

Auditor's Annual Report

Bassetlaw District Council – year ended
31 March 2022

April 2024



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01

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 Bassetlaw District 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 1st December 2023. 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 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

On 3 April 2024, we were notified that no further information would be required in relation to the Council's 2021/22 Whole of Government Accounts submission allowing us to issue the Audit Certificate.

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

Qualitative aspects of the Council's accounting practices

Timely and good quality financial statements are an important way to tell council tax payers and other stakeholders about the financial performance, financial position and cash flows of the authority. Whilst draft accounts were received from the Council and approved for issue by the 31st July 2022 deadline, our audit has identified material errors as set out in Section 6.

Internal Control Observations

We have made a number of recommendations relating to improving financial reporting and internal controls in section 5 of this report with varying degrees of significance and impact on the maintenance of an effective control environment. These include:

- Journal controls to prevent management override and mitigate the risk of fraudulent financial reporting
- Maintaining up-to-date records of potential related party interests

- Insufficient controls over calculation of accruals
- Not applying the accounting standard for expected credit losses
- Variances between the general ledger and the NNDR3 business rate return.

Application of accounting policies

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

Significant difficulties during the audit

During the audit we experienced difficulties in relation to obtaining sufficient appropriate evidence in relation to the property valuations carried out in the year, which lead to delays in completing the audit testing in this area. This difficulty has been reported at previous audits and we have again raised a control improvement recommendation.

2. Audit of the financial statements

Internal control recommendations

As part of our audit we considered the internal controls in place that are relevant to the preparation of the financial statements. We did this to design audit procedures that allow us to express our opinion on the financial statements, but this did not extend to us expressing an opinion on the effectiveness of internal controls. We identified the following deficiencies in internal control as part of our audit.

Priority ranking	Description	Number of issues
1 (high)	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.	4
2 (medium)	In our view, there is a need to strengthen internal control or enhance business efficiency. The recommendations should be actioned in the near future.	2
3 (low)	In our view, internal control should be strengthened in these additional areas when practicable.	-

Journals posting – Level 1

As part of our wider audit testing, we identified an instance of a journal being posted and approved by the same user account. Further investigations showed that the journal had been posted and approved by a single user account, but approval had taken place via email outside of the ledger system.

Potential effects

Testing of this journal identified no issues and a wider review of the population of material manually posted journals showed this to be the only instance. However, a lack of formalised segregation of duties between the poster and approver of journals may result in the posting of incorrect or fraudulent journals.

Recommendation

Management should provide training to finance staff to remind them of the importance of applying formalised segregation of duties when posting and approving journals. Management should also review the ledger system and ensure journals cannot be posted and approved by the same officer.

Management response

A review of the procedure for processing journals on the ledger will take place during 2023/24.

2. Audit of the financial statements

Internal control recommendations

Related parties – Level 1

As part of our wider audit testing surrounding related parties disclosures, we identified 27 instances of a potential 57 where member returns for declarations of interests were not being returned.

Potential effects

Member returns of declarations of interests are a key control in the identification and disclosure of potential related party transactions. Failure to complete these returns could result in incomplete disclosures of related parties or fraudulent transactions with related parties.

Recommendation

Management should provide training to members to remind them of the importance of the timely completion of declaration of interest returns.

Management response

Members will be reminded that declaration of interests are an important part of the Council's internal controls . This will be given more emphasis during the 2022/23 final accounts process (and in future years) with regular reminders sent out from the Director of Corporate Resources to ensure compliance and reiterate the importance of their returns.

Manual accruals accounting – Level 1

As part of our audit testing, we identified several manual accruals, resulting in extrapolated errors of approximately £250k, that had been calculated by officers without sufficient review from members of the council's finance team. We also noted that no consistent methodology was applied across similar classes of accruals.

Potential effects

Testing of these accruals identified an immaterial misstatement based on our extrapolation over the entire population. However, the lack of a consistent methodology and lack of review by finance staff may result in accruals being calculated in incorrectly, resulting in incorrect figures being input into the financial statements. The lack of consistent methodology and review may also provide officers with an opportunity to manipulate estimates, increasing the council's susceptibility to fraud.

