Ashfield
DISTRICT COUNCIL

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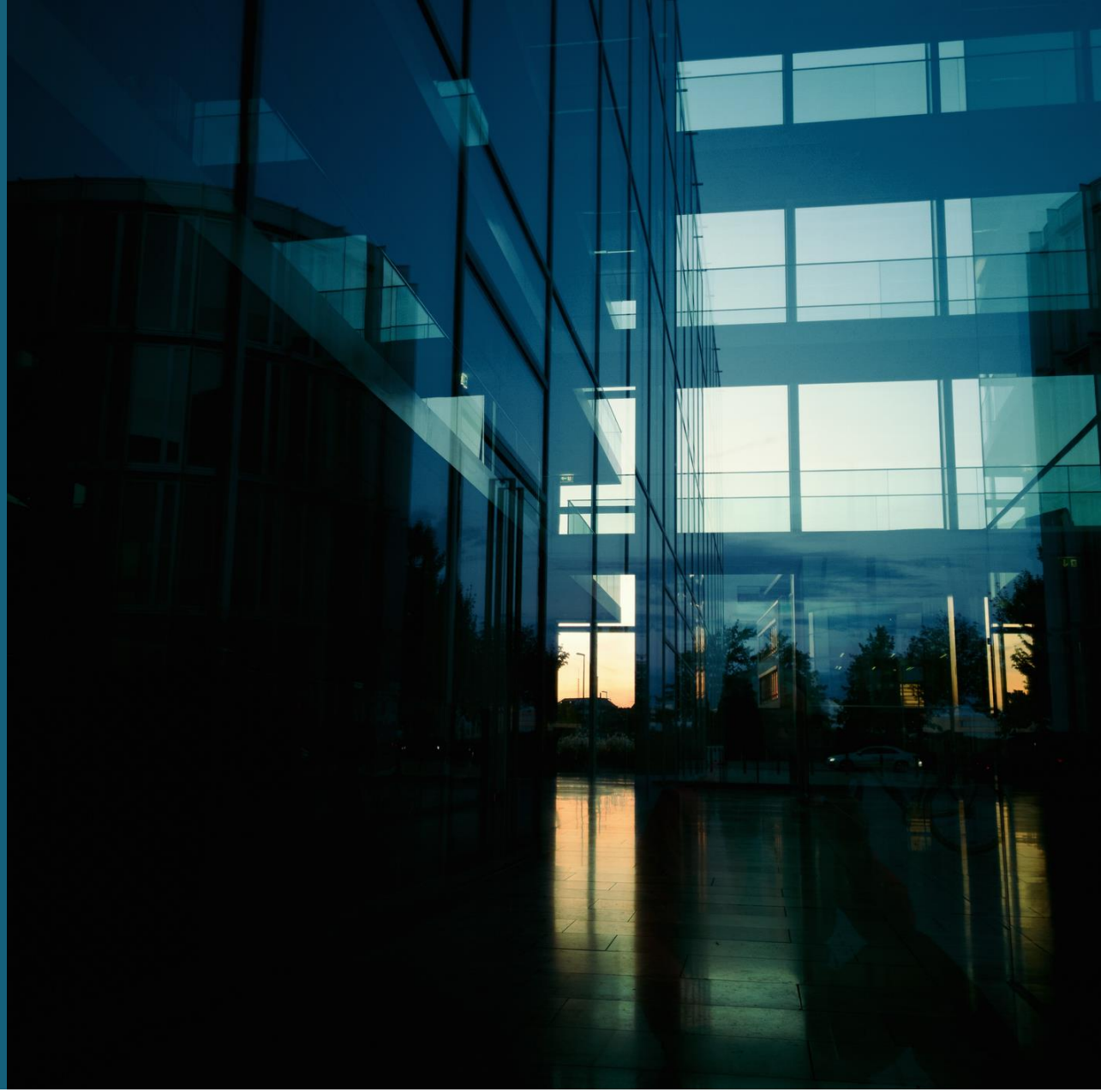
Auditor’s Annual Report

Ashfield District Council – year ended 31 March 2022

June 2023



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Our reports are prepared in the context of the 'Statement of responsibilities of auditors and audited bodies' issued by Public Sector Audit Appointments Ltd. Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the Council. No responsibility is accepted to any member or officer in their individual capacity or to any third party.

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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 Ashfield 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 14 March 2022. 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.

