 6.9 Interest rates can and have been extremely volatile over the financial year and are likely to be similarly volatile in the upcoming months. Therefore, for the purpose of budget setting these forecasts are reduced by 20% to ensure that there is not an overreliance placed on interest return for creating a balanced budget.
- 6.10 The updated forecast of £1.54m will be split between the General Fund (GF) and Housing Revenue Account (HRA). This split will be 86.36% to the GF and 13.64% to HRA. The percentage split is worked using the investment balances for both funds throughout the year as a percentage of the overall investment fund. This is subject to finalisation.
- 6.11 Interest forecasts are notoriously difficult to predict and are subject to change particularly in an unstable interest rate environment and constantly changing economic environment.

7. Non-Treasury Investments

- 7.1 The definition of investments in CIPFA's revised 2021 Treasury Management Code covers all the financial assets of the Council as well as other non-financial assets which the Council holds primarily for financial return. Investments that do not meet the definition of treasury management investments (i.e. management of surplus cash) are categorised as either for service purposes (made explicitly to further service objectives) and/or for commercial purposes (made primarily for financial return).
- 7.2 Investment Guidance issued by the Ministry of Housing, Communities and Local Government (MHCLG) and Welsh Government also broadens the definition of investments to include all such assets held partially or wholly for financial return.
- 7.3 The Council held circa £9m of investments made for commercial purposes. This consisted entirely of directly owned property and land. A full list of the Council's non-treasury investments is available in the Investment Strategy 2024-25 document. These investments are forecast to generate £410,000 in investment income in 2024/25 for the Council after taking account of direct costs.
- 7.4 The main purpose of these investments is regeneration of the local area rather than investment income. All commercial investments are located within the district.

8. Treasury Performance

- 8.1 The Council measures the financial performance of its treasury management activities both in terms of its impact on the revenue budget and its relationship with benchmark interest rates.
- 8.2 Investment interest income during the reporting period was £1.91m before deductions. The Council's investment interest return percentage on 31 March 2025 was 4.91%. For comparison purposes the Daily Sterling Overnight Index Average (SONIA) which is used for benchmarking purposes was 4.45%. For similar local authorities the most recent benchmarking data, which is from 31 March 2025 showed an investment return of 4.80%. This is shown in Appendix 1.
- 8.3 Since the beginning of the reporting period the Council, as per forecast, has paid £1.95m interest on borrowing. The weighted average interest rate on borrowing is 3.49%. For comparison purposes the current PWLB Maturity Loan rate for new 10-year loans is 5.42%. Our average rate therefore represents a good rate of borrowing in the current environment.
- 8.4 During the reporting period the Council, as per forecast, has paid back £1.26m in principal on its PWLB loans. The £1.26m is for the annuity loans whereby regular payments are made throughout the lifetime of the loan. There is no intention to borrow to replace these loans as the Council currently has the resources to absorb this.
- 8.5 The Council was forecast to undertake new borrowing of £3.8m for the HRA in the 2024/25 financial year, however, none was required to be undertaken. There has therefore been an equal increase in the internal borrowing.

- 8.6 On 10 April 2024, amended legislation and revised statutory guidance were published on Minimum Revenue Provision (MRP). Most of the changes take effect from the 2025/26 financial year, although there is a requirement that for capital loans given on or after 7 May 2024 sufficient MRP must be charged so that the outstanding CFR in respect of the loan is no higher than the principal outstanding, less the Expected Credit Loss (ECL) charge for that loan. No capital loans have been given since May 2024.
- 8.7 The regulations also require that local authorities cannot exclude any amount of their CFR from their MRP calculation unless by an exception set out in law. Capital receipts cannot be used to directly replace, in whole or part, the prudent charge to revenue for MRP (there are specific exceptions for capital loans and leased assets).

9. Compliance

- 9.1 The S151 Officer reports that all treasury management activities undertaken during the year complied fully with the CIPFA Code of Practice.
- 9.2 Compliance with the Authorised Limit and Operational Boundary for external debt is demonstrated in table 6 below.

