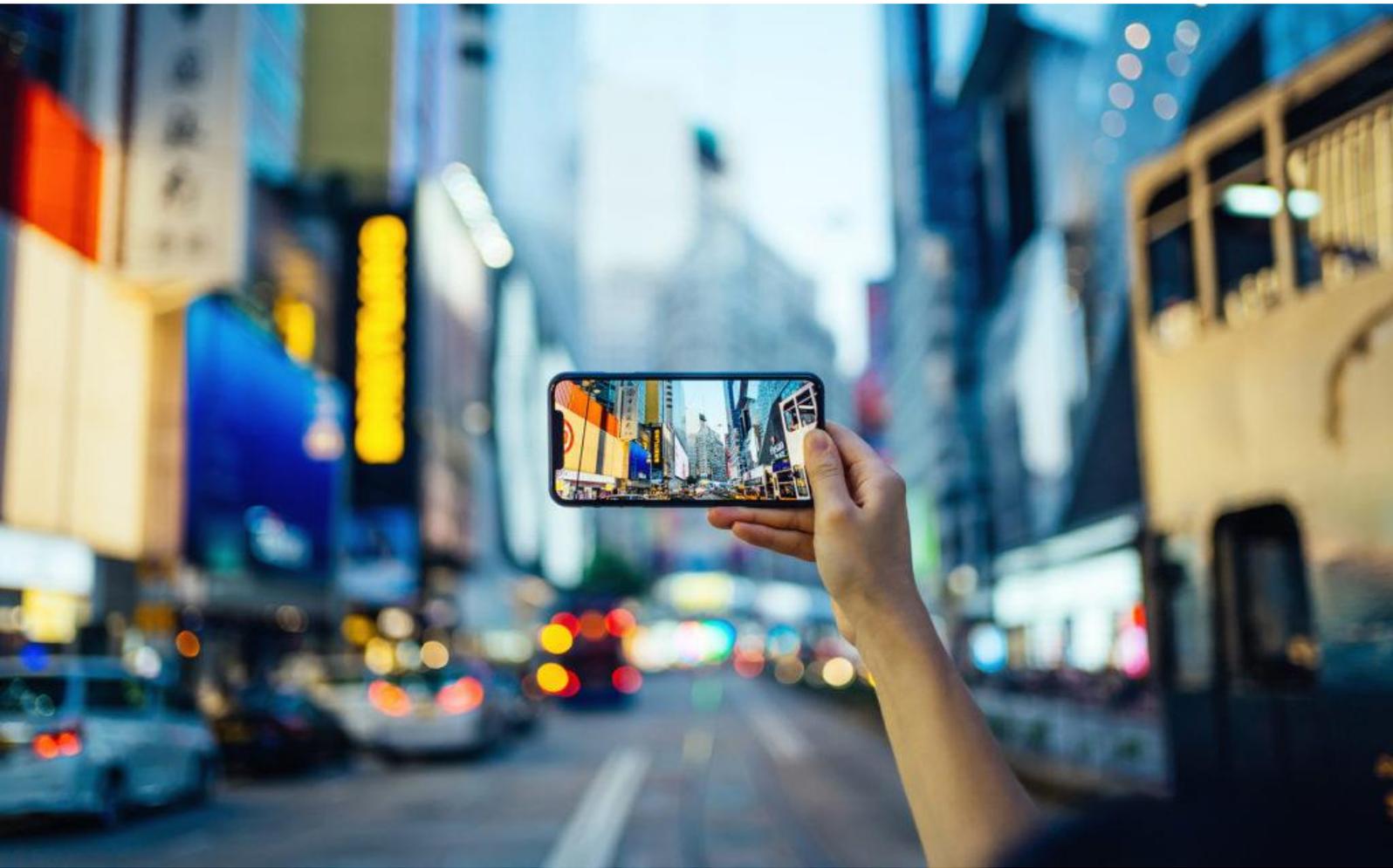


# Annual Audit Letter

## North West Leicestershire District Council

Year ending 31 March 2020





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# 1. EXECUTIVE SUMMARY

## Purpose of the Annual Audit Letter

Our Annual Audit Letter summarises the work we have undertaken as the auditor for North West Leicestershire District Council (the Council) for the year ended 31 March 2020. Although this letter 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 (the 2014 Act) and the Code of Audit Practice issued by the National Audit Office (the NAO). The detailed sections of this letter provide details on those responsibilities, the work we have done to discharge them, and the key findings arising from our work. These are summarised below.