Recommendation

Management should provide training to members of the finance team to remind them of the importance of review of work. Management should also review the population of manual accruals, and ensure a consistent methodology is documented and applied in future periods.

Management response

The quality assurance review process will be strengthened to ensure all accruals are reviewed to ensure consistency in terms of methodology.

2. Audit of the financial statements

Internal control recommendations

Property valuations (repeat of prior year) – Level 1

We have experienced difficulties in obtaining sufficient appropriate supporting evidence for the Council's valuations and identified material errors in the processing of the valuations in the draft financial statements. We have identified control deficiencies in this area in the previous year and not identified any significant improvement.

Potential effects

The highlighted issue has resulted in a delay in completing our audit work.

Recommendation

We recommend that management take steps to ensure that information supporting all asset valuations is made readily available during the audit and that managers respond promptly to audit queries.

Management response

The information for revaluations will be requested earlier in the final accounts process to give more certainty over the figures to be included in the calculations. Aligned to this, the Council will move to a new asset management system which will over time incorporate the capital accounting module that will mean the information on valuations will be more readily available once the system is populated with the relevant data.

Expected credit loss accounting – Level 2

As part of our audit testing, we noted that management did not perform updated, detailed analysis of historic collection rates of aged debt across different classes of debtors to support the expected credit loss calculation.

Potential effects

Our review of the rates applied, along with accumulated knowledge of rates of collection across wider local government confirmed those applied are in line with expectations. Sensitivity analysis confirmed the magnitude of variance to these rates of collection required to cause a material misstatement were not feasible based on those already applied, and that management have taken a prudent approach in calculation of the allowance. However, the use of outdated analysis could result in inaccuracy in the calculation of the expected credit loss allowance.

Recommendation

Management should perform updated analysis of historic rates of collection of debt across classes of debtors to support the calculation of expected credit losses in future years.

Management response

The expected credit losses calculation will be reviewed and the calculation assessed to ensure that the estimates used are comparable with the latest collection rates.

2. Audit of the financial statements

Internal control recommendations

Collection fund accounting – Level 2

As part of our wider audit testing of the collection fund, we identified several variances between figures included in the general ledger and those included in the final NNDR3 return.

Potential effects

Although immaterial in nature, these variances could result in potentially material misstatements in the financial statements when accumulated.

Recommendation

Management should review the process for inputting collection fund figures into the general ledger and ensure all balances are fully reconciled to finalised NNDR3 returns.

Management response

The process will be reviewed to ensure that the balances are reconciled to the latest NNDR3 figures.

03

Section 03:

Commentary on VFM arrangements

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.

We outline the risks that we have identified and the work we have done to address those risks on page [x].

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.

3. VFM arrangements – Overall summary

Overall summary by reporting criteria

Reporting criteria	Commentary page reference	Identified risks of significant weakness?	Actual significant weaknesses identified?	Other recommendations made?
 Financial sustainability	15	No	No	No
 Governance	18	Yes – page 19	Yes – page 25	Yes – page 25
 Improving economy, efficiency and effectiveness	21	No	No	No

3. Commentary on 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

Background to the Council’s operating environment

The Council entered 2021/22 facing considerable operation pressures as a result 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 Bassetlaw District Council. During the 2021/22 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 were backed by additional funding, and the Council received a mixture of central government grants and emergency funding during 2021/22, albeit at a lower level than in 2020/21 to either support local businesses/individuals or meet the Council’s own costs.

The Council’s financial planning and monitoring arrangements

We have reviewed Council reports and met with officers to understand the Council’s arrangements, this includes the 2021/22 outturn report to Cabinet, 2022/23 and the 2023/24 Medium-Term Financial Plan, and minutes of Cabinet and the Audit Committee.

The Council provides a medium-term financial plan to Cabinet each year, setting out the Council’s high level financial plans. Each year the council undertakes a zero-based budgeting process reviewing specific discretionary budgets that are subject to justification prior to being rolled forward. Heads of Service are asked to consider any significant financial changes in service requirements over the medium term and how these will impact on the Council’s resources. This information then informs a draft financial plan for discussion with the Council’s Corporate Leadership Team, the Leader of the Council and the Portfolio Holder for Finance.