Table 6: Debt Limits

	2024/25 Maximum During Period £m	31.03.25 Actual £m	2024/25 Operational Boundary £m	2024/25 Authorised Limit £m	Complied?
Borrowing	60.3	55.1	99.2	110.2	YES

- 9.3 Since the operational boundary is a management tool for in-year monitoring it is not significant if the operational boundary is breached on occasions due to variations in cash flow, and this is not counted as a compliance failure. However, there were no days in the reporting period in which the operational boundary was breached.

Table 7: Investment Limits

	2024/25 Maximum During Period £m	31.03.25 Actual £m	2024/25 Limit £m	Complied?
The UK Government	22.0	0.0	Unlimited	YES
Local authorities & other government entities	11.0	10.0	60.0	YES
Secured investments	0.0	0.0	60.0	YES
Banks (unsecured)	0.0	0.0	60.0	YES
Building societies (unsecured)	0.0	0.0	5.0	YES
Registered providers (unsecured)	0.0	0.0	12.5	YES
Money market funds	25.0	19.5	60.0	YES
Strategic pooled funds	0.0	0.0	25.0	YES
Real estate investment trusts	0.0	0.0	12.5	YES
Other investments	0.0	0.0	2.5	YES
Totals	58.0	29.5		

10. Treasury Management Prudential Indicators

- 10.1 The Council measures and manages its exposures to treasury management risks using the following indicators.
- 10.2 **Security:** The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

Table 8: Security

	31.03.24 Actual	31.03.25 Actual	2024/25 Target	Complied?
Portfolio average credit rating	A+	A+	A-	YES

- 10.3 **Liquidity:** The Council has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling three-month period, without additional borrowing. Due to recent changes in Treasury Officers, a very prudent approach has been taken to cashflow forecasts.

Table 9: Liquidity

		31.03.25 Actual £m	2024/25 Target £m	Complied?
Total cash available within 3 months	90	19,500,000	2,500,000	YES

- 10.4 **Interest Rate Exposures:** This indicator is set to control the Council's exposure to interest rate risk. The upper limits on the one-year revenue impact of a 1% rise or fall in interests is shown in table 10.

Table 10: Interest Rate Exposures

Interest rate risk indicator	31.03.25 Actual	2024/25 Limit	Complied?
Upper limit on one-year revenue impact of a 1% <u>rise</u> in interest rates	243,424	600,000	YES
Upper limit on one-year revenue impact of a 1% <u>fall</u> in interest rates	-243,424	-600,000	YES

- 10.5 The impact of a change in interest rates is calculated on the assumption that maturing loans and investment will be replaced at current rates. Due to all Council investments maturing in year and the majority of Council borrowing maturing in later years this means that the Council would benefit from an increase in Interest rates (as investments are replaced with higher rates but not borrowing) but are negatively impacted by a decrease in interest rates for the same reason.

10.6 This is demonstrated in the above figures which show a positive return from an increase and a negative return from a decrease in interest rates. Both impacts are within reasonable limits for the revenue budget. The Council also takes further precautions by reducing its interest forecast by a risk-adjusted amount of 20% as discussed in paragraph 6.9.

10.7 For context, the changes in interest rates during the period were:

Table 11: Interest Rate Changes

Context - Interest Rate changes	31.3.24	31.03.25
Bank Rate	5.25%	4.75%
1-year PWLB certainty rate, maturity loans	5.36%	4.82%
5-year PWLB certainty rate, maturity loans	4.68%	4.97%
10-year PWLB certainty rate, maturity loans	4.74%	5.42%
20-year PWLB certainty rate, maturity loans	5.18%	5.91%
50-year PWLB certainty rate, maturity loans	5.01%	5.67%

10.8 **Maturity Structure of Borrowing:** This indicator is set to control the Council's exposure to refinancing risk. [This indicator covers the risk of replacement loans being unavailable, not interest rate risk.] The upper and lower limits on the maturity structure of all borrowing were:

Table 12: Maturity Structure of Debt

	31.03.25 Actual £m	31.03.25 Actual %	Lower Limit	Upper Limit	Complied ?
Under 12 months	1.3	1.16%	0.00%	70.00%	YES
12 months and within 24 months	1.3	2.32%	0.00%	30.00%	YES
24 months and within 5 years	1.8	4.44%	0.00%	30.00%	YES
5 years and within 10 years	1.3	3.31%	0.00%	30.00%	YES
10 years and within 20 years	43.8	78.57%	0.00%	90.00%	YES
20 years and above	5.7	10.21%	0.00%	30.00%	YES
Totals	55.1	100%			