Area of responsibility	Assessment	Summary
Audit of the financial statements	 [Green]	Our auditor's report issued on 17 February 2021 included our opinion that the financial statements: <ul style="list-style-type: none"><li>• give a true and fair view of the Council's financial position as at 31 March 2020 and of its expenditure and income for the year then ended; and</li><li>• have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20</li></ul>
Other information published alongside the audited financial statements	 [Green]	Our auditor's report included our opinion that: <ul style="list-style-type: none"><li>• the other information in the Statement of Accounts is consistent with the audited financial statements.</li></ul>
Value for money conclusion	 [Green]	Our auditor's report concluded that we are satisfied that in all significant respects, the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020
Reporting to the group auditor	 [Green]	In line with group audit instructions, issued by the NAO on 4 <sup>th</sup> November, we reported to the group auditor in line with the requirements applicable to the Council's Whole of Government Accounts return.
Statutory reporting	 [Green]	Our auditor's report confirmed that we did not use our powers under s24 of the 2014 Act to issue a report in the public interest or to make written recommendations to the Council.

Executive summary

Audit of the financial statements

Value for money conclusion

Other reporting responsibilities

Our fees

Forward look

## 2. AUDIT OF THE FINANCIAL STATEMENTS

Opinion on the financial statements

Unqualified

### The scope of our audit and the results of our work

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 2020 and of its financial performance for the year then ended.

Our audit was conducted in accordance with the requirements of the Code of Audit Practice issued by the National Audit Office and International Standards on Auditing. These require us to consider whether:

- the accounting policies are appropriate to the Council's circumstances and have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management in the preparation of the financial statements are reasonable; and
- the overall presentation of the financial statements provides a true and fair view.

Our auditor's report, stated that in our view, the financial statements give a true and fair view of the Council's financial position as at 31 March 2020 and of its financial performance for the year then ended.

Our auditor's report was modified to include an emphasis of matters paragraph, drawing attention to the financial statement disclosure explaining that Covid19 had contributed to 'material valuation uncertainty' in the valuation of the Council's land & buildings and investment properties and in the Council's share of Nottinghamshire Pension Fund's property assets.



## 2. AUDIT OF THE FINANCIAL STATEMENTS

### Our approach to materiality

We apply the concept of materiality when planning and performing our audit, and when evaluating the effect of misstatements identified as part of our work. We consider the concept of materiality at numerous stages throughout the audit process, in particular when determining the nature, timing and extent of our audit procedures, and when evaluating the effect of uncorrected misstatements. An item is considered material if its misstatement or omission could reasonably be expected to influence the economic decisions of users of the financial statements.

Judgements about materiality are made in the light of surrounding circumstances and are affected by both qualitative and quantitative factors. We set materiality for the financial statements as a whole (financial statement materiality) and set a lower level of materiality for specific items of account (specific materiality) due to the nature of these items or because they attract public interest. We also set a threshold for reporting identified misstatements to the Audit and Governance Committee. We call this our trivial threshold.

The table below provides details of the materiality levels applied in the audit of the financial statements for the year ended 31 March 2020:

Financial statement materiality	Our financial statement materiality is based on 2% of Gross Operating Expenditure.	£1,063k
Trivial threshold	Our trivial threshold is based on 3% of financial statement materiality.	£32k
Specific materiality	We have applied a lower level of materiality to the following areas of the accounts: <ul style="list-style-type: none"><li>• Senior Officer Remuneration</li><li>• Members Allowances</li><li>• External Audit Fee</li></ul>	£5k £47k £8k



## 2. AUDIT OF THE FINANCIAL STATEMENTS

### Our response to significant audit risks

As part of our continuous planning procedures we considered whether there were risks of material misstatement in the Council's financial statements that required special audit consideration. We reported significant risks identified at the planning stage to the Audit and Governance committee within our Audit Strategy Memorandum and provided details of how we responded to those risks in our Audit Completion Report. The table below outlines the identified significant risks, the work we carried out on those risks and our conclusions.

Identified significant risk	Our response	Our findings and conclusions
<b>Management override of controls</b> 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, amongst other tests, performing audit work over accounting estimates and financial journal entries.	Our audit procedures have not identified any material errors or uncertainties in the financial statements, or other matters that we wish to bring to Members' attention in relation to management override of controls.



