



# Audit Completion Report

North West Leicestershire District Council

Year ending 31 March 2020

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North West Leicestershire District Council  
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January 2021

Dear Members

### **Audit Completion Report – Year ended 31 March 2020**

We are pleased to present our Audit Completion Report for the year ended 31 March 2020. The purpose of this document is to summarise our audit conclusions.

The scope of our work, including identified significant audit risks and other areas of management judgement, was outlined in our Audit Strategy Memorandum. Since we issued our Audit Strategy Memorandum, the UK has been subject to the challenges and restrictions of COVID-19. We have reviewed our Audit Strategy Memorandum and concluded that the original significant audit risks and other areas of management judgement remain appropriate.

One implication of COVID-19 for the Council was that the deadlines for submission of the draft and audited financial statements were pushed back to 31 August and 30 November respectively. As previously disclosed to you, we were unable to issue our Audit Report by 30 November due to a delay in the receipt of the required assurance report from the external auditor of the Leicestershire Pension Fund.

Despite the revised deadlines we acknowledge the difficulties encountered by your team during accounts preparation and audit, and would like to express our thanks for the assistance of your team during our audit.

If you would like to discuss any matters in more detail then please do not hesitate to contact me on 07875 974 291.

Yours faithfully

Mark Surridge  
Mazars LLP

# 1. EXECUTIVE SUMMARY

## Purpose of this report and principal conclusions

The Audit Completion Report sets out the findings from our audit of North West Leicestershire District Council ('the Council') for the year ended 31 March 2020, and forms the basis for discussion at the Audit & Governance Committee meeting on 20 January 2021.

The detailed scope of our work as your appointed auditor for 2019/20 is set out in the National Audit Office's (NAO) Code of Audit Practice. Our responsibilities and powers are derived from the Local Audit and Accountability Act 2014 and, as outlined in our Audit Strategy Memorandum, our audit has been conducted in accordance with International Standards of Auditing (UK) and means we focus on audit risks that we have assessed as resulting in a higher risk of material misstatement.

Sections 2 and 5 of this report outline the detailed findings from our work on the financial statements and our conclusion on the Council's arrangements to achieve economy, efficiency and effectiveness in its use of resources. Section 2 also includes our conclusions on the audit risks and areas of management judgement in our Audit Strategy Memorandum, which include:

- Management override of control
- Valuation of the net pension liability
- Valuation of Property, Plant & Equipment

## Status of our work

As we outline on the following page, our work is substantially complete. Subject to the satisfactory completion of the outstanding work, at the time of issuing this report we have the following conclusions:

### Opinion on the financial statements

We anticipate issuing an unqualified opinion, without modification, on the financial statements. Our proposed audit opinion is included in the draft auditor's report in Appendix B.

### Value for Money conclusion

We anticipate concluding that the Council had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources. Our draft auditor's report, including proposed conclusion, is provided in Appendix B

### Whole of Government Accounts (WGA)

The NAO issued its Group Instructions on 4 November regarding the audit work required and its timetable for audit reporting. The Council below the threshold requiring a detailed review of your WGA submission.

### Wider powers

The 2014 Act requires us to give an elector, or any representative of the elector, the opportunity to question us about the accounting records of the Council and to consider any objection made to the accounts. Further details on the exercise of our wider powers are provided in section 2.

# 1. EXECUTIVE SUMMARY

## Status of our audit work

We have substantially completed our work on the financial statements and Value for Money conclusion for the year ended 31 March 2020. At the time of preparing this report the following matters remain outstanding:

Audit area	Status	Description of outstanding matters
Audit Quality Control and Completion Procedures		Our audit work is at the stages of review by the Engagement Lead, with residual procedures that must take place through to the date of issuing the Audit Report, such as updating post balance sheet event considerations to the point of issuing the opinion, obtaining final management representations and clearance of the emphasis of matters paragraph for the Audit Report.

### Status

-  Likely to result in material adjustment or significant change to disclosures within the financial statements
-  Potential to result in material adjustment or significant change to disclosures within the financial statements
-  Not considered likely to result in material adjustment or change to disclosures within the financial statements

We will provide the Audit and Governance Committee with an update in relation to these outstanding matters in a follow-up letter, prior to signing the auditor's report.