Revenue budget growth is only considered for evidenced unavoidable pressures or increases in demand. All capital investment requests must be supported by a bid form that provides a range of information to help assess value for money. The capital budgets are prioritised using a well-tested methodology which is approved as part of the Capital Investment Strategy and schemes are ranked accordingly. Funding for new capital schemes are currently limited to the amounts awarded externally to the Council through central government channels or by other government departments.

As part of the process during this financial year, there is a thorough review of all reserves to ensure they remain relevant with a view to repurposing them where appropriate to do so. The Council keeps a level of reserves to protect against the risk of any uncertainties or unforeseen expenditure. This is considered best practice and

demonstrates sound financial planning. It is recognised by the Council (officers and members) that the use of financial reserves cannot solve a budget problem outright but allows for smoothing of impacts.

The budget taken to the committee during 2021/22 highlighted a total budget challenge of £0.6m for the 5 years to 2026/27. Within this, the Council highlighted a budget shortfall of £8.4m but identified savings over the 5 years of £7.8m. As part of our programme of work, we have reviewed the Council’s savings plan over the 5 year period and concluded, to the best of our knowledge, savings have been adequately considered. Given the timing of our work, we have also reviewed outturn against the first year of the savings plan and note the Council has made progress towards its target.

The Council has a record of sound financial management with the regular reporting of the financial position through to Cabinet. Budget monitoring reports (revenue and capital) are also routinely taken through the Council’s scrutiny function. The outturn position for 2021/22 was within budget and resulted in an under spend of £0.6m that was earmarked for specific purposes in line with recommendations contained within the report.

Looking to the financial budget for 2023/24, the Council forecast ‘gap’ of £3m in 2025/26. Early work in addressing this is centred around a thorough review of reserves and spending plans, and in particular will consider how the ‘cliff edge’ in 2025/26 (caused by expected business rates reset and funding reform) may be managed.

At the point of 31 March 2022, there was, in our view, sufficient time to develop an appropriate response to the financial position meaning we did not judge this to be indicative of a significant weakness in arrangements, whilst also reflecting that uncertainties such as those identified above are systemic within local government.

The Council’s arrangements for the identification, management and monitoring of funding gaps and risks to financial resilience

The annual budget report presented to the Council contains details of key financial risks and potential impacts on the Council, as well as mitigating actions being taken. The report also details the level of reserves available to meet unforeseen challenges.

In this annual report, the Council sets out that key funding reviews and business rates reforms were delayed during 2021/22 and not implemented, resulting in a balanced positions being achieved without the full implementation of planned savings. The Council has therefore planned to push these savings back, acknowledging that delays in such reviews and reforms do not mitigate their need.

3. VFM arrangements – Financial Sustainability

Overall commentary on the Financial Sustainability reporting criteria - continued

When setting its Budget, the Council has regard to the level of reserves needed to mitigate against both known and unknown risks and issues. It is the Council's view that the minimum prudent level of reserves should be at £1.0m for 2022/23, and it cites CIPFA who recommend that this should be maintained to at least at 5% of net expenditure. The Council's £1.0m minimum working balance is just above the minimum figure and represents 6.0% of net expenditure.

We reviewed a sample of budget monitoring reports presented for 2021/22 to the Cabinet and the Overview and Scrutiny Committee. The reports contained detail on any significant variances to budget and updated on performance against savings targets. The reports also contained 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's arrangements to ensure financial plans support sustainable delivery and wider planning

Alongside the medium-term financial plan, the Council develops treasury and capital investment strategies to support the financial plan. This ensures relevant plans relating to the Council's finances are co-ordinated and support the operation delivery requirements of the Council. We read the internal audit review which concluded the budget setting process was sound giving a 'substantial assurance' conclusion on the Council's processes and procedures.

Throughout the financial year, the Director of Corporate Resources provided updates on treasury management, revenue and capital budgets to Cabinet, Overview & Scrutiny and Audit & Governance Committee as appropriate. These reports are intended to provide assurance to Cabinet, Overview & Scrutiny and Audit & Governance Committee that the relevant plans, and outturn to date, are supporting the day to day operational requirements of the Council.

