

Auditor's Annual Report

Charnwood Borough Council – year
ended 31 March 2022

March 2023



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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 2022. 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 on 24 January 2023, where our opinion was that the financial statements: give a true and fair view of the financial position of the Council as at 31st March 2022 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 2021/22.



Whole of Government Accounts (WGA)

We have not yet received group instructions from the National Audit Office in respect of our work on the Council's WGA submission. We are unable to commence our work in this area until such instructions have been received.



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 to 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

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. No such correspondence from electors has been received.

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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 2022 and of its financial performance for the year then ended. Our audit report, issued on 24th January 2023 gave an unqualified opinion on the financial statements for the year ended 31 March 2022.

Qualitative aspects of the Council's accounting practices

We reviewed the Council's accounting policies and disclosures and concluded they comply with the 2021/22 Code of Practice on Local Authority Accounting, appropriately tailored to the Council's circumstances.

Internal control recommendations

The purpose of our audit was to express an opinion on the financial statements. As part of our audit, we considered the internal controls in place relevant to the preparation of the financial statements in order to design audit procedures to allow us to express an opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of internal control or to identify any significant deficiencies in their design or operation.

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

Audit Committee, confirming there were no 'high' priority recommendations with potential for financial loss, damage to reputation or loss of information that may have implications for the achievement of business strategic objectives for immediate implementation.

Management co-operation during the audit

We had positive co-operation from management during the audit and particular want to thank the Head of Finance and the Director of Finance, Governance and Contracts for their support throughout.

2. Audit of the financial statements

Main financial statement audit risks and findings

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

Audit Risk	Level of audit risk	How we addressed the risk	Audit conclusions
<p>Management override of controls</p> <p>This is a mandatory significant risk on all audits due to the unpredictable way in which such override could occur.</p>	<p>Significant risk: an area that, in our judgment, requires special audit consideration.</p>	<p>We addressed the risk through performing work over accounting estimates, journal entries and considering whether there were any significant transactions outside the normal course of business or otherwise unusual. In addition, we made enquiries of management and used our data analytics and interrogation software to extract accounting journals for detailed testing on specific risk characteristics.</p>	<p>There are no significant matters to report in respect of management override of controls.</p>
<p>Valuation of land & buildings and investment properties and council dwellings</p> <p>The valuation of these properties is complex and is subject to a number of management assumptions, judgements and a high degree of estimation uncertainty covering:</p> <ul style="list-style-type: none"> • Council dwellings (£337m – Note 10) • Other Land & Buildings (£58m - Note 10) • Investment Properties (£25m – Note 11) 	<p>Significant risk</p>	<p>Our procedures to address this risk included, but was not limited to:</p> <ul style="list-style-type: none"> • considering whether the overall revaluation methodologies used by the Council's valuers are in line with industry practice, the CIPFA Code of Practice and the Council's accounting policies; • assessing whether valuation movements are in line with market expectations by using third party information to provide information on regional valuation trends; • critically assessing the approach that the Council adopts to ensure assets that are not subject to revaluation in 2021/22 are materially correct, including considering the robustness of that approach in light of the valuation information reported by the Council's valuers; and • testing a sample of individual valuations, back to source records to ensure appropriateness and to gain assurance over whether the correct accounting treatment has been applied. 	<p>There are no significant matters to report in respect of valuation of land, building and dwelling assets.</p>
<p>Valuation of the net pension liability</p> <p>The defined benefit liability relating to the Local Government pension scheme represents significant balances on the Council's balance sheet. The Council relies on an actuary to provide an annual valuation of these liabilities in line with the requirements of IAS 19 Employee Benefits. Due to the high degree of estimation uncertainty associated with this valuation, we have determined there is a significant risk of misstatement in this area.</p>	<p>Significant risk</p>	<p>Our procedures to address this risk included, but was not limited to:</p> <ul style="list-style-type: none"> • liaising with the auditors of the Leicestershire Pension Fund to gain assurance that the controls in place at the Pension Fund are designed and implemented correctly. This included the processes and controls in place to ensure data provided to the Actuary by the Pension Fund for the purposes of the IAS 19 valuation is complete and accurate; • reviewing the appropriateness of the Pension Asset and Liability valuation methodologies applied by the Pension Fund Actuaries, and the key assumptions included within the valuations. This included comparing them to expected ranges, utilising information by the consulting actuary engaged by the National Audit Office. 	<p>There are no significant matters to report in respect of valuation of land, building and dwelling assets.</p>

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3. Commentary on VFM arrangements

Overall summary



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

Our work is carried out in three main phases.