10.9 Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

10.10 **Principal Sums Invested for Periods Longer than a year:** The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end were:

Table 13: Long Term Investments

	2024/25 £M	2025/26 £M	2026/27 £M	No Fixed Date
Actual principal invested beyond 365 days at year end	£0	£0	£0	£0
Limit on principal invested beyond 365 days at year end	£60m	£10m	£10m	£10m
Complied?	YES	YES	YES	YES

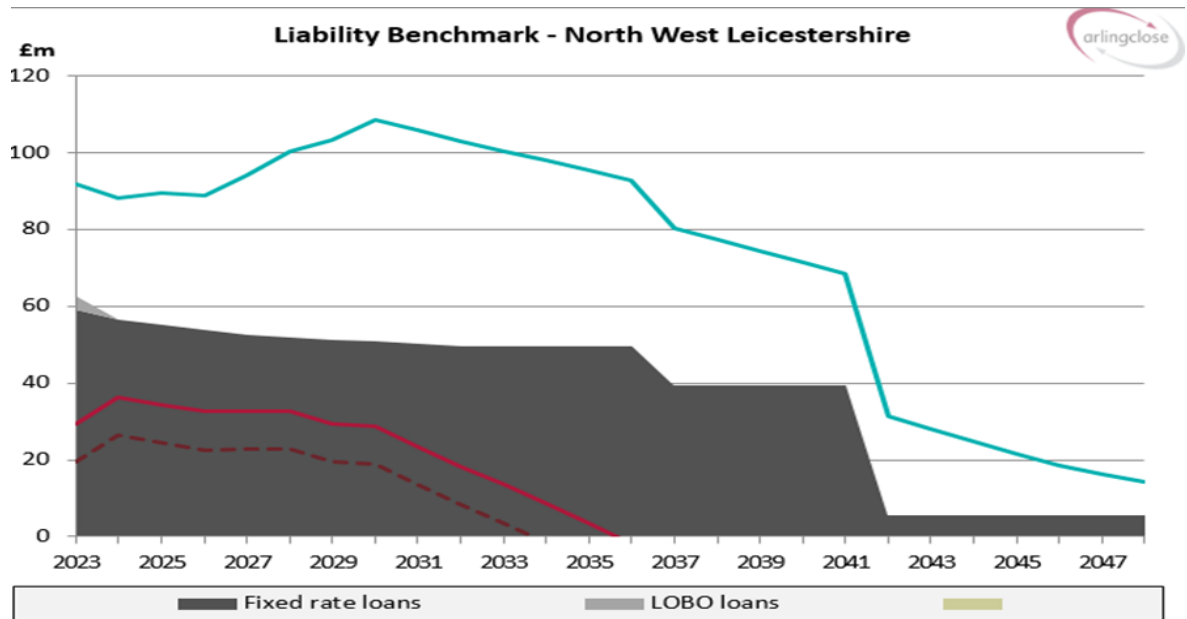
- 10.11 **Liability Benchmark:** This indicator compares the Council's actual existing borrowing against a liability benchmark that has been calculated to show the lowest risk level of borrowing. The liability benchmark is an important tool to help establish whether the Council is likely to be a long-term borrower or long-term investor in the future and so shape its strategic focus and decision making. It represents an estimate of the cumulative amount of external borrowing the Council must hold to fund its current capital and revenue plans while keeping treasury investments at the minimum level of £10m required to manage day-to-day cash flow.

Table 14: Liability Benchmark

	31.03.24 Forecast	31.03.25 Forecast	31.03.26 Forecast	31.3.27 Forecast
Loans CFR	88.20	89.50	88.80	94.20
Less: Balance sheet resources	-61.80	-65.20	-66.30	-71.50
Net loans requirement	26.30	24.30	22.50	22.70
Plus: Liquidity allowance	10	10	10	10
Liability benchmark	36.3	37.7	36	40.4
Existing external borrowing	-56.3	-55.1	-53.8	-52.5

The 31.3.24 and 31.03.25 position is an estimate due to statement of accounts not yet being finalised.