## 2. EXECUTIVE SUMMARY (CONTINUED)

### Our audit approach

We provided details of our intended audit approach in our Audit Strategy Memorandum. We have not made any changes to our audit approach since we issued our Audit Strategy Memorandum.

### Materiality

We set materiality at the planning stage of the audit at £1,164k using a benchmark of 2% of 2018/19 Gross Revenue Expenditure. Our final assessment of materiality, based on the final financial statements and qualitative factors is £1,063k using 2019/20 Gross Revenue Expenditure. We revised our trivial threshold (the level under which individual errors are not communicated to the Audit and Governance Committee), to £32k based on 3% of overall materiality (previously £35k).

We also set specific materiality on the following balances owing to qualitative factors, mainly in relation to public interest:

- Senior Officer remuneration disclosure: set to £5k – on the basis this is a specific disclosure note that may attract public attention;
- Members allowances: set to £47k – on the basis this is a specific disclosure note that may attract public attention; and
- External audit fee: set to £8k – on the basis this is a specific disclosure note that may attract public attention.

### Misstatements and internal control recommendations

Section 3 sets out any internal control recommendations that we make, together with an update on any prior year recommendations.

Section 4 outlines the misstatements noted as part of our audit as at the time of issuing this report. If any additional misstatements are noted on completion of the outstanding work, these will be reported to the Audit and Governance Committee in a follow-up letter.

## 2. SIGNIFICANT FINDINGS

Set out below are the significant findings from our audit. These findings include:

- our audit conclusions regarding significant risks and key areas of management judgement outlined in the Audit Strategy Memorandum;
- our comments in respect of the accounting policies and disclosures that you have adopted in the financial statements. On page 11 we have concluded whether the financial statements have been prepared in accordance with the financial reporting framework and commented on any significant accounting policy changes that have been made during the year;
- any further significant matters discussed with management; and
- any significant difficulties we experienced during the audit.

### Significant risks and key areas of management judgement

As part of our planning procedures we considered the risks of material misstatement in the Council's financial statements that required special audit consideration. Although we report identified significant risks at the planning stage of the audit in our Audit Strategy Memorandum, our risk assessment is a continuous process and we regularly consider whether new significant risks have arisen and how we intend to respond to these risks. No new risks have been identified since we issued our Audit Strategy Memorandum.

#### Significant risk

#### Description of the risk

Management override of controls

Management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur, we consider there to be a risk of material misstatement due to fraud and thus a significant risk on all audits.

#### How we addressed this risk

We addressed this risk through performing audit work over:

- Accounting estimates impacting on amounts included in the financial statements;
- Consideration of any identified significant transactions outside the normal course of business; and
- Journals recorded in the general ledger and other adjustments made in preparation of the financial statements.

#### Audit Conclusion

Our audit procedures have not identified any material errors or uncertainties in the financial statements, or other matters that we wish to bring to Members' attention in relation to management override of controls.

## 2. SIGNIFICANT FINDINGS (CONTINUED)

Significant risk	Description of the risk
Valuation of land and buildings, investment properties (where applicable) and assets held for sale (where material)	<p>The financial statements contain material entries on the Balance Sheet as well as material disclosure notes in relation to the Council's Property, Plant and Equipment that is held at a valuation. The Council uses an internal valuation expert to provide information on valuations because there is a high degree of estimation uncertainty caused by significant judgements and number of variables involved in providing valuations. We have therefore identified the valuation of material balances of land and buildings, investment properties (if applicable or material) and assets held for sale (if material) to be an area of significant audit risk.</p> <p>At the outset of the Covid19 outbreak, guidance issued by the Royal Institute of Chartered Surveyors set out an expectation that valuers are likely to conclude that there is "material uncertainty" over the valuation of land and buildings at the balance sheet date.</p>

Relevant balances:

- Note 9: Property, Plant & Equipment – Council Dwellings £245m
- Note 9: Property, Plant & Equipment – Other Land & Buildings £30m
- Note 10: Investment Properties £15m.

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### How we addressed this risk

In relation to the valuation of property, plant & equipment, investment properties and assets held for sale we:

- Critically assessed the Council's valuer's scope of work, qualifications, objectivity and independence to carry out the required programme of revaluations;
- Considered whether the overall revaluation methodologies used by the Council's valuer's were in line with industry practice, the CIPFA Code of Practice and the Council's accounting policies;
- Assessed whether valuation movements are in line with market expectations by using information available from other sources;
- Critically assessed the treatment of the upward and downward revaluations in the Council's financial statements with regards to the requirements of the CIPFA Code of Practice; and
- Critically assessed the approach that the Council adopted to ensure that any assets not subject to revaluation in 2019/20 were materially correct, including considering the robustness of that approach in light of the valuation information reported by the Council's valuers.