The Council also has a wider overarching local plan. This details the high level goals of the Council for a 15-20 year period, and is subject to consultation to ensure the Council is delivering services in line with the needs of the local population. In preparing the medium term financial plan, management are required to consider the overarching local plan, the ensure the delivery of the Council's goals can be met.

In acknowledgement that the Council is subject to a limited level of resources, initiatives such as 'Invest to Save' have been enacted to ensure practises are sustainable and will support the Council to meet its future

operational needs. Such initiatives are focussed on identifying investments that will provide long-term savings into the future. Examples of recent schemes include the provision of electric vehicle charging points and LED energy saving lighting schemes. Such schemes also integrate into the Council's long term local plan, converging on green and sustainable practises goals.

Outlook for 2022/23 and onwards

Local government is facing significant challenges for 2022/23 onwards. A sample of challenges the Council will be forced to consider and address in future periods will be:

- **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. The rising Bank of England base rate meant that the cost of borrowing has also 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.

Overall view on arrangements in relation to financial sustainability

As a result of the programme of work performed, we are satisfied the Council's arrangements in relation to financial sustainability are appropriate to secure value for money 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

Risks of significant weaknesses in arrangements

We have outlined below the risks of significant weaknesses in arrangements that we have identified as part of our continuous planning procedures, and the work undertaken to respond to each of those risks.

Risk of significant weakness in arrangements	Work undertaken and the results of our work
<p>1</p> <p>Governance arrangements in relation to the financial reporting process</p> <p>Our work on the 2020/21 financial statements took longer than would ordinarily be expected because of issues in preparation of the Council's draft statutory financial statements. In addition to this the audit identified material errors, in the draft financial statements, including:</p> <ul style="list-style-type: none"> • £2.5m prior period adjustment in valuations • £1.7m in year valuation error • £1m error in valuations (unadjusted) <p>Recommendations to address the underlying issues were raised as internal control weaknesses in the 2020/21 Audit Completion Report.</p> <p>Despite these recommendations being made, during the 2021/22 financial audit, material errors and internal control weaknesses have been identified, with a continuation of issues from 2020/21.</p> <p>In our view, the combination of new and ongoing issues in financial reporting, compounded by a lack of action in relation to previously-raised recommendations, is a risk of significant weakness in arrangements that support the council's statutory financial reporting requirement that leads to – or could reasonably be expected to lead to – significant impact on the quality or effectiveness of service or on the body's reputation.</p>	<p>Work undertaken</p> <p>To address the risk identified, We have reviewed the issues identified as part of the 2021/22 financial audit and considered whether they are indicative of a significant weakness in the Council's governance arrangements.</p> <p>Results of our work</p> <p>Our financial audit work identified total net audit adjustments of approximately £15.1m against a financial statement materiality of £2.5m. Most of the adjustment balance was related to poor accounts preparation, summarised as follows:</p> <ol style="list-style-type: none"> 1. Posting of reconciling items directly on the face of the accounts to make the statements balance even though Property, Plant and Equipment figures did not reconcile to the fixed asset register. 2. Failure to include property re-classifications within the accounts that had been recorded in the fixed asset register, resulting in misstatements to PPE and the statements not reconciling to the ledger or source documentation. 3. Recording of transactions directly of the face of the accounts without any records in the ledger or fixed asset register. <p>Our work found that the Council has adequate source documentation to support transactions but did not reflect the financial information recoded within the ledger and fixed asset register within the financial statements. This reflects poor quality working papers and quality control arrangements in preparing the financial statements. We have considered whether these issues impact budget setting / financial sustainability, however as the majority are all related to fixed asset / capital charges, these have no impact on general fund or council tax setting. We are therefore satisfied that the issues are isolated to statutory financial reporting and not internal budgetary control/monitoring/reporting.</p> <p>We also reported control recommendations linked to the above, but also in relation to the fact that, as part of our audit testing, we identified several manual accruals that had been calculated by officers without sufficient review from members of the council's finance team. We also noted that no consistent methodology was applied across similar classes of accruals. Whilst the impact was not material, it supports the assertion above re lack of robust financial quality control arrangements.</p> <p>The combination of new and ongoing issues in financial reporting processes, compounded by not actioning previously raised recommendations, could reasonably be expected to lead to a significant impact on the quality or effectiveness of service or on the Council's reputation. We are of the view that this represents a weakness in arrangements, in that management are not making use of financial information to produce accurate financial statements.</p>

