

# Auditor's Annual Report

Harborough District Council – year ended  
31 March 2021

April 2022



# Contents

- 01** Introduction
- 02** Audit of the financial statements
- 03** Commentary on VFM arrangements
- 04** Other reporting responsibilities

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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 Harborough District Council ('the Council') for the year ended 31 March 2021. Although this report is addressed to the Council, it is designed to be read by a wider audience including members of the public and other external stakeholders.

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



### Opinion on the financial statements

We intend to issue our audit report on 27 April 2022. Our opinion on the financial statements is expected to be unqualified.



### Value for Money arrangements

In our audit report issued we reported that we had completed our work on the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources and issued recommendations in relation to identified significant weaknesses in those arrangements. Section 3 provides our commentary on the Council's arrangements.



### Wider reporting responsibilities

We have not completed our work on the Council's Whole of Government Accounts return because, as at 5 April 2022, the Council has not yet received the WGA documentation from HM Treasury (HMT) and we have not received the group audit instructions from the National Audit Office on what work is required.

# 02

Section 02:

## **Audit of the financial statements**

# 2. Audit of the financial statements

The Council's financial statements show how it has used public money, its financial health and performance for the year.

## Results of our opinion

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

Our audit report, to be issued on 27 April 2021 includes an unqualified opinion on the financial statements for the year ended 31 March 2021:

"In our opinion, the financial statements:

- give a true and fair view of the financial position of the Council as at 31st March 2021 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 2020/21."

## How we formed that opinion: the scope of our audit

The detailed scope of our work as your appointed auditor for 2020/21 is set out in the National Audit Office's (NAO) Code of Audit Practice. Our responsibilities and powers are derived from the Local Audit and

Accountability Act 2014 and our audit was been conducted in accordance with International Standards on Auditing (UK).

Our work is focused on those aspects of your business which we consider to have a higher risk of material misstatement, such as those impacted by management judgement and estimation, application of new accounting standards, changes of accounting policy, changes to operations or areas which have been found to contain material errors in the past.

We set and communicate our audit approach in an Audit Strategy Memorandum, and then present our progress and findings, in an Audit Completion Report to the Audit Committee.

Our Audit Completion Report, issued in April 2022 did not report any significant deficiencies in internal controls and a summary of the key matters raised through our audit of the financial statements is set out on the following pages.

# 03

Section 03:

**Commentary on VFM arrangements**

### 3. VFM arrangements – Overall Summary

#### Approach to Value for Money arrangements work

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

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

At the planning stage of the audit, we undertake work so we can understand the arrangements that the Council has in place under each of the reporting criteria; as part of this work we may identify risks of significant weaknesses in those arrangements. Where we identify significant risks, we design a programme of work (risk-based procedures) to enable us to decide whether there is a significant weakness in arrangements. Although we describe this work as planning work, we keep our understanding of arrangements under review and update our risk assessment throughout the audit to reflect emerging issues that may suggest there are further risks of significant weaknesses.

Our assessment of what constitutes a significant weakness is a matter of professional judgement, based on our evaluation of the subject matter in question, including adequacy of the Council’s responses. The National Audit Office’s guidance states that a weakness may though be said to be significant if it:

- Exposes (or could reasonably be expected to expose) the body to significant financial loss or risk;
- 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;
- Leads to (or could reasonably be expected to lead to) unlawful actions; or
- Involves a failure to take action to address a previously identified significant weakness, such as failure to implement or achieve planned progress on action/improvement plans.

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

The table below summarises the outcomes of our work against each reporting criteria. On the following page we outline further detail of the work we have undertaken against each reporting criteria, including the judgements we have applied.