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### Audit Conclusion

During the course of our work, our testing of underlying valuation data, such as floor spaces, identified some gaps in the Council's records that was resolved through identifying alternative sources of evidence.

At the outset of the Covid19 outbreak, the Royal Institute of Chartered Surveyors set out an expectation that valuers are likely to conclude that there is "material uncertainty" over the valuation of land and buildings at the balance sheet date. The Council's valuer has followed guidance issued by the Royal Institute of Chartered Surveyors and as expected their valuation reports conclude that, due the impact of COVID-19 on the property market, there is "material uncertainty" over the valuation of land and buildings and investment properties at the balance sheet date. This has been properly disclosed in the notes to the Statement of Accounts.

We will, in line with normal practice, include reference to this disclosure as an 'emphasis of matter' in our audit report. Our draft Auditor's Report is included at Appendix B.

There are no other matters to bring to Members' attention.

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## 2. SIGNIFICANT FINDINGS (CONTINUED)

Significant risk	Description of the risk
Valuation of net defined benefit liability	<p>The financial statements contain material pension entries in respect of retirement benefits. The calculation of these pension figures, both assets and liabilities, can be subject to significant volatility and includes estimates based upon a complex interaction of actuarial assumptions. Moreover, the local government pension assets and liabilities are subject to triennial revaluation as at 31 March 2019, which set the contribution rates for 2020/21 onwards. This results in an increased risk of material misstatement.</p> <p>Relevant balances:</p> <ul style="list-style-type: none"><li>Note 33: Net Pension Liability £45m</li></ul>

### How we addressed this risk

In relation to the valuation of the Council's defined benefit pension liability in addition to our standard programme of work in this area we:

- review the appropriateness of the Pension Asset and Liability valuation methodologies applied by the Pension Fund Actuary, and the key assumptions included within the valuation. This will include comparing them to expected ranges, utilising information provided by the consulting actuary engaged by the National Audit Office;
- agree the data in the IAS 19 valuation report provided by the Fund Actuary for accounting purposes to the pension accounting entries and disclosures in the Council's financial statements;
- critically assess the competency, objectivity and independence of the Leicestershire Pension Fund's Actuary; and
- liaise with the auditors of the Leicestershire Pension Fund to gain assurance that the controls in place at the Pension Fund are operating effectively. This will include the processes and controls in place to ensure data provided to the Actuary by the Pension Fund for the purposes of the IAS 19 valuation is complete and accurate.

### Audit Conclusion

We received our assurance from the auditor of the Leicestershire Pension Fund on 17 December 2020. This confirmed a 'material valuation uncertainty' on the Pension Fund's property assets. The Council's share of these property assets recorded in the balance sheet is therefore also affected. This has been disclosed in the financial statements and incorporated into the 'emphasis of matters' paragraph in our Audit Report. In reviewing the work of the pension fund auditor, we also noted:

- A £5m difference has been reported between the value of scheme assets per the 2019 Triennial Actuarial Report (£4,312m) and the value of scheme assets per the Pension Fund audited financial statements as at 31 March 2019 (£4,307m).
- Pension benefits payable sent to the actuary was £3,454k. The Pension Fund auditor agreed the benefits paid data to the underlying information system maintained by the pension fund, noting a difference of £618k. This has no impact on the net pension liability in the Council's balance sheet.
- The Pension Fund submitted asset information to the actuary as at 31 December 2019 and not 31 March 2020. The actuary then estimated asset investment returns as -4.6%, whereas the actual return for the period was -3.56%.

In July 2020, MHCLG consulted on the proposed remedy for the 'McCloud' and 'Sargeant' cases. This indicates that the approach adopted for 2018/19 and 2019/20 is likely to have led to an overstatement of the pension fund liability as at 31 March 2020.

The Council obtained an updated actuarial valuation to identify whether the pension fund assets and liabilities require adjustment, with the net impact being a £300k movement in the pension liability that management has adjusted for.

There are no other matters to report from the work we have performed.