Phase 1 - Planning and risk assessment

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.

We obtain our understanding of arrangements for each of the specified reporting criteria using a variety of information sources which may include:

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

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.

Phase 2 - Additional risk-based procedures and evaluation

Where we identify risks of significant weaknesses in arrangements, we design a programme of work to enable us to decide whether there are actual significant weaknesses in arrangements. We use our professional judgement and have regard to guidance issued by the NAO in determining the extent to which an identified weakness is significant.

Phase 3 - Reporting the outcomes of our work and our recommendations

We are required to provide a summary of the work we have undertaken and the judgments we have reached against each of the specified reporting criteria in this Auditor's Annual Report. We do this as part of our Commentary on VFM arrangements which we set out for each criteria later in this section.

We also make recommendations where we identify weaknesses in arrangements or other matters that require attention from the Council. We refer to two distinct types of recommendation through the remainder of this report:

- **Recommendations arising from significant weaknesses in arrangements**

We make these recommendations for improvement where we have identified a significant weakness in the Council arrangements for securing economy, efficiency and effectiveness in its use of resources. Where such significant weaknesses in arrangements are identified, we report these (and our associated recommendations) at any point during the course of the audit.

- **Other recommendations**

We make other recommendations when we identify areas for potential improvement or weaknesses in arrangements which we do not consider to be significant but which still require action to be taken

The table on the following page summarises the outcomes of our work against each reporting criteria, including whether we have identified any significant weaknesses in arrangements or made other recommendations.

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


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3. VFM arrangements – Overall summary

Overall summary by reporting criteria

Reporting criteria	2020/21 Actual significant weaknesses identified?	2021/22 Commentary page reference	2021/22 Identified risks of significant weakness?	2021/22 Actual significant weaknesses identified?	2021/22 Other recommendations made?
 Financial sustainability	No	13	No	No matters arising in 2021/22.	No
 Governance	No	16	No	No matters arising in 2021/22.	No
 Improving economy, efficiency and effectiveness	No	19	No	No matters arising in 2021/22.	No

3. VFM arrangements – Overall summary

Context of the Auditor’s Annual Report

Our Auditor’s Annual Report summarises the work we have undertaken as the auditor for Charnwood Borough Council for the year ended **31 March 2022**, where at the time of reporting in March 2023, we recognise that the social, political and economic environment has changed and local government is facing significant challenges including:

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

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

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3. VFM arrangements

Financial Sustainability

How the body plans and manages its resources to ensure it can continue to deliver its services



3. VFM arrangements – Financial Sustainability

Overall commentary on the Financial Sustainability reporting criteria

Significant weakness in 2020/21	Nil.
Significant weaknesses identified in 2021/22	Nil.

Position brought forward from 2020/21

As set out in the table above, there are no indications of a significant weakness in the Council’s arrangements for financial sustainability brought forward from 2020/21.

Overall responsibilities for financial governance

We have reviewed the Council’s overall governance framework, including Council and committee reports, the Annual Governance Statement, and Statement of Accounts for 2021/22. These confirm the Council undertook its responsibility to define the strategic aims and objectives, approve budgets and monitor financial performance against budgets and plans to best meet the needs of the Council’s service users.

The Trust’s financial planning and monitoring arrangements

Through our review of Council and committee reports, meetings with management and relevant work performed on the financial statements, we are satisfied that the Council’s arrangements for budget monitoring remain appropriate, including quarterly reporting to Members and well established arrangements for year-end financial reporting.

We reviewed Revenue And Capital Outturn Position for 2021/22 presented to Cabinet 7th July 2022. The report set out the Council’s year end outturn position for the revenue and capital budgets for the 2021/22 financial year, and the impact on both the General Fund and Housing Revenue Account (HRA) level of general Balances. The Council’s General Fund Outturn saw a £1.6m favourable variance against budget, which was

transferred to Reserves to mitigate against expected future budget pressures. The Council achieved a surplus for the Housing Revenue Account in 2021/22.

Financial Statement performance 2021/22

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 position does not highlight any concerns. The Council’s useable reserves have increased from £43.7m to £46.2 in 2021/22, with:

- General Fund Reserves of £6.5m, up from £5.8m in the prior year
- HRA Financing Fund Reserve of £14.5m, up from £11.6m in 2020/21
- Capital Reserves of £10.3m, up from £9.8m in 2020/21.

