

Harborough District Council

Report to Audit & Standards Committee Meeting of 24 April 2024



Title:	Approval of the 2022/23 Annual Governance Statement and the Annual Financial Report
Status:	Public
Key Decision:	No
Report Author:	Covering Report: Clive Mason; Director of Resources (& s.151 Officer) Appendix 1 and 2: Mark SurrIDGE; Director and Key Audit Partner, Mazars LLP Appendix 3 to 5: Clive Mason; Director of Resources (& s.151 Officer) and Carolyn Bland; Head of Financial Services (& Deputy s. 151 Officer)
Lead Councillor:	Not applicable
Appendices:	<ol style="list-style-type: none">1. Council's Value for Money Arrangements2. Audit Completion Report.3. Annual Governance Statement.4. Letter of Representation.5. Annual Financial Report

Summary

- i. The Council published the 2022/23 Annual Governance Statement (AGS) and Annual Financial Report (AFR) by the statutory deadline of 31 May 2023.
- ii. The external auditors have conducted their audit over the following months and have now issued their Commentary on the Council's VFM Arrangements Report (VFM) and the Annual Completion Report (ACR).
- iii. The delay in finalisation of the audit has primarily been due to a number of technical matters (infrastructure and pensions accounting).
- iv. The Pension Fund Auditor provided their assurance letter on 1 March 2024 and the Council's external auditors work is substantially complete. This means that at the date of reporting to committee the auditors expect to conclude the audit in April and are anticipating issuing an unqualified opinion, without modification, on the financial statements in due course. In these situations, which are not uncommon in local government, the committee is being asked to agree a delegation to the Chairman of Audit & Standards Committee and the Director of Resources (& s.151 Officer) to sign the accounts when the auditor has confirmed

that all matters are completed. All members of the committee will be informed when the auditor issues their unqualified opinion prior to signing by the respective Chairman and s.151 Officer.

Recommendations

That members:

1. Receive the External Auditors Commentary on the Council's VFM Arrangements Report, and comment as they consider necessary (**Appendix 1**),
2. Receive the External Auditors Audit Completion Report, and comment as they consider necessary (**Appendix 2**).
3. Receive the 2022/23 Annual Governance Statement, duly signed by the Leader of the Council (as at the 31 March 2023) and Deputy Chief Executive (**Appendix 3**).
4. Note the Draft Letter of Representation (**Appendix 4**) as authorised by the Director of Resources (& s.151 Officer).
5. Approve the 2022/23 Annual Financial Report (AFR, **Appendix 5**) and give delegated powers to the Chairman of the Audit and Standards Committee and Director of Resources (& s.151 Officer) to authorise and sign the AFR on behalf of the Council subject to the auditors confirming an unqualified opinion on the AFR.

Reasons for Recommendations

- v. It is a statutory requirement that the Council approves the 2022/23 AGS and AFR.

1. Purpose of Report

1.1 To consider the external auditors:

- VFM report and,
- their ACR reports, in respect of the AGS and AFR and then accept the AGS and approve the AFR.

2. Background

2.1 The Audit and Standards Committee (ASC) is designated as "those charged with governance" and consequently, as part of the annual governance process, the committee is required to receive the Council's 2022/23 AGS, the external auditors VFM report and approve the 2022/23 AFR following consideration of the external auditors ACR. To do this, the Committee needs to follow recommendations (1) to (4) in that order.

2.2 In respect of:

- i. **Value for Money**; for external auditors report is now received.
- ii. **Approval deadlines for the AGS and AFR**; For 2022/23, as per the [Accounts and Audit \(Amendment\) Regulations 2022](#), the regulations required publication by 31 May

2023. It should be noted that the Council approved and published its accounts by this deadline.

- iii. **The statutory audit**; there were some delays in the completion of the audit due to the following reasons:
- a) the audit of the Leicestershire Local Government Pension Fund, with the required assurance letter being provided on 1 March 2024.
 - b) “national” instructions in respect of the clarification of accounting and practices in respect of infrastructure assets leading to a change in the accounting code of practice,
 - c) a technical audit challenge by another audit firm that has had a “national” audit implication in respect of the retrospective impact of the 2023/24 triennial pension valuation for sets of accounts open for 2021/22 – which therefore had a consequence on considering opening balances for 2022/23.
- iv. Public Inspection (public rights); the unaudited accounts were open for the 10-day public inspection period from the 1st June to 14th June 2023.