## 2. SIGNIFICANT FINDINGS (CONTINUED)

### Qualitative aspects of the Council's accounting practices

We have reviewed the Council's accounting policies and disclosures. We have provided feedback on the draft financial statements and agreed amendments in any areas where disclosures could be strengthened. We are satisfied that the final statements comply with the requirements of the Code of Practice on Local Authority Accounting (the Code), appropriately tailored to the Council's circumstances.

### Significant matters discussed with management

Significant matters discussed with management during our audit and which had implications for our audit testing and reporting included:

- The impact of COVID-19 on the Council's business, including any potential impact on risks of material misstatement. This included the disclosures made regarding the key sources of estimation uncertainty that management has made in preparing the Statement of Accounts. The Council's valuers have followed RICS guidance and as expected their valuation report concludes that, due to the impact of COVID-19 on the property market, there is "material uncertainty" over the valuation of land and buildings and investment properties at the balance sheet date. This may extend to property assets held by the Pension Fund.
- The Council's adoption of the 'going concern' principle in preparing the Financial Statements. The 'going concern' status is confirmed through the 2019/20 local government accounting code, and must also follow International Accounting Standard (IAS) 1: Presentation of Financial Statements. We must comply with a revised ISA (UK) 570 Going Concern, effective for periods commencing on or after 15 December 2019. The above, combined with the impact of COVID-19, meant an additional level of scrutiny was required over the going concern assertion in 2019/20.
- The Council's response to relevant legal cases which impact on the valuation of certain pension liabilities. These included:
  - The proposed remedy for the 'McCloud' case (which emerged initially in 2018/19 and was reported on in our previous Audit Completion Report) which is likely to have led to an overstatement of the original estimate of the Council's pension fund liability as at 31 March 2020.
- Impact of changes in audit scope on the external audit fee. We have provided management with a fee estimate and final fees will be agreed with management prior to inclusion and cover the following matters identified to date:
  - As explained in our Audit Strategy Memorandum, we continually strive to maintain high standards of audit quality. One mechanism for doing this is to consider the outcome of independent quality reviews, in particular by the Financial Reporting Council, of our audit work and that of other audit suppliers. In particular, we have increased the level of work we do on defined benefit pension schemes and valuation of property, plant and equipment.
  - Additional audit risks arising from COVID-19. We have discussed with management the additional audit testing and audit work required relating to pension assets and liabilities as well as adjustments for 'McCloud'; uncertainty in the valuation of land and buildings; going concern; and other areas, including revisiting our VFM risk assessment.

Fee estimate (subject to PSAA approval)	2019/20
2017/18 Audit Fee	50,522
2018/19 Audit Fee	42,652
Scale Fee 2019/20	38,902
Fees increases in respect of audit quality expectations	7,067
Covid-19 impact: The additional audit work and reporting as a result of the 'material valuation uncertainty' in pensions & council assets Review of estimates and due professional scepticism in auditing carrying values of estimates, including financial instruments (debt impairment) Review of the going concern assertion, risk of material uncertainty, including reasonableness of assumptions, and revisiting the VFM risk assessments as a result of Covid-19 Revisiting planning and control risk assessments on the risk of material misstatement in the financial statements as a result of Covid-19	4,493
McCloud	539
<b>Total projected fee 2019/20</b>	<b>51,001</b>

## 2. SIGNIFICANT FINDINGS (CONTINUED)

### Significant difficulties during the audit

During the course of the audit we have had the full co-operation of management. Officers have been very helpful and responsive in addressing our audit queries. The changes to the Council's and Mazars' working arrangements' in response to COVID-19 and other pressures across the sector has lead to a number of challenges during the year-end accounts closedown and audit process. There have understandably been some difficulties in carrying out our normal audit procedures and obtaining the audit evidence required. We are grateful for the co-operation and support provided.

### Wider responsibilities

Our powers and responsibilities under the 2014 Act are broad and include the ability to:

- issue a report in the public interest;
- make statutory recommendations that must be considered and responded to publicly;
- apply to the court for a declaration that an item of account is contrary to law; and
- issue an advisory notice under schedule 8 of the 2014 Act.

We have not exercised any of these powers as part of our 2019/20 audit.

The 2014 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 to consider any objection made to the accounts. We have not received any objections. We received one item of correspondence relating the Council's financial statement disclosures on senior officer remuneration, however this was not an eligible objection.