3. VFM arrangements – Governance

Overall commentary on the Governance reporting criteria

The Council's arrangements to monitor and assess risk and gains assurance over the operation of internal controls and arrangements in place to prevent and detect fraud

The Council has an established risk management framework and systems in place which are built into the governance structure of the organisation. The Corporate Risk Management Strategy and Framework was reviewed and updated in September 2021 and sets out the Council's approach, methodology and responsibilities. There are Corporate and Operational Risk Registers in place which are refreshed to reflect any significant changes in circumstances in which the Council operates and the current challenges and opportunities it faces. The Audit & Governance Committee reviews the effectiveness of the Council's arrangements and has continued to receive relevant update reports and briefings.

The Council has a clear and defined risk management strategy framework that aligns financial accountability within service decision-making. Management has a regime of internal controls and reconciliations that operate in relation to its main systems and procedures. Financial fraud risks and risks of corruption are managed via control design in relation to accounting processes, Human Resources policies and procedures, and the Council's code of conduct. These are further supported by a set of financial procedure rules.

The Council engages an external firm, RSM, to provide assurance over the effective operation of internal controls. There is an identified Head of Internal Audit and our attendance at committees and review of reports confirms the annual Internal Audit plan is reviewed and agreed by the Audit & Governance Committee at the start of the year. Our review of minutes confirms that Internal Audit progress reports are presented to Audit & Governance Committee meetings, 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 2021/22 the Head of Internal Audit concluded that 'the organisation has an adequate and effective framework for risk management, governance and internal control'.

During the year, there were issues over how the Council manages and progresses audit actions although this will be resolved now the council has access to the RSM portal. A number of actions, reported as not being

progressed, are in fact complete or partially complete. A revised procedure is being drawn-up that will provide further review and challenge of audit actions at the Council's Corporate Management Team and the quarterly Corporate Risk Management Group.

Although we have issued an unmodified opinion of the Council's financial statements for 2021-22, our wider financial audit work identified a number control deficiencies and recommendations, with the majority of these being assessed as high priority. Management's attitude to engaging with the external auditors to rectify the identified issues moving forwards corroborates the view that internal control is treated as a priority by the Council. We will monitor the Council's progress against these recommendations in future periods.

Key to the risk management process is the role of the Audit & Governance Committee. Our attendance of meetings and review of minutes confirmed that the Committee receives regular updates on both internal audit progress and risk management. We have seen active Member engagement from the Audit & Governance Committee who challenge the papers and reports which they receive from officers, internal audit and external audit.

A key issue for the Committee, however, will be ensuring it has proper oversight, informed by training to embed relevant and adequate skills, to oversee improvements in the financial reporting process given it is a key component in approving the Council's financial statements as fit for purpose.

The Council's arrangements for budget setting and budgetary control

We confirmed the Council has an established set of arrangements in place for budget setting and control, approved through the Constitution, which encompasses the Budget Policy Framework Procedure rules and Financial Procedure rules. The Constitution is regularly reviewed and kept up to date.

3. VFM arrangements – Governance

Overall commentary on the Governance reporting criteria - continued

Following approval of the budget, budget monitoring commences to monitor progress against targets. Budget monitoring is a continuous process which operates at all levels throughout the Council. Although Corporate Directors are ultimately responsible for the delivery of their budgets, operationally these responsibilities are devolved down to Heads of Service and budget holders across the Council's services.

Through discussions with officers, budget monitoring reports are produced on a monthly basis and there are regular meetings held, including finance team members, to discuss the financial performance and forecasts. Our review of minutes and agendas confirms the Overview and Scrutiny Committee receive quarterly finance and service performance reports at the same meeting. The Committee's minutes demonstrate appropriate challenge is in place.

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

Budget monitoring reports are presented to Cabinet on a quarterly basis and cover both revenue and capital programme updates. These are supported by full year outturn reports, reviewing outturn against the initial budget.

These arrangements are consistent with those we see at other district Councils and do not present a risk of significant weakness.