3. Details

Receiving the “Commentary on the Council’s VFM arrangements”

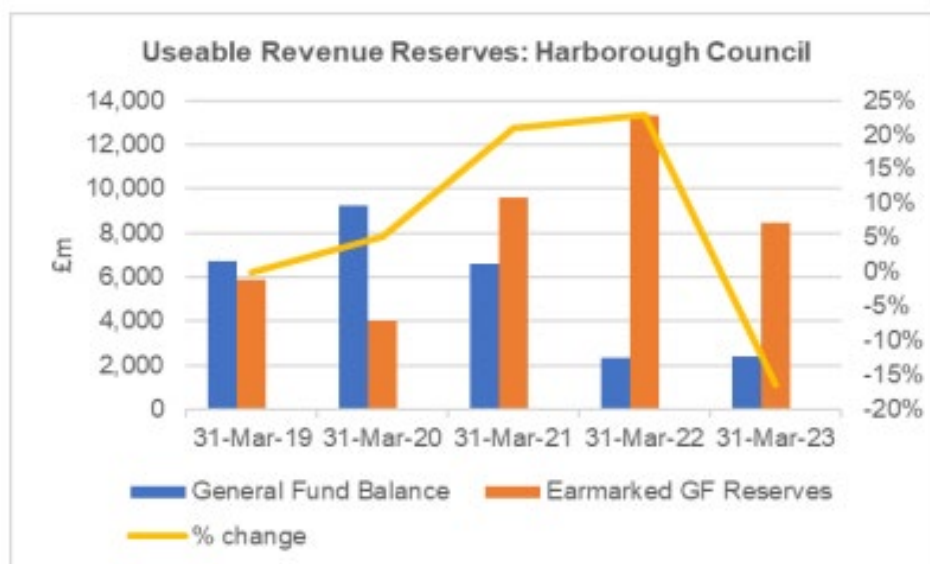
3.1 The external auditors are required to consider the Councils arrangements in respect of securing economy, efficiency and effectiveness in its use or resources and report accordingly (**Appendix 1**). The National Audit Office requires that external auditors consider three areas relating to Value to Money; namely Financial Sustainability, Governance and Improving Economy, Efficiency and Effectiveness. In respect of these three areas, as shown in the table on page 4 of the report, none have any issues relating to:

- Identified risks of significant weakness,
- Actual significant weaknesses identified, and
- Other recommendations made.

3.2 Members should note that the commentary within the VFM report is for the 12-months leading up to March 2023 – which is itself well a year ago. In [February 2022](#), Full Council set a balanced budget for 2022/23 and a financially sustainable budget for the subsequent four years of the MTFs; with similar “good budget and financial governance” being repeated in [February 2023](#) in preparation for financial year 2023/24. During 2023/24, there were however some notable changes at the Council including a new administration and the appointment of a Chief Executive. Since then, in [February 2024 Full Council](#) froze Council Tax and approved a balanced budget over the medium-term. This demonstrates the Councils commitment to good financial and budgetary governance. The VFM commentary for 2023/24 will be provided by the Councils new external auditor, Grant Thornton, when they review the 2023/24 Statement of Accounts.

3.3 In respect of the VFM report at **Appendix 1**, members attention is drawn to the series of graphs shown on page 7 that address issues relating to the Councils General Fund Un-ringfenced Reserves. In respect of the line graph (copied below). on the face of it this shows what looks like a significant reduction in the “General Fund Balance” (the blue column). Members will recall that at the [Cabinet meeting of the 30 November 2020](#) a Reserves Strategy was approved, and this has been approved each year since; [the last iteration being at Full Council in February 2024](#). A Reserves Strategy is best practice, and each local authority should have one. From April 2021, the Reserves Strategy introduced two significant changes to the treatment of general reserves compared to preceding years:

- Prior to April 2021, there was no set threshold for the General Fund (Unallocated) Balance. From April 2021, this was set at 20% of Net Expenditure. Members will recall that for each year of both the 2023/24 and 2024/25 Budgets & MTFs this threshold has been maintained. This is shown in the graph below by the reduction in the blue column between the financial years ending 31 March 2021 and 31 March 2022. The aim of this Unallocated Balance is to provide “last resort-contingency” funds so the Council can continue to deliver services if it was facing an emergency event (i.e. another Pandemic).
- By introducing the 20% of Net Expenditure threshold, this increased the amount allocated to Earmarked Reserves; this is shown in the graph below by the increase in the orange column between the financial years ending 31 March 2021 and 31 March 2022. This aim of this reallocation to Earmarked Reserves was to increase resource availability to members which enables them to increase their choices in investing in their communities.



Receiving the Audit Completion Report

3.4 The Audit Completion Report (ACR, **Appendix 2**, Section 1) shows to members that the external auditor is anticipating issuing an **unqualified opinion** in respect of the accounts (*this opinion is subject to no changes occurring between the drafting of this report and the holding of this meeting. The external auditor will confirm at this meeting if their opinion has changed and if so, why?*)

3.5 In respect of:

3.5.1 **significant findings** (ACR, Section 4) details the risk areas, issues raised and the action proposed by management. **Table 1** below summaries the risk areas where an action is proposed by management; the other areas not mentioned are because there are no required actions by management.

AFR 2022/23 Significant Risks and Findings by External Audit and Actions Proposed by Management

Table 1

Significant Risk Area	Description of Risk	Issue (Finding)	Actions Proposed by Management
Management override of controls	In all entities, management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur, we consider there to be a risk of material misstatement due to fraud and thus a significant risk on all audits	We addressed this risk through performing audit work over: <ul style="list-style-type: none"> • Accounting estimates impacting amounts included in the financial statements; • Consideration of identified significant transactions outside the normal course of business; and • Journals recorded in the general ledger and other adjustments made in preparation of the financial statements. No issues have been identified that need to be brought to the attention of Members.	None required.
Valuation of the net defined benefit liability	The defined benefit liability relating to the Local Government Pension Scheme represents a significant balance on the Council's balance sheet. The Council uses an actuary for the scheme to provide an annual	We addressed the risk by: <ul style="list-style-type: none"> assessing the competency, objectivity, and independence of the Actuary at the Pension Scheme; • liaising with the auditors of the Leicestershire Pension Fund to gain assurance over the design and implementation of controls in place at the Leicestershire Pension Fund. This included the processes and controls in 	None required.

AFR 2022/23 Significant Risks and Findings by External Audit and Actions Proposed by Management			Table 1
Significant Risk Area	Description of Risk	Issue (Finding)	Actions Proposed by Management
	<p>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 in this area.</p>	<p>place to ensure data provided to the Actuary by the Pension Fund for the purposes of the IAS 19 valuation was complete and accurate;</p> <ul style="list-style-type: none"> • reviewing the appropriateness of the Pension Asset and Liability valuation methodologies applied by the Pension Fund Actuary (as applicable), and the key assumptions included within the valuation. This included comparing them to expected ranges, utilising information by the consulting actuary engaged by the National Audit Office; and • agreeing the data in the IAS 19 valuation reports provided by the Actuary for accounting purposes to the pension accounting entries and disclosures in the Council's financial statements. 	
Valuation of property, plant and equipment	<p>Property related assets are a significant balance on the council's balance sheet. The valuation of these properties is complex and is subject to a number of management assumptions and judgements. Due to the high degree of estimation uncertainty associated, we have determined there is a significant risk in this area.</p>	<p>We addressed the risk by:</p> <ul style="list-style-type: none"> • critically assessing the scope of work, qualifications, objectivity, and independence of the Council's valuers to carry out the required programme of revaluations; • 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 considering valuation trends; • performing tests of details on a sample of assets revalued in year; 	<p>A variance between the valuers report and the statement of accounts has been identified. Further details are discussed at para 3.5.</p>