### Audit certificate

The issue of the Audit Certificate confirms that we have discharged all of our audit responsibilities and that the audit is formally 'closed'. We expect to issue the Auditor's Report with the Audit Certificate, shortly after the audited Statement of Accounts has been approved by the Audit Committee.



# 3. INTERNAL CONTROL RECOMMENDATIONS

The purpose of our audit is to express an opinion on the financial statements. As part of our audit we have considered the internal controls in place relevant to the preparation of the financial statements. We do this in order to design audit procedures to allow us to express an opinion on the financial statement and not for the purpose of expressing an opinion on the effectiveness of internal control, nor to identify any significant deficiencies in their design or operation.

The matters reported are limited to those deficiencies and other control recommendations that we have identified during our normal audit procedures and that we consider to be of sufficient importance to merit being reported. If we had performed more extensive procedures on internal control we might have identified more deficiencies to be reported or concluded that some of the reported deficiencies need not in fact have been reported. Our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.

Our findings and recommendations are set out below. We have assigned priority rankings to each of them to reflect the importance that we consider each poses to your organisation and, hence, our recommendation in terms of the urgency of required action. In summary, the matters arising fall into the following categories:

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

# 3. INTERNAL CONTROL RECOMMENDATIONS (CONTINUED)

## Other deficiencies in internal control – Level 2

### Description of deficiency

In our testing of the underlying data used to calculate the value of assets, the Council was unable to immediately find data to validate the floor area used to support the valuation, leading to the Council having to find alternative sources of evidence.

### Potential effects

Incorrect valuation of assets in the financial statements

### Recommendation

The Council should perform a regular reconciliation between the underlying books and records of asset data, such as floor space and land areas, to the information used as the basis of valuation by the valuer.

### Management response

Agreed. To be reviewed as part of our 2020/21 reporting.



## 4. SUMMARY OF MISSTATEMENTS

We set out below the misstatements identified for adjustment during the course of the audit, above the level of trivial threshold of £32k.

The first table outlines the misstatements that were identified during the course of our audit which management has assessed as not being material, either individually or in aggregate, to the financial statements and does not currently plan to adjust.

The second table outlines the misstatements that have been adjusted by management during the course of the audit. Any further unadjusted or adjusted errors on completion of the outstanding audit work will be reported to Members prior to issuing our Audit Report.

### Unadjusted misstatements 2019/20

	Comprehensive Income and Expenditure Statement		Balance Sheet	
	Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
1 Dr: Prepayments Cr: Expenditure		47	47	
Extrapolated error from expenditure cut off testing - expenditure relating to 2020/21 was recognised in 2019/20 as the invoice period spanned the two years.				
<b>Total unadjusted misstatements</b>	<b>0</b>	<b>47</b>	<b>47</b>	<b>0</b>

## 4. SUMMARY OF MISSTATEMENTS (CONTINUED)

### Adjusted misstatements 2019/20

	Comprehensive Income and Expenditure Statement		Balance Sheet	
	Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
1 Dr: Balance Sheet – Pension Liability Cr: CIES – Past Service Cost	300	300		
Represents a reduction in the Pension Liability as a result of the McCloud remedy and updated position in the pension fund.				
<b>Total unadjusted misstatements</b>	<b>300</b>	<b>300</b>	<b>0</b>	<b>0</b>

# 3. VALUE FOR MONEY CONCLUSION

## Our approach to Value for Money

We are required to form a conclusion as to whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The NAO issues guidance to auditors that underpins the work we are required to carry out in order to form our conclusion, and sets out the criterion and sub-criteria that we are required to consider.

The overall criterion is that, 'in all significant respects, the Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.' To assist auditors in reaching a conclusion on this overall criterion, the following sub-criteria are set out by the NAO:

- Informed decision making
- Sustainable resource deployment
- Working with partners and other third parties.

## Significant Value for Money risks

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

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

We have kept a number of matters under review:

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

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

### *New Leisure Centre*

The February Cabinet meeting approved the Capital Strategy for 2020/21, which included confirmation that £7.3m, against an approved budget of £9.0m, spend for the New Leisure Centre would be deferred into 2020/21. The main reason for this is due to delays in respect of obtaining a necessary Section 278 agreement for carrying out works to the A511 public highway. Construction work is scheduled to commence on site from July 2020. Bridge and access works will start from February 2020. The overall project completion is now programmed for March 2022 (from August 2021). Additional funding to cover the cost of installation of the bridge required to access the site from the A511 has been included at £400k.