Reporting criteria	Commentary page reference	Risks of significant weaknesses in arrangements identified?	Actual significant weaknesses in arrangements identified?
Financial sustainability	13	No	No
Governance	17	Yes Page 10	Yes Page 12
Improving economy, efficiency and effectiveness	20	No	No



## Commentary on VFM arrangements

Risks of significant weaknesses in arrangements



# VFM arrangements – Risks of significant weakness in arrangements

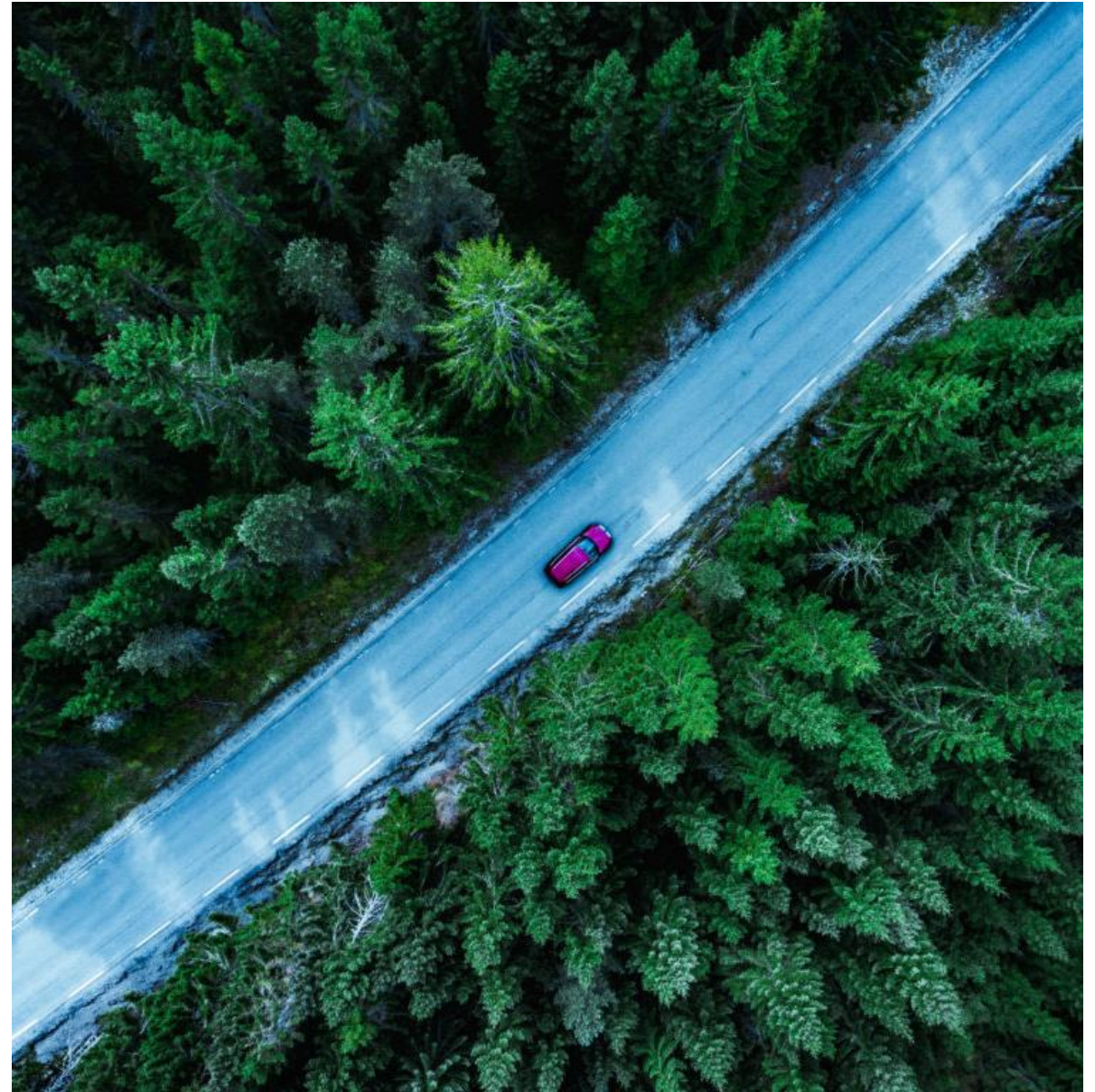
## Risks of significant weaknesses in arrangements