The Council's decision-making arrangements

The Council has an established governance structure in place which is set out within its Annual Governance Statement (AGS). We reviewed the AGS for 2021/22 and observed the Audit & Governance Committee's review of the AGS and monitoring of actions throughout the year in relation to any significant governance issues.

There are arrangements in place for ensuring Councillors are aware of the behaviours expected under the Member Code of Conduct, and for investigating and considering any complaints made about Councillors. The

Member code of Conduct is overseen by the Standards Committee.

There is an Overview and Scrutiny Committee in place and its role is to review and scrutinise the discharge of the Cabinet's functions and the effectiveness of the Council's functions. The Audit & Governance Committee provides further focus on risk, governance and control matters. The Overview and Scrutiny Committee has a work programme in place to steer their coverage of services and Cabinet key decisions.

The Council's arrangements to ensure appropriate statutory and ethical standards are met

Discussions with officers confirm there is a Corporate Governance Working Group that meets monthly and discusses all governance issues impacting on the Council. We have not been informed of any significant issues.

Overall view or arrangements in place in relation to governance

Except for the matter relating to financial reporting as set out on page 19, as a result of the programme of work performed, we are satisfied the Council's arrangements in relation to governance are appropriate to secure value for money.

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

The Council's arrangements for assessing performance and evaluating service delivery

We read the Council Plan, which sets out the Council's priorities and objectives for the period covered by the plan and provides a basis for Council's service and financial planning arrangements. The Council has in place a performance management framework which includes identified responsibilities of managers and processes for regular performance reporting and corrective action if required. The Council Plan 2019 to 2023 was agreed by Cabinet in July 2019. It sets out three key priority areas for the Council - Housing, People, and Investment. Underpinning these priorities are ten objectives, each with a set of actions that contribute to delivery. These are reported to Members on a quarterly basis.

The Council's performance against the standard suite of Corporate Performance Indicators are reported to Cabinet and the Overview and Scrutiny Committee. These reports are produced on a quarterly basis to Members. We have reviewed a sample of the quarterly performance reports and the Cabinet and Overview and Scrutiny Committee minutes which show member challenge of the reported performance. The quarterly reports demonstrate that performance has been managed throughout the year and any significant variances have been justified.

The overview and scrutiny committee then use these reports to put together a work programme for the year ahead, to deep dive on specific issues or opportunities. The programme sets out its planned activity each year in exercising its functions in holding decision-makers accountable. This provides the checks and balances that ultimately seeks to deliver the best possible outcomes for service users.

The Council also uses a system called Pentana to record its performance measures. Performance information is broken down into a number of headings including performance indicators and actions by exception when off target, delayed or incomplete. The suite of Performance Indicators provides Members with an overview of corporate performance broken down by Cabinet Member Portfolio.

On an annual basis, the Council's overall performance is summarised in the Narrative Report as part of the Statement of Account subject to our audit. This outlines the Council's progress against its ambitions, highlighting key actions that have been made in response to their progress. This provides the public with an overall assessment of the Council activities for the financial year.

The Council's arrangements for working effectively within partnerships

The Council has produced a partnership toolkit, which sets out how a partnership arrangement should be managed and the clear governance expectations to be followed. It outlines the approach to be applied when considering both introducing new partnerships and reviewing existing arrangements. It provides a basis for examining the key issues that require consideration, to ensure that any potential problems identified in relation to partnerships are assessed and mitigated.

The Partnership Register contains information about key partnerships that the Council is working with and allows partnership performance and governance arrangements to be challenged at a corporate level. The Partnership Register is updated on an annual basis and reported through the Council's Audit & Governance Committee.

There are also specific groups currently in place for both the 'Levelling-Up Fund' and the 'UK Shared Prosperity Fund' schemes. These have, to date, been largely consultative in developing bids and agreeing funding profiles for each income stream but these will become more operational as they transform to partnerships with the underlying aim to deliver services, shared outcomes and common objectives across the District.

The Council has also assessed its governance of the Council owned trading companies, particularly S80 Partnership Limited which is the Council's wholly owned trading company. This was undertaken to ensure future governance remains both robust and effective.

We have not identified any risk of significant weakness in the Council's arrangements for partnership working.