Whilst this is a material slippage into the following financial year, it has not led to a material variation in the capital costs and therefore we do not believe this gives rise to a significant VFM risk. With the advent of Covid19, the expected completion date will be affected.



### 3. VALUE FOR MONEY CONCLUSION

#### *Covid19 and financial resilience*

The expected final position on the General Fund is a provisional surplus for the year of £1.2m compared to a budgeted surplus of £0.16m.

Prior to Covid19, in February 2020, the Council adopted a budget that required £5.1m savings over the period to 2024/25.

In July 2020, Cabinet received a Covid19 report setting out the financial impact to the last week of April 2020. The Council estimated the revenue impact at this point to be in the region of £2.1m gross and £1.0m net of the £1.1m Emergency Funding for Local Government. The majority of this impact is within the General Fund (£1.87m gross) and HRA (£0.26m).

In September 2020, Cabinet received an updated Medium Term Financial Strategy which predicted the General Fund projected deficit between 2020/21 and 2024/25 to increase from between £1m to £5.3m. The Council's Journey to Self-Sufficiency reserve stands at £6.3m to help bridge the gap.

Cabinet approved the Risk Management Policy at its meeting in May 2018 and in line with the policy, members of the Audit and Governance Committee, Corporate Scrutiny and Cabinet receive details of the high level risks monitored through the Corporate Risk Register. Members of the Audit and Governance Committee received an updated Risk Register in October 2020, which included a specific Covid19 risk register. This register is updated as part of the Response/Recovery work under the emergency planning process.

The Council has put in place risk and financial management arrangements to support informed decision making in response to Covid19, the effectiveness of these will be considered as part of our 2020/21 VFM Conclusion.

We are aware the Council is revisiting its service and financial strategies in response to Covid19. The £5.1m of savings originally planned over the period of the Medium Term Financial Strategy have been disrupted, however the Council should not rely solely on existing reserves to cover the financial gap and will need to review and revisit its financial and service strategy and the deliverability of planned savings.

#### **Our overall Value for Money conclusion**

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



# APPENDIX A

## DRAFT MANAGEMENT REPRESENTATION LETTER

Mazars LLP  
45 Church Street  
Birmingham  
B3 2RT  
[Date]

Dear Sirs

### North West Leicestershire District - audit for year ended 31 March 2020

This representation letter is provided in connection with your audit of the financial statements of North West Leicestershire District Council (the Council) for the year ended 31 March 2020 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 (the Code) and applicable law.

I confirm that the following representations are made on the basis of enquiries of management and staff with relevant knowledge and experience (and, where appropriate, inspection of supporting documentation) sufficient to satisfy ourselves that I can properly make each of the following representations to you.

#### My responsibility for the financial statements and accounting information

I believe that I have fulfilled my responsibilities for the true and fair presentation and preparation of the financial statements in accordance with the Code and applicable law.

#### My responsibility to provide and disclose relevant information

I have provided you with:

- access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other material;
- additional information that you have requested from us for the purpose of the audit; and
- unrestricted access to individuals within the Council you determined it was necessary to contact in order to obtain audit evidence.

I confirm as Head of Finance and Section 151 Officer that I have taken all the necessary steps to make me aware of any relevant audit information and to establish that you, as auditors, are aware of this information.

As far as I am aware there is no relevant audit information of which you, as auditors, are unaware.

#### Accounting records

I confirm that all transactions that have a material effect on the financial statements have been recorded in the accounting records and are reflected in the financial statements. All other records and related information, including minutes of all Council and committee meetings, have been made available to you.

#### Accounting policies

I confirm that I have reviewed the accounting policies applied during the year in accordance with Code and International Accounting Standard 8 and consider these policies to faithfully represent the effects of transactions, other events or conditions on the Council's financial position, financial performance and cash flows.

#### Accounting estimates, including those measured at fair value

I confirm that any significant assumptions used by the Council in making accounting estimates, including those measured at current or fair value, are reasonable.

I confirm that I am satisfied that the actuarial assumptions underlying the valuation of pension scheme liabilities for IAS19 disclosures are consistent with my knowledge. I confirm that all settlements and curtailments have been identified and properly accounted for. I confirm that all significant retirement benefits have been identified and properly accounted for (including any arrangements that are statutory, contractual or implicit in the employer's actions, that arise in the UK or overseas, that are funded or unfunded).