## 2. AUDIT OF THE FINANCIAL STATEMENTS

### Our response to significant audit risks

Identified significant risk	Our response	Our findings and conclusions
<p><b>Valuation of property, plant and equipment and investment properties</b></p> <p>The financial statements contain material entries on the Balance Sheet as well as material disclosure notes in relation to the Council's Property, Plant and Equipment that is held at a valuation. The Council uses an internal valuation expert to provide information on valuations because there is a high degree of estimation uncertainty caused by significant judgements and number of variables involved in providing valuations. We have therefore identified the valuation of material balances of land and buildings, investment properties (if applicable or material) and assets held for sale (if material) to be an area of significant audit risk.</p> <p>At the outset of the Covid19 outbreak, guidance issued by the Royal Institute of Chartered Surveyors set out an expectation that valuers are likely to conclude that there is "material uncertainty" over the valuation of land and buildings at the balance sheet date.</p> <p>Relevant balances:</p> <ul style="list-style-type: none"> <li>Note 9: Property, Plant &amp; Equipment – Council Dwellings £245m</li> <li>Note 9: Property, Plant &amp; Equipment – Other Land &amp; Buildings £30m</li> <li>Note 10: Investment Properties £15m.</li> </ul>	<p>In relation to the valuation of property, plant &amp; equipment, investment properties and assets held for sale we:</p> <ul style="list-style-type: none"> <li>critically assessed the Council's valuer's scope of work, qualifications, objectivity and independence to carry out the required programme of revaluations;</li> <li>considered whether the overall revaluation methodologies used by the Council's valuer's were in line with industry practice, the CIPFA Code of Practice and the Council's accounting policies;</li> <li>assessed whether valuation movements are in line with market expectations by using information available from other sources;</li> <li>critically assessed the treatment of the upward and downward revaluations in the Council's financial statements with regards to the requirements of the CIPFA Code of Practice; and</li> <li>critically assessed the approach that the Council adopted to ensure that any assets not subject to revaluation in 2019/20 were materially correct, including considering the robustness of that approach in light of the valuation information reported by the Council's valuers.</li> </ul>	<p>During the course of our work, our testing of underlying valuation data, such as floor spaces, identified some gaps in the Council's records that was resolved through identifying alternative sources of evidence.</p> <p>At the outset of the Covid19 outbreak, the Royal Institute of Chartered Surveyors set out an expectation that valuers are likely to conclude that there is "material uncertainty" over the valuation of land and buildings at the balance sheet date. The Council's valuer has followed guidance issued by the Royal Institute of Chartered Surveyors and as expected their valuation reports conclude that, due the impact of COVID-19 on the property market, there is "material uncertainty" over the valuation of land and buildings and investment properties at the balance sheet date. This has been properly disclosed in the notes to the Statement of Accounts.</p> <p>We will, in line with normal practice, include reference to this disclosure as an 'emphasis of matter' in our audit report.</p> <p>There are no other matters to bring to Members' attention.</p>



