

Auditor's Annual Report

Charnwood Borough Council – year
ended 31 March 2021

February 2022



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Section 01: **Introduction**

1. Introduction

Purpose of the Auditor's Annual Report

Our Auditor's Annual Report (AAR) summarises the work we have undertaken as the auditor for Charnwood Borough Council ('the Council') for the year ended 31 March 2021. Although this report is addressed to the Council, it is designed to be read by a wider audience including members of the public and other external stakeholders.

Our responsibilities are defined by the Local Audit and Accountability Act 2014 and the Code of Audit Practice ('the Code') issued by the National Audit Office ('the NAO'). The remaining sections of the AAR outline how we have discharged these responsibilities and the findings from our work. These are summarised below.



Opinion on the financial statements

We issued our audit report 31 January 2022. Our opinion on the financial statements was unqualified.



Value for Money arrangements

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



Wider reporting responsibilities

We have not yet received group instructions from the National Audit Office confirming their requirements in relation to the Council's Whole of Government Accounts. We are unable to issue our audit certificate until this is formally confirmed.

The 2014 Act requires us to give an elector, or any representative of the elector, the opportunity to question us about the accounting records of the Council and to consider any objection made to the accounts. We did not receive any questions or objections in respect of the Council's financial statements.

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Section 02:

Audit of the financial statements

2. Audit of the financial statements

The scope of our audit and the results of our opinion

Our audit was conducted in accordance with the requirements of the Code, and International Standards on Auditing (ISAs).

The purpose of our audit is to provide reasonable assurance to users that the financial statements are free from material error. We do this by expressing an opinion on whether the statements are prepared, in all material respects, in line with the financial reporting framework applicable to the Council and whether they give a true and fair view of the Council's financial position as at 31 March 2021 and of its financial performance for the year then ended. Our audit report, gave an unqualified opinion on the financial statements for the year ended 31 March 2021.

Qualitative aspects of the Council's accounting practices

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

Draft accounts were received from the Council in advance of the revised statutory deadline and were of a good quality. The accounts were supported by high quality working papers and we received full cooperation from the Finance team in responding to our queries on a prompt basis.

Significant difficulties during the audit

During the course of the audit we had full cooperation of management. The audit was again carried out remotely but there were no significant difficulties in carrying out our normal audit procedures and obtaining audit evidence required to complete the audit. We are grateful for the cooperation and support provided by management.

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Section 03:

Commentary on VFM arrangements

3. VFM arrangements – Overall summary

Approach to Value for Money arrangements work

We are required to consider whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The NAO issues guidance to auditors that underpins the work we are required to carry out and sets out the reporting criteria that we are required to consider. The reporting criteria are:

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

At the planning stage of the audit, we undertake work so we can understand the arrangements that the Council has in place under each of the reporting criteria; as part of this work we may identify risks of significant weaknesses in those arrangements.

Where we identify significant risks, we design a programme of work (risk-based procedures) to enable us to decide whether there is a significant weakness in arrangements. Although we describe this work as planning work, we keep our understanding of arrangements under review and update our risk assessment throughout the audit to reflect emerging issues that may suggest there are further risks of significant weaknesses.

Where our risk-based procedures identify actual significant weaknesses in arrangements, we are required to report these and make recommendations for improvement.

The table below summarises the outcomes of our work against each reporting criteria. We did not identify any risks of significant weakness, or actual significant weakness, in the Council's arrangements. On the following pages we outline further detail of the work we have undertaken against each reporting criteria, including the judgements we have applied.

Reporting criteria	Commentary page reference	Risks of significant weaknesses in arrangements identified?	Actual significant weaknesses in arrangements identified?
Financial sustainability	9	No	No
Governance	11	No	No
Improving economy, efficiency and effectiveness	13	No	No

3. VFM arrangements – Financial Sustainability

Overall commentary on the Financial Sustainability reporting criteria

Background to the Council’s operating environment in 2020/21

The Council entered 2020/21 at the start of the national lockdown, and faced a significant operational impact from the effects of the pandemic. In response to the Covid-19 pandemic, central government made a series of policy announcements, a number of which have impacted on local authorities such as Charnwood Borough Council. During the 2020/21 year the Council dealt with a wide range of issues to support local residents and businesses.