#### Material Valuation Uncertainty

The outbreak of COVID-19, has impacted global financial markets and as such identified that less weight can be attached to the previous market evidence for comparison purposes and to inform opinions of value. The current response to COVID-19 has resulted in an unprecedented set of circumstances on which to base judgement, resulting in the valuations recognised within the Statement of Accounts being reported on the basis of 'material valuation uncertainty' as per VPS 3 and VPGA 10 of the RICS Red Book Global. Given the unknown future impact that COVID-19 might have on the real estate market. I am satisfied that sufficient and appropriate disclosures have been made in the Statement of Accounts to reflect the impact of 'material valuation uncertainty' on the Council's assets.

Executive summary

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Appendices

# APPENDIX A

## DRAFT MANAGEMENT REPRESENTATION LETTER

### (CONTINUED)

#### Contingencies

There are no material contingent losses including pending or potential litigation that should be accrued where:

- information presently available indicates that it is probable that an asset has been impaired or a liability had been incurred at the balance sheet date; and
- the amount of the loss can be reasonably estimated.

There are no material contingent losses that should be disclosed where, although either or both the conditions specified above are not met, there is a reasonable possibility that a loss, or a loss greater than that accrued, may have been incurred at the balance sheet date.

There are no contingent gains which should be disclosed.

All material matters, including unasserted claims, that may result in litigation against the Council have been brought to your attention. All known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to you and accounted for and disclosed in accordance with the Code and applicable law.

#### Laws and regulations

I confirm that I have disclosed to you all those events of which I am aware which involve known or suspected non-compliance with laws and regulations, together with the actual or contingent consequences which may arise therefrom.

The Council has complied with all aspects of contractual agreements that would have a material effect on the accounts in the event of non-compliance.

#### Fraud and error

I acknowledge my responsibility as Head of Finance and Section 151 Officer for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

I have disclosed to you:

- all the results of my assessment of the risk that the financial statements may be materially misstated as a result of fraud;
- all knowledge of fraud or suspected fraud affecting the Council involving:
  - management and those charged with governance;
  - employees who have significant roles in internal control; and
  - others where fraud could have a material effect on the financial statements.

I have disclosed to you all information in relation to any allegations of fraud, or suspected fraud, affecting the Council's financial statements communicated by employees, former employees, analysts, regulators or others.

#### Related party transactions

I confirm that all related party relationships, transactions and balances, have been appropriately accounted for and disclosed to you in accordance with the requirements of the Code and applicable law.

I have disclosed identity of the Council's related parties and all related party relationships and transactions of which I am aware.

#### Impairment review

To the best of my knowledge, there is nothing to indicate that there is a permanent reduction in the recoverable amount of the property, plant and equipment and intangible assets below their carrying value at the balance sheet date. I have considered the impact of Covid-19 on our Investment Properties. An impairment review is therefore not considered necessary.

#### Charges on assets

All the Council's assets are free from any charges exercisable by third parties except as disclosed within the financial statements.

#### Future commitments

I am not aware of any plans, intentions or commitments that may materially affect the carrying value or classification of assets and liabilities or give rise to additional liabilities.

# APPENDIX A

## DRAFT MANAGEMENT REPRESENTATION LETTER (CONTINUED)

### Subsequent events

I confirm all events subsequent to the date of the financial statements and for which the Code and applicable law, require adjustment or disclosure have been adjusted or disclosed.

Should further material events occur after the date of this letter which may necessitate revision of the figures included in the financial statements or inclusion of a note thereto, I will advise you accordingly.

### Covid-19

We confirm that we have carried out an assessment of the potential impact of the Covid-19 Virus pandemic on the Council, including the impact of mitigation measures and uncertainties, and that the disclosure in the Statement of Accounts fairly reflects that assessment.

### Brexit

We confirm that we have carried out an assessment of the potential impact of the United Kingdom leaving the European Union, including the potential outcomes at the end of the Implementation Period, and that the disclosure in the Statement of Accounts fairly reflects that assessment

### Going concern

To the best of my knowledge there is nothing to indicate that the Council will not continue as a going concern in the foreseeable future. The period to which I have paid particular attention in assessing the appropriateness of the going concern basis is not less than twelve months from the date of approval of the accounts.