Below, we have outlined 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	Results
<p><b>Property acquisitions</b></p> <p>The Council commissioned a review from Internal Audit into historical property acquisitions between 2016 and 2019. The report was finalised in November 2021, with recommendations covering themes of valuation, governance and appraisal.</p> <p>We have read the report and determined that a risk of significant weakness in the Council's arrangements exists in relation to governance: how the body ensures that it makes informed decisions and properly manages its risks, including:</p> <ul style="list-style-type: none"><li>• how the body ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency; and</li><li>• how the body monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of officer or member behaviour.</li></ul>	<p>Our work in relation to this matter will include:</p> <ul style="list-style-type: none"><li>• A detailed review the report and its project scope</li><li>• discussing the findings with Internal Audit, Officers and, if relevant, Members</li><li>• considering any implications on the financial statements and annual governance statement for 2020/21.</li></ul>	<p>In April 2022, we reported this significant weakness to the Council and supported it with a recommendation for improvement.</p> <p>A summary of the significant weakness in arrangements identified and the supporting recommendation(s) for improvement are provided on page 12.</p>

## Commentary on VFM arrangements

Identified significant weaknesses and our recommendations





# VFM arrangements - Identified significant weaknesses and our recommendations

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

Identified significant weakness in arrangements	Financial sustainability	Governance	Improving the 3Es	Recommendation(s)	Progress against the recommendation
<p><b>Property acquisitions</b></p> <p>In 2020 the Council requested a review of historical delivery of asset related major projects covering the period 2015 to 2019. The independent review identified significant weaknesses, including:</p> <ol style="list-style-type: none"><li>That the Council's Project Management Framework was ineffective, including:<ul style="list-style-type: none"><li>Recognising that it is the responsibility of the "project author" to ensure that appropriate financial modelling is included within respective business cases, the project management framework does not set out the requirement to involve suitably qualified finance officers to validate or challenge the modelling.</li><li>Insufficient oversight of the Project Board over the major asset acquisitions and disposals, including monitoring project governance.</li></ul></li><li>That the Council's Property Acquisition and Disposal Policy was ineffective, including:<ul style="list-style-type: none"><li>No explicit requirement for an independent valuation for each and every property related acquisition or disposal or that such valuation is taken to RICS's Red Book standard.</li><li>No explicit requirement for all relevant land/property searches to be conducted, and all findings noted and acted upon, for all acquisition proposals which should be verified via the management/project governance structure to ensure assurances are informed and reliable.</li></ul></li></ol> <p>As a result, there is a significant weakness in the Council's arrangements that exposes it to a risk of significant financial loss and can be reasonably expected to lead to a significant impact on the quality or effectiveness of service and the Council's reputation.</p>		●		<ol style="list-style-type: none"><li>The Council should ensure that all recommendations arising from the independent review of property acquisitions are implementing, including ensuring that the Property Acquisition and Disposal Policy and Project Management Framework are updated, and that the Audit and Standards Committee are assured on that actions have been taken.</li></ol>	<p>The Council presented the management responses to all the recommendations raised from the review to the Audit and Standards Committee meeting held in March 2022.</p> <p>This included an update on progress made, which was supplemented by email confirmation on 24 March to senior officers, the Leader of the Council and Chair of the Audit and Standards Committee that all recommendations had been implemented.</p>

# Commentary on VFM arrangements

Financial sustainability: How the Council plans and manages its resources to ensure it can continue to deliver its services

Based on the considerations and views formed in this section, we are satisfied there is not a significant weakness in the Council's arrangements in relation to financial sustainability.



# VFM arrangements: financial sustainability

The Council entered 2020/21 at the start of the national lockdown, and faced a significant operational impact from the effects of the pandemic. In response to the Covid-19 pandemic, central government made a series of policy announcements, a number of which have impacted on local authorities such as Harborough District Council. During the 2020/21 year the Council dealt with a wide range of issues to support local residents and businesses. Some of the Government's initiatives in response to the Covid-19 pandemic have been backed by additional funding, and the Council received a range of government grants during 2020/21 to either support local businesses/individuals or meet the Council's own costs.