AFR 2022/23 Significant Risks and Findings by External Audit and Actions Proposed by Management				Table 1
Significant Risk Area	Description of Risk	Issue (Finding)	Actions Proposed by Management	
		<ul style="list-style-type: none"> critically assessing the approach that the Council has adopted to ensure that assets that are not subject to revaluation in 2022/23 are materially correct, including considering the robustness of that approach in light of the valuation information reported by the Councils valuers; and considering engaging our own valuation expert to support our work 		
Other significant findings	Reviewed of the Council's accounting policies and disclosures.	Accounting policies comply with the 2022/213 Code of Practice on Local Authority Accounting. The draft accounts received by the auditors were of good quality.	None required.	
	Significant matters discussed with management	During the audit, the following significant matters were discussed with management: <ul style="list-style-type: none"> The Council's financial position, including development of the medium-term financial plan. Impact of ISA 315¹; The approach used to calculate the expected credit loss and noted that as a blended approach is used it is not fully in line with IFRS9². This is line with the approach we have seen taken by a number of other 	None required.	

¹ **ISA 315**; (International Standard of Auditing 315) - Identifying and Assessing the Risks of Material Misstatement, deals with the auditor's responsibility to identify and assess the risks of material misstatement in the financial statements, by understanding the entity and its environment, including internal control.

² **IRFS 9**; (International Financial Reporting Standard 9) Financial Instruments, addresses the accounting for financial instruments and specifies how an entity should classify and measure financial assets and liabilities.

AFR 2022/23 Significant Risks and Findings by External Audit and Actions Proposed by Management			Table 1
Significant Risk Area	Description of Risk	Issue (Finding)	Actions Proposed by Management
		Authorities and the work performed by the Council provide assurances that the figure is unlikely to be misstated.	
	Significant difficulties during the audit	No significant difficulties were encountered during the audit and the auditors had the full co-operation of management.	None required.
	Powers and responsibilities under the 2014 Act ³ .	<p>The auditor powers under the 2014 Act are broad, but they have not exercised their powers in respect of:</p> <ul style="list-style-type: none"> • issue a report in the public interest; • make statutory recommendations that must be considered and responded to publicly; • apply to the court for a declaration that an item of account is contrary to law; and • issue an advisory notice under schedule 8 of the 2014 Act. <p>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. No such objections have been raised.</p>	None required.

3.5.2 **internal control recommendations** (ACR, Section 5), the auditors have issued two internal control recommendations, these are discussed further in **Table 2** below:

³ **2014 Act**; The Local Audit and Accountability Act 2014 sets out the framework for the audit of local authorities.

AFR 2022/23 Internal Control Recommendations				Table 2
Priority Ranking	Internal Control	Description of deficiency	Recommendation	Management response
Medium (Level 2)	Budget Managers responsible for individual assets are requested on an annual basis by the Finance Team to provide details on whether the assets are in the same condition as in prior years and if not, whether impairment of the asset is likely to be required.	<p>An asset had been identified as having been potentially impaired. However, no further work was undertaken to confirm the impairment.</p> <p>The asset was held in the asset register with a value of £89k.</p>	A further review should be undertaken of assets where potential impairment has been noted. If issues are significant then the asset should be added to the revaluation programme during the year to get an expert's opinion on the updated value of the asset.	Accounts closure procedures will be reviewed and updated to ensure that an impairment review of all assets identified by services is undertaken.
Low (Level 1)	Related party disclosures are required to be made on an annual basis by Councillors and Senior Officers within the Council.	It was identified that whilst declarations had been received one member did not fully disclose all related parties that they had. It was confirmed that there were no transactions with this related party during the year.	All related parties are disclosed through the declaration of interest forms and further training is provided on what would constitute a related party as required.	<p>All related party disclosures submitted by both members and officers are reviewed by finance as part of the accounts closure process.</p> <p>The disclosure identified by the auditors will be built into the accounts closure procedures.</p>



3.5.3 **summary of misstatements** (ACR, Section 6), the auditors have reported the following:

- **unadjusted misstatement**, the total unadjusted items for 2022/23 is £531k; a summary of these items is shown below. These items have not been adjusted as collectively they are not material (materiality being £835k, see ACR, Section 3).
 - i. **Current receivables (aka income)**; the auditors found an error in their “cut off” testing in that an item of income should have been accounted for with 2022/23. The estimated impact of this error was £61k; however, as it is not material it has not been adjusted for. Members may be concerned that this may be lost income, this is not the case; it is just that the income will be recorded in the following year.
 - ii. **Revaluation Reserve**; the balance held in Other Comprehensive Income (OCI) in respect of property revaluations was understated by £57k.
 - iii. **Reserves**; the valuation report for property and the consequential updating of the fixed asset register and not been done correctly.