The Council’s reserves position does not indicate a risk of significant weakness in VFM arrangements for financial sustainability and 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.

3. VFM arrangements – Financial Sustainability

Overall commentary on the Financial Sustainability reporting criteria

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

For the 2021/22 General Fund budget, the Council set a balanced budget which relied on resources being taken from balances, and a savings target aimed at delivering efficiency savings and cuts against services totalling £2m.

We reviewed Revenue And Capital Outturn Position for 2021/22 provided to Cabinet on 7th July 2022. The report confirms a £1.6m favourable variance against budget which meant that the predicted £874k use of reserves was not required and the Council instead increased the General Fund working balance by £751k.

A balanced budget was set for the General Fund and HRA for 2022/23 in February 2022, with the General Fund position dependent on £1.1m transformation savings. The level of general fund reserves and ongoing budgetary control arrangements has led us to believe satisfactory arrangements are in place. We do, however, see it as an area to be challenged by officers and members to ensure appropriate action is taken to maintain service levels under increasing cost pressures beyond 2022/23.

The Council’s arrangements and approach to financial planning 2022/23

We reviewed the Medium Term Financial Strategy (MTFS) set from 2022 to 2025 and confirmed it supports the Council’s priorities communicated in its Corporate Strategy. The MTFS adequately identifies the financial implications from 2022 to 2025, noting that the key assumptions underpinning expenditure budgets through the MTFS included CPI, pay increases of 3% in 2022/23 and then 1.5% annually and pension contribution rate.

We supplemented our review of the 2022/23 budget and MTFS by reviewing the report of the Head of Finance to the Finance and Performance Scrutiny Committee on 15 March 2023 regarding the revenue outturn and forecast position at Quarter 3. This forecasts a £0.5m General Fund overspend and overspend of £0.3m on the HRA. The reasons for the variances are explained in detail including whether they are expected to be a one off or ongoing we noted as part of the minutes improvements to lead to savings in the future were also noted. In our view, this does not indicate a risk of significant weakness in arrangements for financial planning for the year ended 31 March 2023.

Based on the above considerations we are satisfied there is not a significant weakness in the Council’s arrangements in relation to financial sustainability for the year ended 31 March 2022.

3. Commentary on VFM arrangements

Governance

How the body ensures that it makes informed decisions and properly manages its risks



3. VFM arrangements – Governance

Overall commentary on the Governance reporting criteria

Significant weakness in 2020/21	Nil.
Significant weaknesses identified in 2021/22	Nil.

The Authority’s governance structure

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

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

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

Risk management and internal control

The Council has an established risk management strategy and systems in place which are built into the governance structure of the organisation. There is an approved Risk Management Strategy which includes the Council’s approach to managing risk, guidance, the Council’s risk appetite and roles and responsibilities.

The Audit Committee is responsible for maintaining an independent oversight of risk management issues and considering the effectiveness of the implementation of the risk management strategy. The Committee is presented with the risk register on a regular basis and provides challenge as part of the process. These

arrangements are consistent with what we would expect at a local authority and are adequate for the Council’s purposes.

The Annual Governance Statement is a critical component of the Council’s governance arrangements. It is an evidenced self assessment by the Council on the Council’s governance, assurance and internal control frameworks for the financial year. The Audit Committee are responsible for review of the Council’s Annual Governance Statement. No significant weaknesses in internal control have been identified from our work to date and Internal Audit have not identified or raised any significant concerns. We reviewed the Annual Governance Statements as part of our work on the financial statements with no significant issues arising.

We have attended Audit Committee meetings and reviewed supporting documents and are satisfied that the programme of work is appropriate for the Council’s requirements. Our attendance at Audit Committee has confirmed there continues to be an appropriate level of effective challenge.

3. VFM arrangements – Governance

Overall commentary on the Governance reporting criteria - continued

Arrangements for budget setting and budgetary control

The Council has an established set of arrangements in place for budget setting and control. The process is set out and approved through the Constitution, which encompasses the budget setting rules and financial procedures. As also explained on page 15, we have reviewed the budget setting arrangements through observation and discussions with Officers and no matters have been identified indicating a significant weakness in arrangements.

The Council's MTFS includes the identification and evaluation of risks to the Authority's finances and is developed in parallel to the budget for the following year and setting of the precept. 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.