## 2020/21 Financial Statement Performance

We have carried out a high level analysis of the financial statements, including the MIRS and Balance Sheet. Our work has not highlighted any risks of significant weakness in arrangements or indicators of a risk to the Council's financial sustainability.

The Council's net current asset position (being current assets less current liabilities) has fallen by £12.9m from £31.5m to £18.6m. The majority of this movement most significant change in the balance sheet relates to movements in the Council's share of the pension fund net liability, which it is not unusual and is consistent with our experience at other councils.

The Council's useable reserves have increased from £18.4m to £23.8m in 2020/21, with the General Fund Reserve decreasing by £0.86m to £8.4m as at 31/3/21.

Earmarked Reserves have increased to £9.6m, but the majority of this balance is allocated to business rates (£8.6m per Note 8 of the financial statements) as a result of additional s31 Grant in response to Covid, and therefore, whilst these reserves provide some mitigation against future financial challenges, and will assist in addressing future volatility and support savings and efficiencies plans and the capital programme. The Council will need to continue to ensure that any use of reserves to smooth the financial position over the next few years is properly planned and the use of reserves cannot be relied on to provide a long term solution to funding gaps. Notwithstanding this, our work has not highlighted a risk of significant weakness in the Council's arrangements for ensuring financial sustainability.

## Financial planning and monitoring arrangements

In February 2020 the Council balanced budgets for the 2020/21 financial year, that included a service net expenditure of £14.3m and a Council Tax (Band D) of £167.97. To balance the budget, this required a net contribution from revenue reserves of £1.8m.

Budget variances have been reported quarterly to Cabinet with the final outturn considered by the Council's Cabinet on 7 June 2021. We reviewed a sample of reports presented for 2020/21, which contain detail on any significant variances to budget and an update on performance against savings targets. The reports also contain information on progress against the approved capital programme and reasons for over or underspends against the budget profile. The Total Direct Cost of Services by Director as explained in the narrative report to the financial statements is £13.9m vs a revised budget of £13.6m. We have considered the arrangements in place in respect of budget management as part of the Governance criteria.

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

A key part of the MTFS is to highlight the budget issues that will need to be addressed by the Council over the coming financial years, by forecasting the level of available resources from all sources and budget pressures relating to both capital and revenue spending as well as assessing sufficient reserves and provisions are held for past and unknown events which may impact on the Council's resources. The MTFS is prepared alongside other plans and strategies. There is a process in place for challenging any growth items and agreeing the achievability of planned savings, which includes "Budget Challenge 2025" as discussed on the following page.

Whilst BC25 has made a positive impact on the Council's financial challenges, it is important the Council begins the process for post 2025 within the next year to mitigate the need, not necessarily the want, to perform such an extensive root and branch review.

# VFM arrangements: financial sustainability

## Arrangements and approach to 2021/22 financial planning

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

During 2020, the Council began developing a four year MTFS model (2021/22 to 2024/25). At the time that this modelling was undertaken, the MTFS was indicating that the Council was facing a considerable financial challenge of c£4m and if this situation was not immediately addressed, it was expected that the Council would cease to have any revenue reserves by 2023/24.

To meet this challenge the Council embarked on Budget Challenge 2025 to ensure that limited financial resources are allocated to key priority areas, based on new service standards.

In January 2021, Cabinet approved the Draft Budget 2021/22 & Medium-Term Financial Strategy (2022/23 to 2024/25) including proposals for budget growth, savings, and projects for inclusion in the capital programme. The report included the outcomes from the provisional Local Government Finance Settlement for 2021/22. We also reviewed the report to the performance scrutiny panel meeting of 28th January 2021 prior to the Cabinet meeting on 8th February 2021 and the setting of the Budget Requirement and Council Tax on 22nd February 2021.

The continuing uncertainty does make though strategic financial planning difficult for Councils, particularly in relation to its General Fund services. The Council initiated BC25 and reviewed reserves to balance its budget.