Some of the Government’s initiatives in response to the Covid-19 pandemic have been backed by additional funding, and the Council received a range of government grants during 2020/21 to either support local businesses/individuals or meet the Council’s own costs. The Council received £2.35m of Covid-19 Response funding to cover the Council’s extra costs. The Council also received around £1.779m relating to income compensation scheme for the sales, fees and charges income lost during the lockdown periods.

2020/21 Financial statement performance

We have carried out a high level analysis of the audited financial statements, including the Comprehensive Income and Expenditure Statement, the Balance Sheet and Movement in Reserves Statement.

The Council’s balance sheet does not give us cause for concern relating to financial stability. Net current assets have reduced from £56.5m to £39.6m, with short term creditors increasing from £22.3m to £28.5m which as at other councils this year is largely due to deferred Covid-19 government grants. The level of total year-end Cash and Cash Equivalents and Short Term Investments Equivalents fell from £51.1m to £30.8m but this was in line with cash flow forecast and requirements.

The most significant change in the balance sheet relates to movements in the Council’s share of the pension fund net liability (being a deficit position) of £84.7m, up from £63.7m in the prior year. It is not unusual to see material movements in the net pension liability and this is consistent with our experience at other local authorities. The deficit position is not unusual and is a recognised area of financial challenge for local authorities.

The Council’s useable reserves have increased from £33m to £43.7m in 2020/21, with:

- General Fund Reserves of £5.8m, up from £4.5m in 2019/20;
- Capital Receipts Reserves of £9.8m, down from £12m in 2019/20; and
- Housing Revenue Account Balances of £12.2m, up from £8.8m in 2019/20.

These reserves provide some mitigation against future financial challenges, and will assist in addressing future volatility and support savings and efficiencies plans. The Council will need to continue to ensure that any use of reserves to smooth the financial position over the next few years is properly planned and the use of reserves cannot be relied on to provide a long term solution to funding gaps. Notwithstanding this, our work has not highlighted a risk of significant weakness in the Council’s arrangements for ensuring financial sustainability.

Financial planning and monitoring arrangements

In February 2020 the Council set balanced General Fund and Housing Revenue Account budgets for the 2020/21 financial year. During the year the Council reported its financial position through the quarterly financial performance reports, and carried out a thorough early in-year review to reflect the impact of Covid-19 on budgets and financial performance.

We noted that budget monitoring was reported to the Cabinet as part of the revised General Fund budget and capital plan in November 2020. A final report covering the whole year and outturn went to Cabinet in July 2021 the reports contain detail on any significant variances to budget and an update on performance against targets. The reports also contain information on progress against the approved capital programme and reasons for over or underspends against the budget profile to provide adequate scrutiny and oversight. The Council reported the final revenue outturn position for the 2020/21 year as follows, the General Fund had favourable variance of £2.2m against the revised budget, and the Housing Revenue Account had a favourable variance of £4.2m. Going forwards performance, capital and revenue monitoring will be presented to the recently formed Finance & Performance Scrutiny Committee on a quarterly basis.

We have considered the arrangements in place in respect of budget management as part of the Governance criteria on page 11 and not identified any significant weaknesses.

3. VFM arrangements – Financial Sustainability

Overall commentary on the Financial Sustainability reporting criteria (continued)

Arrangements for the identification, management and monitoring of funding gaps and savings

The Medium Term Financial Plan (MTFP) is a current plus two year plan which sets out the Council's commitment to provide services that meet the needs of people locally and that represent good value for money within the overall resources available to it.