## 2. AUDIT OF THE FINANCIAL STATEMENTS

### Our response to significant audit risks

Identified significant risk	Our response	Our findings and conclusions
<p><b>Valuation of the Net Pension Liability</b></p> <p>The financial statements contain material pension entries in respect of retirement benefits. The calculation of these pension figures, both assets and liabilities, can be subject to significant volatility and includes estimates based upon a complex interaction of actuarial assumptions. Moreover, the local government pension assets and liabilities are subject to triennial revaluation as at 31 March 2019, which set the contribution rates for 2020/21 onwards. This results in an increased risk of material misstatement.</p> <p>Relevant balances:</p> <ul style="list-style-type: none"> <li>Note 33: Net Pension Liability £45m</li> </ul>	<p>We performed a range of audit tests, including, but not limited to:</p> <ul style="list-style-type: none"> <li>reviewed the appropriateness of the Pension Asset and Liability valuation methodologies applied by the Pension Fund Actuary, and the key assumptions included within the valuation. This will include comparing them to expected ranges, utilising information provided by the consulting actuary engaged by the National Audit Office;</li> <li>agreed the data in the IAS 19 valuation report provided by the Fund Actuary for accounting purposes to the pension accounting entries and disclosures in the Council's financial statements;</li> <li>critically assessed the competency, objectivity and independence of the Leicestershire Pension Fund's Actuary; and</li> <li>liaised with the auditors of the Leicestershire Pension Fund to gain assurance that the controls in place at the Pension Fund are operating effectively. This will include the processes and controls in place to ensure data provided to the Actuary by the Pension Fund for the purposes of the IAS 19 valuation is complete and accurate.</li> </ul>	<p>We received our assurance from the auditor of the Leicestershire Pension Fund on 17 December 2020. This confirmed a 'material valuation uncertainty' on the Pension Fund's property assets. The Council's share of these property assets recorded in the balance sheet is therefore also affected. This has been disclosed in the financial statements and incorporated into the 'emphasis of matters' paragraph in our Audit Report. In reviewing the work of the pension fund auditor, we also noted:</p> <ul style="list-style-type: none"> <li>A £5m difference has been reported between the value of scheme assets per the 2019 Triennial Actuarial Report (£4,312m) and the value of scheme assets per the Pension Fund audited financial statements as at 31 March 2019 (£4,307m).</li> <li>Pension benefits payable sent to the actuary was £3,454k. The Pension Fund auditor agreed the benefits paid data to the underlying information system maintained by the pension fund, noting a difference of £618k. This has no impact on the net pension liability in the Council's balance sheet.</li> <li>The Pension Fund submitted asset information to the actuary as at 31 December 2019 and not 31 March 2020. The actuary then estimated asset investment returns as -4.6%, whereas the actual return for the period was -3.56%.</li> </ul> <p>In July 2020, MHCLG consulted on the proposed remedy for the 'McCloud' and 'Sargeant' cases. This indicates that the approach adopted for 2018/19 and 2019/20 is likely to have led to an overstatement of the pension fund liability as at 31 March 2020.</p> <p>The Council obtained an updated actuarial valuation to identify whether the pension fund assets and liabilities require adjustment, with the net impact being a £300k movement in the pension liability that management has adjusted for.</p> <p>There are no other matters to report from the work we have performed.</p>

### 3. VALUE FOR MONEY CONCLUSION

Value for money conclusion

Unqualified

#### Our audit approach

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 in order to form our conclusion, and sets out the criterion and sub-criteria that we are required to consider.

The overall criterion is that, 'in all significant respects, the Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.' To assist auditors in reaching a conclusion on this overall criterion, the following sub-criteria are set out by the NAO:

- informed decision making;
- sustainable resource deployment; and
- working with partners and other third parties.

#### Significant audit risks

The NAO's guidance requires us to carry out work to identify whether or not a risk to our conclusion exists. Risk, in the context of our work, is the risk that we come to an incorrect conclusion rather than the risk of the arrangements in place at the Council being inadequate.

In our Audit Strategy Memorandum, we reported that we not identified any significant risk to our VFM Conclusion

We have kept a number of matters under review:

- Financial sustainability – the medium term financial position contains some inherent uncertainties (common to all bodies in the sector) and we will update our risk assessment of the council's financial sustainability at the final stages of the audit
- New Leisure Centre - we will keep a watching brief on progress before forming our VFM conclusion, in particular whether there has been any unusual slippage or material budget variations
- The reports of Internal Audit
- The outcome of other aspects of assurance work, such as the audited financial position and the Head of Internal Audit's opinion
- The work on the Council's 2018/19 AGS including consideration of any further changes from Brexit
- Updates to the Council's strategic risk register
- Issues noted following meetings with management or Those Charged with Governance
- The work and reports of regulators.

In respect of the above, we are satisfied that no additional Significant VFM Risks have arisen relating to the 2019/20 VFM Conclusion.

#### Overall Conclusion

Our auditor's report included states that we intend to issue an unqualified Value for Money conclusion for the 2019/20 financial year.



## 4. OTHER REPORTING RESPONSIBILITIES

Exercise of statutory reporting powers	No matters to report
Completion of group audit reporting requirements	Below testing threshold
Other information published alongside the audited financial statements	Consistent

The Code of Audit Practice and the 2014 Act place wider reporting responsibilities on us, as the Council's external auditor. We set out below, the context of these reporting responsibilities and our findings for each.

### Matters on which we report by exception

The 2014 Act provides us with specific powers where matters come to our attention that, in our judgement, require reporting action to be taken. We 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 law; and
- issue an advisory notice under schedule 8 of the 2014 Act.

We have not exercised any of these statutory reporting powers.

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

### Reporting to the National Audit Office in respect of Whole of Government Accounts consolidation data

The National Audit Office, as group auditor, requires us to complete a Whole of Government Accounts Assurance Statement in respect of financial consolidation data produced by the Council. We submitted this information to the National Audit Office on 15 December 2020.

### Other information published alongside the financial statements

The Code of Audit Practice requires us to consider whether information published alongside the financial statements is consistent with those statements and our knowledge and understanding of the Council. In our opinion, the other information in the Statement of Accounts is consistent with the audited financial statements.