- 10.12 Following on from the medium-term forecast above, the long-term liability benchmark assumes no capital expenditure funded by borrowing before 2025/26, minimum revenue provision on new capital expenditure based on a variable asset life depending on asset type (This can vary from 5 – 50 years) and income, expenditure and reserves all increasing by inflation of 2.5% p.a. This is shown in the chart below together with the maturity profile of the Council's existing borrowing.



10.13 The Liability Benchmark shows the underlying need to borrow (Loans CFR) in the blue line at the top of the graph, the grey shaded area as existing loans and the strong red line as the requirement for external borrowing. This graph demonstrates that by using internal resources the Council is likely to not have an external borrowing requirement over the medium term. However, there is little room for adjustment and the Liability Benchmark graph is an estimate and subject to significant change. This situation may evolve and create a borrowing requirement in the next couple of years.



Investment Benchmarking 31 March 2025

North West Leicestershire
45 English Non-Met Districts Average
121 LAs Average

Internal Investments	£29.5m	£27.0m	£52.6m
Cash Plus & Short Bond Funds	£0.0m	£1.3m	£0.8m
Strategic Pooled Funds	£0.0m	£10.4m	£9.7m
TOTAL INVESTMENTS	£29.5m	£38.7m	£63.1m

Security

Average Credit Score	5.30	4.79	4.77
Average Credit Rating	A+	A+	A+
Average Credit Score (time-weighted)	5.71	4.83	4.83
Average Credit Rating (time-weighted)	A	A+	A+
Number of Counterparties / Funds	7	12	11
Proportion Exposed to Bail-in	66%	63%	64%

Liquidity

Proportion Available within 7 days	66%	48%	56%
Proportion Available within 100 days	66%	64%	71%
Average Days to Maturity	48	54	8

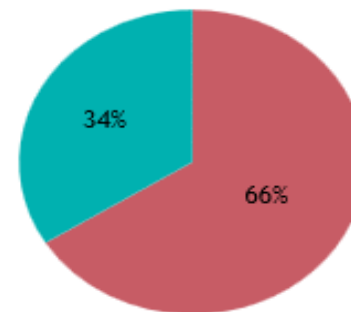
Market Risks

Average Days to Next Rate Reset	81	77	42
Strategic Fund Volatility	-	2.4%	3.2%

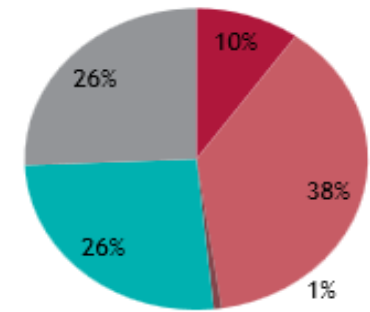
Yield

Internal Investment Return	4.91%	4.60%	4.55%
Cash Plus Funds - Income Return	-	4.49%	4.49%
Strategic Funds - Income Return	-	5.01%	5.04%
Total Investments - Income Return	4.91%	4.69%	4.65%
Cash Plus Funds - Capital Gain/Loss	-	0.68%	0.70%
Strategic Funds - Capital Gain/Loss	-	0.40%	0.92%
Total Investments - Total Return	4.91%	4.77%	4.80%

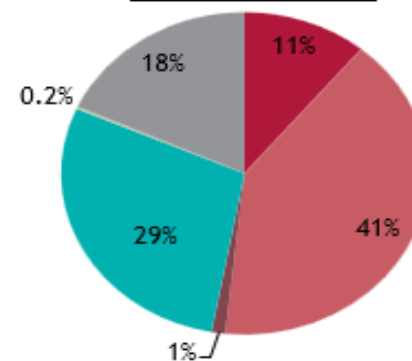
North West Leicestershire



English Non-Met Districts



All Arlingclose Clients



Notes

- Unless otherwise stated, all measures relate to internally managed investments only, i.e. excluding external pooled funds.
- Averages within a portfolio are weighted by size of investment, but averages across authorities are not weighted.
- Pooled fund returns are 1-year to the end of the quarter.
- Credit scores are calculated as AAA = 1, AA+ = 2, etc.
- Volatility is the standard deviation of weekly total returns, annualised.