We have reviewed minutes of meetings and the year end financial outturn reports presented to the Cabinet during the year as well as the and narrative statement to the financial statements. In addition, we have reviewed capital expenditure as presented in the financial statements with no issues arising from our testing of additions.

We also reviewed the capital programme as included within the Council's 2022/23 approved MTFS, noting that the consolidated Capital Programme for the next three years from 2022/23 to 2024/25 is funded predominantly from capital receipts, capital grants and contributions other than 2023/24 when borrowing will be incurred. We have held regular discussions with officers regarding arrangements for the management and funding of capital programme, and noted no issues.

General Fund	2022/23	2023/24	2024/25
Total Capital Programme (€'000)	25,580	27,647	8,225
Funded by:			
GF Revenue Contributions	38	0	0
GF Capital Receipts	4,714	1,433	453
GF Capital Grants	8,580	1,558	1,127
GF Capital Plan Reserves	214	-	-
HRA MRR & Financing Fund	10,863	9,207	6,195
HRA Capital Receipts	1,171	449	450
Internal / External Borrowing	-	15,000	-
Total Funding	25,580	27,647	8,255

Overall, we have not identified any indicators of a significant weakness in the Trust's arrangements relating to the Governance criteria for the year ended 31 March 2022.

3. Commentary on VFM arrangements

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



3. VFM arrangements – Improving Economy, Efficiency and Effectiveness

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

Significant weakness in 2020/21	Nil.
Significant weaknesses identified in 2021/22	Nil.

The Council’s Corporate Strategy 2020-2024 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 themes in the Strategy are: caring for the environment, healthy communities and a thriving economy. Each of the themes have a detailed delivery plan in place with specific indicators to measure success.

As part of the Council’s Performance Management and Continuous Improvement Framework all service areas have objectives which form part of the Corporate Delivery Plan Objectives and Key Performance Indicators. These are reported on a quarterly basis to the Finance and Performance Scrutiny Committee. We reviewed the Finance and Performance Scrutiny Committee performance report from September 2022, which included the Service Plan Performance Indicators for areas including:

- Caring for the environment;
- Healthy Communities;
- A thriving economy;
- Your Council;

There is a summary sheet prior to the in depth report showing the status of all 69 actions in relation to the Corporate Delivery Plan. In the report in September this identified that 4 items were completed; 1 had yet to be started; 11 were rated as Amber status and 55 rated as Green. Progress is given against all actions in detail to allow action to be taken as required. No variances give us cause for concern and both the report and performance outturn are indicators of adequate arrangements in place.

We identified no significant changes in arrangements regarding partnership working and are satisfied the Council continues to have arrangements for standing financial instructions, purchase order controls and our work on the financial statements has not identified any significant internal control deficiencies regarding purchasing controls.

Overall, we have not identified any indicators of a significant weakness in the Trust’s arrangements relating to the Improving Economy, Efficiency and Effectiveness criteria for the year ended 31 March 2022.

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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 National Audit Office (NAO) in respect of Whole of Government Accounts (WGA) consolidation data

The NAO, as group auditor, requires us to complete the WGA Assurance Statement in respect of its consolidation data. We have not received the instructions from the NAO and therefore this work remains incomplete.

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. Having substantially completed our work for the 2021/22 financial year, we can confirm that our fees are as follows:

Area of work	2020/21 fees	2021/22 fees	2022/23 Scale Fee
Scale fee in respect of our work under the Code of Audit Practice	£42,423	£42,325	£51,995
Estimated additional fees in respect of the new VFM approach	£9,293	£8,770	TBC
Estimated additional fees in respect of:			
• Prior period error		£4,080	-
• Additional testing on IAS19 Pension Liabilities*	£2,998	£3,740	-
• Additional testing on valuation of land, buildings, council dwellings and investment properties*	£4,069	£6,200	-
• Additional work arising from introduction of new auditing standards (ISA 540 Estimates)	£2,892	£3,590	TBC
• Other additional work	£1,188	-	TBC
Total fees	£62,765	£68,704	TBC

**The scale fee for 2022/23 has been uplifted to take into account a permanent increase for group accounts, pension testing and testing of land & buildings*

Fee variations subject to PSAA approval process.

Fees for other work

We confirm that we have undertaken one assurance related service for the Council in the year: Assurance return on the pooling of housing capital receipts for £3,310 and Housing Benefits Assurance £10,100.

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*where permitted under applicable country laws.