The Council's arrangements for procurement of goods and services

The Council's Contract Procedure Rules form part of the Council's Constitution, this takes into account latest legislative and operational changes at the Council and provide a corporate framework for the procurement of goods, works and services. Our testing of expenditure in the financial statements has not highlighted any significant weaknesses in relation to procurement.

Overall view on arrangements for improving economy, efficiency and effectiveness

As a result of the programme of work performed, we are satisfied the Council's arrangements in relation to improving economy, efficiency and effectiveness are appropriate to secure value for money.

3. Commentary on VFM arrangements

Identified significant weaknesses in arrangements and our recommendations



3. Identified significant weaknesses and our recommendations

Identified significant weaknesses in arrangements and recommendations for improvement

As a result of our work, we have identified a significant weakness in the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources:

Identified significant weakness in arrangements	Financial sustainability	Governance	Improving the 3Es	Recommendation for improvement	Other recommendations
<p>1 Governance arrangements in relation to the financial reporting process</p> <p>Our work on the 2020/21 financial statements took longer than would ordinarily be expected because of issues in preparation of the Council's draft statutory financial statements. In addition to this the audit identified material errors, in the draft financial statements, including:</p> <ul style="list-style-type: none"> • £2.5m prior period adjustment in valuations • £1.7m in year valuation error • £1m error in valuations (unadjusted) <p>Recommendations to address the underlying issues were raised as internal control weaknesses in the 2020/21 Audit Completion Report.</p> <p>Despite these recommendations being made, during the 2021/22 financial audit, material errors and internal control weaknesses have been identified, with a continuation of issues from 2020/21.</p> <p>In our view, the combination of new and ongoing issues in financial reporting, compounded by a lack of action in relation to previously-raised recommendations, is a significant weakness in arrangements that support the council's statutory financial reporting requirement that leads to – or could reasonably be expected to lead to – significant impact on the quality or effectiveness of service or on the body's reputation.</p>		●		<p>We recommend that:</p> <ol style="list-style-type: none"> 1. Management review process in place to support the preparation of draft financial statements to ensure sufficient quality review procedures are in place to support accurate statutory financial reporting that is reflective of the underlying transactions. 2. Management implements the recommendations made in our 2021/22 Audit Completion Report and 2021/22 Audit Completion Update Letter to address identified weakness in financial controls and provide the Audit & Governance Committee with regular updates on the progress made to implement those recommendations. 	<p>The Audit & Governance Committee should seek specific training over the financial reporting process and its role in approving the Council's financial statements to ensure these are produced and published to an appropriate standard.</p>

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

The National Audit Office has not yet confirmed their requirements in relation to the Council's 2021/22 Whole of Government Accounts submission. We submitted assurance statement information to the NAO on 4th December 2023, but we are still awaiting confirmation and further guidance from the NAO in relation to sampled components.

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 provided in March 2023 presented to the Audit & Governance Committee on 8th June 2023. Having 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
Planned fee in respect of our work under the Code of Audit Practice	£44,063	£44,063
Additional core 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 (Estimates)	£2,000	£2,500
Continuing issues from 2020/21: additional final accounts audit work required including that relating to: <ul style="list-style-type: none">gaps in the client working papers and explanations to support land and buildings valuations;Material errors identified as required; andfurther work following the Accounting Code's update for Infrastructure Assets.	£10,000	£23,000
New issues arising in 2021/22: additional final accounts audit work required relating to the impact of: <ul style="list-style-type: none">Adjustments to the accounts from the triennial pension valuationPoor quality working papers and poor-quality financial statements	-	£34,000
Additional work as a result of the new Code of Audit Practice and VFM reporting	£6,000	£8,500
Total fees	£69,130	£119,130

The Council was provided with a grant of £22,715 to cover the costs of additional audit fees.

Fees for other work

We confirm that we have undertaken non-audit work for the Council in relation to the pooling of Housing Capital receipts Return in the 2021/22 year, with fees totalling £3,200 (plus VAT).

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Mazars is an internationally integrated partnership, specialising in audit, accountancy, advisory, tax and legal services*. Operating in over 90 countries and territories around the world, we draw on the expertise of 40,400 professionals – 24,400 in Mazars' integrated partnership and 16,000 via the Mazars North America Alliance – to assist clients of all sizes at every stage in their development.

*where permitted under applicable country laws.