Whilst not within the scope of our work for 2020/21, we have noted that the 2022/23 MTFS now covers a five year period, compared to three years in prior iterations, and shows a balanced budget for three years before facing future financial challenges due to the potential increase costs in waste services.

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



# Commentary on VFM arrangements

Governance: How the Council ensures that it makes informed decisions and properly manages its risks

As set out on pages 10 and 12, we have identified a significant weakness in the Council's arrangements in relation to governance.





# VFM arrangements: governance

## 2021/22 Budget Setting and the Medium Term Financial Strategy (MTFS)

The arrangements for the 2021/22 budget setting process have largely followed the arrangements in place for 2020/21 but with a better understanding based on the experiences during the year of the impact of Covid-19 on the Council's services.

We have reviewed the 21/22 budget and MTFS at confirming there is an adequate budget setting process and the main assumptions on pay and inflation are not unreasonable for the period when the budget was prepared.

### Budget Challenge 2025 (BC25)

During 2020, the Council identified a £4m budget gap in 2021/22 which was confidentially reported to cabinet in June & July 2020 and then to all members in August and September 2020.

Between July and September, a fundamental budget review was designed and implemented; this programme is called Budget Challenge 2025 (BC25). The BC25 programme followed the principles of Zero-Based Budgeting, incorporating two Streams:

- Stream 1: Service Review; the services of the Council were divided into three tranches; the first tranche started its review in September 2020 and the last tranche is planned to finish in the summer of 2021.
- Stream 2 Incremental Budget Changes; a 3-year backwards looking review has been undertaken of all budgets.

Following the Star Chamber, the Tranche 1 reviews have detailed an MTFS cumulative savings of £3.2m; with Stream 1: Service Review net savings of £2.5m and Stream 2: Incremental Budget changes of £0.7m. Further detail is reported in the Draft 2021/22 Budget Report that was reported to Cabinet in January 2021.

The initiation of BC25 means the Medium Term Financial Position does not pose an immediate problem but

pressures will be on reserve levels in future years. Careful monitoring of the situation, advance planning and responding quickly to any changes will be of particular importance moving forward.

Following approval of the budget, budget monitoring commences to monitor progress against targets.

## Decision making arrangements and control framework

We have reviewed Council and Committee Reports and minutes during the year as well as key documents in relation to how the Authority ensures that it makes informed decisions and properly manages its risks.

The Authority has a full suite of governance arrangements in place. These are set out in the Annual Governance Statement, which is reviewed as part of our audit where we confirmed they were consistent with our understanding of the Authority's arrangements in place. This includes arrangements such as registers of interests being maintained and published.

We consider the committee structure of the Authority is sufficient to provide assurance that decision making, risk and performance management is subject to appropriate levels of oversight and challenge.

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

## Scrutiny

The Scrutiny Commission meets four times a year to set the Scrutiny Workplan. This Workplan is then split between two Scrutiny Panels (Communities and Performance) and, when required, Scrutiny Task Groups. Arrangements for scrutiny are in line with sector norms and deemed adequate.

We have not been made aware of any regulatory action against the Council.

# VFM arrangements: governance

## Risk management

The Council has an established risk management framework and systems in place which are built into the governance structure of the organisation. The Audit and Standards Committee is responsible for overseeing the effectiveness of the Council's risk management arrangements, challenging risk information and escalating issues to the Cabinet. Our minute review and attendance at meetings confirms regular reports are received and discussed. From our attendance at the meeting and review of the minutes, there is sufficient evidence of Member oversight of risk management, including holding Officers to account.

We have reviewed the Strategic Risk Register and determined it is adequate for the Authority's purposes and from our attendance at the meeting and review of the minutes, there is sufficient evidence of Member oversight of risk management, including holding Officers to account.

## Audit & Standards Committee

The council has an established Audit & Standards Committee. The Audit & Standards Committee is responsible for establishing and maintaining an effective system of governance in a way that supports the organisation's objectives.