A key part of the strategy is to highlight the budget issues that will need to be addressed by the Council over the coming financial years, by forecasting the level of available resources from all sources and budget pressures relating to both capital and revenue spending as well as assessing sufficient reserves and provisions are held for past and unknown events which may impact on the Council's resources. The MTFP is prepared alongside other plans and strategies (for example the Capital and Investment Strategies). There is a process in place for challenging any growth items and agreeing the achievability of planned savings.

Arrangements and approach to 2021/22 financial planning

The arrangements for the 2021/22 budget setting process have largely followed the arrangements in place for 2020/21 but with a better understanding based on the experiences during the year of the impact of Covid-19 on the Council's services. There were still though a number of unavoidable uncertainties regarding likelihood and impact of any future lifting of restrictions or lockdowns, and the availability of any further government support.

Balanced General Fund and Housing Revenue Account budgets for 2021/22 were approved at the February 2021 Council meeting with any required savings expected to be covered by actions in hand. The Council approved the updated 2020/21 budgets and MTFP running 2020-2023 in September 2021. We reviewed the report and considered any significant changes on the original estimates. The most significant revisions include £3.3m total budgeted reductions in sales, fees and charges; £1.7m of in years savings identified; £1.3m of Covid-19 extra costs and £0.6m of other cost pressures. This has led to a total additional expenditure predicted of £3.8m in the General Fund. This has been mitigated by additional government funding of £3.4m.

There was an acknowledgement in approving the MTFP that the roll over of the Local Government Funding Settlement meant that some of the expected changes in the Fair Funding Review and in relation to New Homes Bonus and any Business Rates reset were not enforced. Changes in these areas were regarded as a risk through expected loss of funding so their deferral represented a gain to the Council's immediate financial position.

The continuing uncertainty does make though strategic financial planning difficult for Councils, particularly in relation to its General Fund services. The MTFP approved in February 2021 forecast a balanced budget for 2021/22 however, in order to keep the GF working balance at the £2m minimum level additional savings or income generation of £0.5m and £0.8m will need to be found in 2022/2023 and 23/2024 respectively. The Council has, as described above, established reserves to support its planned transformation and savings process and to address volatility in funding.

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

3. VFM arrangements – Governance

Overall commentary on the Governance reporting criteria

Risk management and monitoring arrangements

The Council has an established risk management framework and systems in place which are built into the governance structure of the organisation. There is an updated and approved Risk Management Strategy which includes the Council’s approach, guidance, the Council’s risk appetite and roles and responsibilities. The Audit Committee is responsible for overseeing the effectiveness of the Council’s risk management arrangements, challenging risk information. The Committee is presented with the risk register on a regular basis and provides challenge as part of the process. The Senior Leadership Team and Corporate Management Team consider the Committee’s minutes and summary reports.

In order to provide assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud, the Council facilitates this through Internal Audit which is provided by a shared service with neighbouring councils. The annual Internal Audit plan is agreed with management at the start of the financial year and is reviewed by Audit Committee prior to final approval.

The audit plan is based on an assessment of risks the Council faces and is designed to ensure there is assurance on the overall adequacy and effectiveness of the Council’s framework of governance, risk management and control. The planned work can be supplemented if necessary by ad hoc reviews in respect of suspected irregularities and other work commissioned by Officers and Members of the Council where relevant to respond to emerging risks and issues. We have reviewed the Internal Audit plans for 2020/21 and 2021/22 and confirmed they are consistent with the risk based approach.

Internal Audit progress reports are presented to each Audit Committee meeting including follow up reporting on recommendations from previous Internal Audit reports. From our attendance at meetings, we are satisfied this allows the Committee to effectively hold management to account. At the end of each financial year the Head of Internal Audit provides an Annual Report including an opinion, based on the work completed during the year, on the overall adequacy and effectiveness of the council’s control environment. For 2020/21 the Head of Internal Audit concluded that a reasonable level of assurance could be provided on the overall adequacy and effectiveness of the Council’s framework for governance, risk management and control.

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

and reports which they receive from officers, internal audit and external audit.