I have updated our going concern assessment in light of the Covid-19 pandemic. I continue to believe that the Council's financial statements should be prepared on a going concern basis and have not identified any material uncertainties related to going concern on the grounds that current and future sources of funding or support will be more than adequate for the Council's needs. We believe that no further disclosures relating to the Council's ability to continue as a going concern need to be made in the financial statements

### Annual Governance Statement

I am satisfied that the Annual Governance Statement (AGS) fairly reflects the Council's risk assurance and governance framework and I confirm that I am not aware of any significant risks that are not disclosed within the AGS

### Narrative report

The disclosures within the Narrative Report fairly reflect my understanding of the Council's financial and operating performance over the period covered by the financial statements

Yours faithfully

Head of Finance and Section 151 Officer

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# APPENDIX B

## DRAFT AUDITOR'S REPORT

*TO BE UPDATED FOLLOWING CONSULTATION*

### Independent auditor's report to the members of North West Leicestershire District Council Report on the financial statements

#### Opinion

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

In our opinion, the financial statements:

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

#### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities section of our report. We are independent of the Council in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Emphasis of Matter – Effect of the Covid-19 pandemic on the valuation of land, buildings and investment properties

We draw attention to Note X of the financial statements, which describes the effects of the Covid-19 pandemic on the valuation of the Council's land, buildings and investment properties and the valuation of the Council's share of Leicestershire Pension Fund's property assets. As disclosed in Note X of the financial statements, the Council's and Pension Fund's valuers included a 'material valuation uncertainty' declaration within their reports as a result of the Covid-19 pandemic creating a shortage of relevant market evidence on which to base their judgements. Our opinion is not modified in respect of this matter.

#### Conclusions relating to going concern

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

- the Head of Finance and S151 Officer's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Head of Finance and S151 Officer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Council's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

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## DRAFT AUDITOR'S REPORT

### Other information

The Head of Finance and S151 Officer is responsible for the other information. The other information comprises the Annual Governance Statement and information included in the Statement of Accounts, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

### Responsibilities of the Head of Finance and S151 Officer for the financial statements

As explained more fully in the Statement of Responsibilities, the Head of Finance and S151 Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20, and for being satisfied that they give a true and fair view. The Director of Finance & ICT is also responsible for such internal control as the Head of Finance and S151 Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Head of Finance and S151 Officer is required to comply with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 and prepare the financial statements on a going concern basis, unless the Council is informed of the intention for dissolution without transfer of services or function to another entity. The Head of Finance and S151 Officer is responsible for assessing each year whether or not it is appropriate for the Council to prepare its accounts on the going concern basis and disclosing, as applicable, matters related to going concern.

### Auditor's responsibilities for the audit of the financial statements

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

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

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## DRAFT AUDITOR'S REPORT

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

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

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

We have nothing to report in these respects.

### Conclusion on North West Leicestershire District Council's arrangements for securing economy, efficiency and effectiveness in the use of resources

#### Conclusion

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

#### Basis for conclusion

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

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

#### Responsibilities of the Council

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

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

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

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## DRAFT AUDITOR'S REPORT

### Use of the audit report

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

### Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate until we have completed the work necessary to issue our assurance statement in respect of the Council's Whole of Government Accounts consolidation pack. We are satisfied that these matters do not have a material effect on the financial statements or on our conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources.

Mark Surridge  
For and on behalf of Mazars LLP  
45 Church Street  
Birmingham  
B3 2RT

Date



# APPENDIX C INDEPENDENCE

As part of our ongoing risk assessment we monitor our relationships with you to identify any new actual or perceived threats to our independence within the regulatory or professional requirements governing us as your auditors.

We can confirm that no new threats to independence have been identified since issuing the Audit Strategy Memorandum and therefore we remain independent.

The table below summarises relevant matters of independence.

We confirm that none of the services listed in the table below has been provided on a contingent fee basis.

<b>Issue</b>	<b>Perceived threats</b>	<b>Safeguards</b>
The Council has appointed us to complete the Housing Benefit (Subsidy) Assurance Process for 2019/20.	Self-interest threat	The fee for this work is £8,000, which is substantially less than the Audit Fee.
We also expect to provide the relevant assurance on the Pooling of Housing Capital Receipts Return.	Self-interest threat	The fee for this work is £3,000, which is substantially less than the Audit Fee.

## CONTACT

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