We have reviewed supporting documents and confirmed the Audit & Standards Committee meets regularly and reviews its programme of work to maintain focus on key aspects of governance and internal control. In response to Covid-19, the Authority moved Committee meetings on-line. Our attendance at Audit & Standards Committee has confirmed there is an appropriate level of effective challenge.

## Internal Audit

We have met with management and the Head of Internal Audit during the year, reviewed Audit Committee reports and attended Audit Committee to observe the performance of Internal Audit and the Audit Committee. We have documented our understanding of the Internal Audit function.

We have read Internal Audit's annual report, where, based upon the work undertaken by Internal Audit during 2020/21, the Head of Internal Audit's overall opinion on the Council's control environment is that "Satisfactory Assurance can be given that there is generally a sound system of internal control, designed to meet the organisation's objectives and that controls are generally operating effectively in practice."

In our view, the Head of Internal Audit Opinion is sufficiently detailed to explain how the rating was determined.

The Head of Internal Audit Opinion for 2020/21, which is replicated in the Annual Governance Statement, was subsequently revisited in March 2022 and caveated in that the 'Satisfactory Assurance' rating does not extend to controls in relation to delivery of asset related major projects, upon which only Limited Assurance could be given. We have confirmed that the Head of Internal Audit Opinion has been adequately reflected in the Annual Governance Statement to provide assurance that there is no further significant weakness in arrangements for 2020/21.

## Property acquisitions

As set out on pages 10 and 12, we have identified a significant weakness in the Council's arrangements arising from an independent review carried out by Internal Audit. Our work in relation to this matter included:

- a review of the report and its project scope;
- discussing the findings with Internal Audit, Officers, the Leader of the Council and Members of the Audit & Standards Committee; and
- considering any implications on the financial statements and annual governance statement for 2020/21.

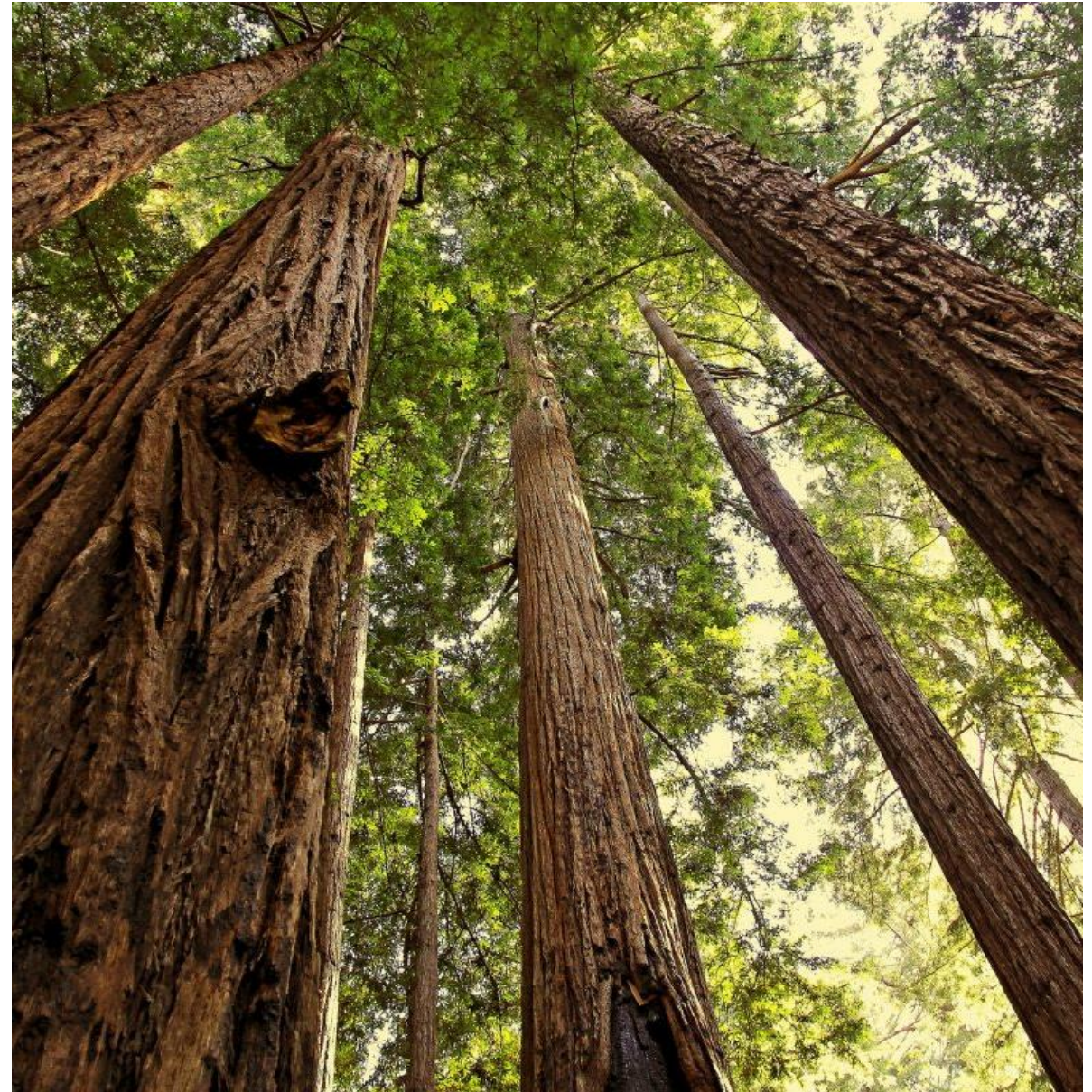
We expect the Audit and Standards Committee to receive a formal report on the implementation of the recommendations arising from the review. In addition, the Committee may wish to receive an assurance statement on the effectiveness of major project governance, benchmarked against good practice, to provide wider assurance on the Council's arrangements.