Arrangements for budget setting and budgetary control

The Council has an established set of arrangements in place for budget setting and control. The process is set out and approved through the Constitution, which encompasses the budget setting rules and financial procedures. The framework includes:

- Clear responsibilities, including the role of the S151 Officer in leading the budget setting process and providing professional advice, and the reservation of the approval of the Budget to the Council.
- Close working between the finance team and with external advisors and neighbouring councils to agree the key budget assumptions, which are challenged and agreed through the budget review process by Management, Cabinet and Council.

Following approval of the budget, budget monitoring commences to monitor progress against targets. Budget monitoring responsibilities of budget holders are documented and they are supported in this role by the finance team. Budget monitoring reports are produced and there are regular meetings held, including finance team members, to discuss the financial performance and forecasts. There are rules in place regarding the reporting of budget variances and budget changes.

There are similar processes and controls in place for development and control of the capital programme alongside the revenue budget setting. The Treasury Strategy reports are approved at the same time as the revenue budgets and monitored and reported on throughout the year.

There are rules in place regarding changes to the original budget, with Council approval required for any revisions. The opportunity to review the budget was especially important in 2020/21 given the likely impact of Covid-19 was largely unknown at the time the original budget was approved. The updated 2020/21 budget was approved by the Council in November 2020.

3. VFM arrangements – Governance

Overall commentary on the Governance reporting criteria (continued)

Decision making arrangements and control framework

The Council has an established governance structure in place which is set out within its Annual Governance Statement (AGS). The governance structure, as described in the AGS includes the Council's Code of Corporate Governance, the Constitution and the scheme of delegation which shows the levels of authority required for all key decisions, and the Council's Corporate Strategy.

The Council's Code of Corporate Governance sets out the governance principles which the Council are committed to and within which the Council conducts its business and affairs. The Code identifies the arrangements in place to enable the Council to meet the good governance principles identified.

The Constitution is kept under review and updated as required. The Constitution sets out how the Council operates, how decisions are made and the procedures to support the Council's aims of being transparent and accountable. The Constitution includes the Budget and Policy Framework Rules, Contract Procedure Rules, Member and Officer codes of conduct.

The Council have a number of Scrutiny Committees in place with arrangements shaped to reflect Council priorities. The Audit Committee provides further focus on risk, governance and control matters. The Scrutiny Committees have work programmes in place to steer their coverage of services and Cabinet key decisions. We have reviewed the Scrutiny Committees' minutes throughout the year and not identified any concerns.

The Council has purchased a number of investment properties over the past few years which has led to a new Director position being created to provide monitoring and review of the portfolio and any prospective future purchases. We have reviewed committee papers and confirmed there are several stages that the Council goes through prior to committing to purchasing a new investment property:

- A set of yes / no questions are reviewed for which all responses are required to be yes for the opportunity to progress;
- Due diligence and Senior Officer review of the opportunity;
- Members are presented with the opportunity and the Leader or Deputy Leader must give authority to purchase;

- Surveys, searches and contract negotiations.

We have reviewed reports submitted to Council on 18th January 2021 where authority was given to purchase an investment property and confirmed all of the above criteria were included as required in the report. Once the purchase has been completed the property forms part of the Council's portfolio and is reported on via a property performance report which is taken to the Audit Committee on a quarterly basis and we have reviewed those submitted on 28th September 2021. This report adequately summarises financial performance, current rents being charged, and the state of the market.

Regulators

There are few external regulators for district councils and we have not identified any matters reported which indicate significant weaknesses in the Council's governance arrangements. We reviewed the Local Government and Social Care Ombudsman's (LGSCO) 2020/21 report which was considered by Council at its September 2021 meeting. The Committee report includes a summary of the Ombudsman's findings which identified one upheld complaint which related to the Council wrongly placing the complainant on the corporate warning register.