In respect of (ii) and (iii), these transactions are:

- “non-cash”; they are effectively notional changes to property values; they would only be realised if and when the associated assets are sold.
 - do not impact on the “cash” reserves of the Council (i.e. the General Fund and Earmarked Reserves).
 - The valuation changes will effectively be corrected when the 2023/24 accounts are produced based on that years valuation report.
- **disclosure (notes) amendments**; within the notes of the accounts, nine issues were identified. Of these, three were amended which related to the Senior Officers Remuneration note. Of the other six items these are presentational within the notes and do not impact on the financial statements, so none have been adjusted.

3.5.4 **Value for Money** (ACR, Section 7), the external auditors VFM report is at **Appendix 1** and discussed at paragraphs 3.1 to 3.3. However, the ACR also refers to Value for Money and the following is stated:

“We have completed our work in respect of the Council's arrangements for the year ended 31 March 2023 **and we have not identified any significant weaknesses** in arrangements that have required us to make a recommendation.....”

This view of the external auditor on the Councils proper arrangements is subject to no changes occurring between the drafting of this report and the holding of this meeting. The external auditor will confirm at this meeting if their view has changed and if so, why?



Receiving the Annual Governance Statement

- 3.6 The AGS (**Appendix 3**) has been signed by both the Leader of the Council and the Deputy Chief Executive and includes the updated Head of Internal Auditors Opinion. The Opinion was included in the Internal Audit Annual Report and Assurance Opinion that was reported to this committee earlier as Agenda Item 1.
- 3.7 In addition, the AGS addresses the Councils considerations in respect of its governance arrangements and the internal control environment, both of which are considered to be operating effectively.

Approver the Letter of Representation

- 3.8 Each year a letter has to be given to the auditor by the Council which explains what the Council has done to ensure its financial records are accurate; a draft copy of the letter signed by and submitted to the external auditor is attached as **Appendix 4**.

Approve the Annual Financial Report

- 3.9 As mentioned previously, the Council approved and published its accounts by the 31 May 2023. Now, “those charged with governance” are required to approve the AFR and the Council is required to publish its post audit accounts; a copy of the post-audit AFR is attached at **Appendix 5**.
- 3.10 The Committee is asked to approve the AFR, subject to a delegation to the Chairman and the s.151 Officer following confirmation by the external auditor that all matters are completed.
- 3.11 Members should note that in respect of the final AFR compared to the draft that was approved by the 31 May, no changes have been made to cash backed (useable) reserves.

4 Implications of Decisions

Corporate Priorities

- 4.1 The Council has a robust financial and performance monitoring process which, by Quarter 4, demonstrated the delivery of the Councils corporate priorities (respective links to 2022/23 Q4 [Financial Performance](#) / [Performance](#)). The AGS, AFR and external audit process are core elements of the Councils financial and non-financial governance framework and therefore provide assurance to the Council and stakeholders of the delivery of the Councils priorities.

Consultation

- 4.2 In line with the Account and Audit regulations the AFR was available for inspection.

Financial

4.3 There are no direct financial implications arising from this report. External audit fees have a specific budget, and any additional cost will have to be met from within current resources. It should be noted that the misstatements noted at paragraph 3.5 have no impact on the Councils cash balances and useable reserves.

Legal

4.4 There are no direct legal implications arising from this report.

Environmental Implications

4.5 There are no direct environmental implications arising from this report.

Risk Management

4.6 The AGS and AFR documents, along with the process of their development and the consequential external audit process are key in the management of risk and provides assurance to the Council, its customers, and stakeholders.

Equalities Impact

4.7 There are no direct equalities implications arising from this report.

Data Protection

4.8 There are no direct data protection implications arising from the report.

Alternative Options Considered

4.9 Not applicable in this context.

Background papers

Not applicable in this context.