# Commentary on VFM arrangements

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

**Based on the considerations and views formed in this section, we are satisfied there is not a significant weakness in the Council's arrangements in relation to improving economy, efficiency and effectiveness.**



# 3. VFM arrangements – Improving Economy, Efficiency and Effectiveness

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

### Performance Management

The Corporate Delivery Plan identifies high-level expected outcomes of the Key Activities of the Council, which will add depth to what the Critical Outcomes will mean for communities in the District. It also contains the headline performance measures for each Key Activity, and associated risks and opportunities.

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.

Performance is monitored and reported on to Officers and Members on a quarterly basis as part of the Council's Performance Management Framework. Performance Reports are submitted to both Scrutiny and the Cabinet via quarterly reports. We reviewed the report to Scrutiny in July 2021 and our review of the report shows it is sufficiently detailed to enable scrutiny and challenge. Performance outcomes as shown in the report are not indicative of a significant weakness in arrangements.

The Council's budget endeavours to ensure the provision of the appropriate resources required to deliver the Council's Plan, and the types of action necessary to enable them to be affordable, to allow balanced budgets to be delivered.

Our review of these documents confirms adequate arrangements are in place to integrate service planning to the corporate plan as well as reporting progress against said plan to Members and the wider public.

### Partnerships

The Council works with other partners to deliver services, which includes revenue and benefits services hosted by Hinckley & Bosworth Borough Council, that also includes North West Leicestershire District Council. The Council is also part of the Leicester and Leicestershire Enterprise Partnership (LLEP). We do not consider either of these to be significant in relation to the Council's arrangements for improving economy, efficiency and effectiveness.

### Procurement

Financial regulations and procedures apply to all members and employees in the work they do for the council. The Authority has arrangements for standing financial instructions, purchase order controls and our work on the financial statements has not identified any significant internal control deficiencies.

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

# 04

Section 04:

**Other reporting responsibilities**

## 4. Other reporting responsibilities

### 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 NAO, as group auditor, requires us to complete the WGA Assurance Statement in respect of its consolidation data and to carry out certain tests on the data. As at the date of reporting, we have not received instructions from the NAO to enable us to complete this work.

# Mark Surridge

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