## 5. OUR FEES

### Fees for work as the Council's auditor

We reported our proposed fees for the delivery of our work in the Audit Strategy Memorandum.

Having completed our work for the 2019/20 financial year, we can confirm that our final fees are as follows:

Area of work	2019/20 proposed fee	2019/20 final fee
Delivery of audit work under the NAO Code of Audit Practice	£38,902	
Fee Variations*:		
• Additional Testing on Property, Plant & Equipment and Defined Benefit Pensions Schemes		£7,067
• Additional costs associated with 2019/20, including, but not limited to:		£5,032
• Impact of 'Material Valuation Uncertainty' in Council's Assets and its share of Pension Fund Assets		
• Updating audit risk assessments, including the value for money conclusion		
• Additional considerations of estimation uncertainty in going concern,		
• Changes impacting pension liabilities through McCloud & Goodwin		
<b>Final audit fee</b>		<b>£51,001</b>
Assurance:		
• Pooling of Housing Capital Receipts Return	£3,250	
• Housing Benefits Assurance	Ongoing	
Other non-Code work	Nil	Nil

\*Fee variations subject to confirmation from PSAA.



## 6. FORWARD LOOK: AUDIT CHANGES 2020/21

### Changes to the Code of Audit Practice

The Code of Audit Practice (the Audit Code), issued by the Comptroller and Auditor General, prescribes the way we carry out our responsibilities as your auditors. On 1<sup>st</sup> April 2020 a new Code came in to force and will apply to our work from 2020/21 onwards.

The new Audit Code continues to apply the requirements of International Standards on Auditing (ISAs) to our audit of the financial statements. While there are changes to the ISAs that are effective from 2020/21 the Audit Code has not introduced any changes to the scope of our audit of the financial statements. We will continue to give our opinion on the financial statements in our independent auditor's report.

There are however significant changes to the work on value for money arrangements, and the way we report the outcomes of our work to you.

#### The auditor's work on value for money arrangements

From 2020/21 we are still required to satisfy ourselves that you have made proper arrangements for securing the economy, efficiency and effectiveness in your use of resources, however unlike under the 2015 Audit Code, we will no longer report in the form of a conclusion on arrangements. Instead, where our work identifies significant weaknesses in arrangements, we are required to report those weaknesses to you, along with the actions that need to be taken to address those weaknesses.

Our work will focus on three criteria specified in the revised Audit Code:

- Financial sustainability: how the body plans and manages its resources to ensure it can continue to deliver its services;
- Governance: how the body ensures that it makes informed decisions and properly manages its risks; and
- 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.

Under the new Audit Code, we will be expected to report and make recommendations as soon as we identify a significant weakness in arrangements, as opposed to reporting our conclusion on arrangements at the end of the audit cycle as has previously been the case.

#### Reporting the results of the auditor's work

We currently issue you with an Annual Audit Letter which provides a summary of our work across all aspects of our audit. From 2020/21 the Annual Audit Letter will be replaced by the Auditor's Annual Report. This will continue to provide a summary of our work over the year of audit but will also include a detailed commentary on your arrangements in place to achieve economy, efficiency and effectiveness. This commentary replaces the conclusion on arrangements that was previously provided and will include details of any significant weakness identified and reported to you, follow up of any previous recommendations made, and the our view as to whether recommendations have been implemented satisfactorily.

The new Audit Code will result in additional officer time and auditor time and fees.



## 6. FORWARD LOOK: AUDIT CHANGES 2020/21

### Redmond Review

In September 2020, Sir Tony Redmond published the findings of his independent review into the oversight of local audit and the transparency of local authority financial reporting. The report makes several recommendations that, if implemented, could affect both the financial statements that local authorities are required to prepare and the work that we as auditors are required to do.

The report and recommendations are wide-ranging, and includes:

- the creation of the Office of Local Audit and Regulation (OLAR), be created to manage, oversee and regulate local audit;
- reviewing reporting deadlines;
- reviewing governance arrangements in local authorities, including the membership of the Audit Committee; and
- increasing transparency and reducing the complexity of local authority financial statements.

The recommendations and findings will now be considered by the Ministry of Housing, Communities and Local Government and we look forward to working with all stakeholders to implement changes to ensure the development and sustainability of local audit.

The full report is available here: <https://www.gov.uk/government/publications/local-authority-financial-reporting-and-external-audit-independent-review>



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