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

3. VFM arrangements – Improving Economy, Efficiency and Effectiveness

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

Performance Management

The Council’s Corporate Strategy 2020-24 sets out the Council’s priorities and objectives for the period covered by the Strategy, including the values which underpin the overarching vision of ‘making Charnwood a stronger and more vibrant place for people to live, work and invest in’. The core priorities in the Strategy include ‘caring for the environment’; ‘healthy communities’; and ‘a thriving economy’.

The Council produces a Corporate Delivery Plan on an annual basis that summarises how far the Council has progressed in meeting the priorities set in the Corporate Strategy. We reviewed the 2020/21 Corporate Delivery Plan and noted that for all of the Strategy Outcomes an action plan has been developed, with measurable success criteria and an allocated individual or Department responsible. This allows the Council to monitor successful delivery and identify any areas where corrective action is required. The achievement of the Plan is monitored on a more regular basis through meetings of the Cabinet and Scrutiny Committees.

We have reviewed a sample of the performance reports and the Cabinet and Scrutiny Forum’s minutes which show member challenge of the reported performance. The quarterly reports demonstrate that performance has been managed throughout the 2020/21 year and any significant variances have been justified, with no major unexpected gaps in performance at the year end. The process has continued in the first half of 2021/22.

Partnerships

The Council has a number of significant partnership arrangements in place, through which the Council works to deliver services in line with its ambitions and priorities. These include having shared service for internal audit and being a part of Leicester and Leicestershire Enterprise Partnership (LLEP) that was formed in May 2011 which aims to drive economic prosperity across the Leicester and Leicestershire area through strong partnerships, robust intelligence and innovation. There are relevant governance frameworks in place for these arrangements and the Council continues to keep its role in these activities under review.

Procurement

The Council has a Procurement Strategy and set of Contract Procurement Rules which outlines how the procurement of goods, works and services is achieved. These documents take into account latest legislative and operational changes at the Council, and provide a corporate framework for the procurement of goods, works and services. There are also controls in place designed to ensure that all procurement activity is conducted with openness, honesty and accountability.

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

04

Section 04:

**Other reporting responsibilities and
our fees**

4. Other reporting responsibilities and our fees

Matters we report by exception

The Local Audit and Accountability Act 2014 provides auditors with specific powers where matters come to our attention that, in their judgement, require specific reporting action to be taken. Auditors have the power to:

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

We have not exercised any of these statutory reporting powers.

The 2014 Act also gives rights to local electors and other parties, such as the right to ask questions of the auditor and the right to make an objection to an item of account. We did not receive any such objections or questions.

Reporting to the NAO in respect of Whole of Government Accounts consolidation data

We have not yet received group instructions from the National Audit Office confirming their requirements in relation to the Council's Whole of Government Accounts. We are unable to issue our audit certificate until this is formally confirmed.

4. Other reporting responsibilities and our fees

Fees for work as the Council's auditor

We reported our proposed fees for the delivery of our work under the Code of Audit Practice in our Audit Strategy Memorandum and Audit Completion Report presented to the Audit Committee in June 2021 and January 2022. We expect our final audit fees to be as follows.

Area of work	2019/20 fees	2020/21 fees
Scale fee in respect of our work under the Code of Audit Practice	£42,325	£40,383
Additional testing as a result of changes arising from increased audit quality expectations involving the work on the valuation of land and buildings and on the local government pension scheme	£7,067	£7,067*
Additional testing as a result of the implementation of new auditing standards	-	£2,800*
Additional testing as a result of a new significant audit risk relating to Covid-19 grants	-	£1,200*
Other additional testing - additional testing and reporting in 2019/20 on uncertainties in key estimates as a result of Covid-19	£5,032	-
Additional work as a result of the new Code of Audit Practice and VFM reporting	-	£9,293*
Total fees	£54,424	£60,743*

* Fee variations subject to approval and confirmation by Public Sector Audit Appointments Limited.

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4. Other reporting responsibilities and our fees

Fees for other work

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

Certification of the Housing Benefit Subsidy Claim	£9,850
Pooling of Housing Capital Receipts Return	£3,150

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*where permitted under applicable country laws.