Whole of Government Accounts (WGA)

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

Wider reporting responsibilities

The 2014 Act requires us to give an elector, or any representative of the elector, the opportunity to question us about the accounting records of the Council and to consider any objection made to the accounts. No such correspondence from electors has been received.

3. VFM arrangements – Overall summary

Context of the Auditor's Annual Report

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

Sector wide

- **Cost of Living**: With most people experiencing financial pressure, spending habits are changing. High energy costs and increasing food prices have impacted on levels of disposable income. With wage (and potentially benefit) increases failing to keep pace with inflation, more people will be facing hardship.
- **Added budget pressures:** With inflation soaring, the cost of goods, services and resources are becoming more expensive. Local authorities are not immune to the increasing cost of energy supply, although the government announcements on energy caps help, many local authorities are still facing higher costs. Local authorities typically budget for modest salary increases year on year, but expectations and demands on salary increases have changed and consideration on how they are to be funded is required.
- **Cost of Borrowing:** The Bank of England base rate has risen to 4.5% in May 2023 meaning that the cost of borrowing for capital projects has increased significantly.
- **Contractors and Suppliers**: The cost-of-living crisis has resulted in business failures. Although government support has been announced, some businesses will continue to struggle, with a greater risk of supplier failure. Supply failures anywhere in the supply chain will have a knock-on effect.
- **Service Delivery**: Likely budget reductions and savings plans are going to impact the ability of local authority services to maintain levels of delivery, particularly at a time of increased demand.

We remain alert to the key issues facing Ashfield District Council, including matters attracting significant media attention such as the Government intervention into planning at Teversal and involvement of the police into members roles in other organisations. Should we identify a risk of significant weakness in arrangements, will follow the process as described in section 3 to promptly raise these with management and issue any reports to the Audit Committee as part of our audit for the year ending 31 March 2023.

02

Section 02:

Audit of the financial statements

2. Audit of the financial statements

The scope of our audit and the results of our opinion

Our audit was conducted in accordance with the requirements of the Code, and International Standards on Auditing (ISAs).

The purpose of our audit is to provide reasonable assurance to users that the financial statements are free from material error. We do this by expressing an opinion on whether the statements are prepared, in all material respects, in line with the financial reporting framework applicable to the Council and whether they give a true and fair view of the Council's financial position as at 31 March 2022 and of its financial performance for the year then ended. Our audit report, issued on 14 March 2023 gave an unqualified opinion on the financial statements for the year ended 31 March 2022.

Qualitative aspects of the Council's accounting practices

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

Management identified one material error in the financial statements that was corrected by way of adjusting £2.2m balances in previous financial years as a result of not following proper accounting practice regarding the treatment of Section 106 Capital Grants between grants unapplied and grants received in advance.

Internal control recommendations

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

Our detailed findings and recommendations were included in the Audit Completion Report to the Council's Audit Committee, confirming there were no 'high' priority recommendations with potential for financial loss, damage to reputation or loss of information that may have implications for the achievement of business strategic objectives for immediate implementation.

2. Audit of the financial statements

Main financial statement audit risks and findings

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

Audit Risk	Level of audit risk	How we addressed the risk	Audit conclusions
Management override of controls This is a mandatory significant risk on all audits due to the unpredictable way in which such override could occur.	**Significant risk:** an area that, in our judgment, requires special audit consideration.	We addressed the risk through performing work over accounting estimates, journal entries and considering whether there were any significant transactions outside the normal course of business or otherwise unusual. In addition, we made enquiries of management and used our data analytics and interrogation software to extract accounting journals for detailed testing on specific risk characteristics.	There are no significant matters to report in respect of management override of controls.
Valuation of land & buildings and investment properties and council dwellings The valuation of these properties is complex and is subject to a number of management assumptions, judgements and a high degree of estimation uncertainty.	**Significant risk**	Our procedures to address this risk included, but was not limited to: • considering whether the overall revaluation methodologies used by the Council's valuers are in line with industry practice, the CIPFA Code of Practice and the Council's accounting policies; • assessing whether valuation movements are in line with market expectations by using third party information to provide information on regional valuation trends; • critically assessing the approach that the Council adopts to ensure assets that are not subject to revaluation in 2021/22 are materially correct, including considering the robustness of that approach in light of the valuation information reported by the Council's valuers; and • testing a sample of individual valuations, back to source records to ensure appropriateness and to gain assurance over whether the correct accounting treatment has been applied.	There are no significant matters to report in respect of valuation of land, building and dwelling assets.
Valuation of the net pension liability The defined benefit liability relating to the Local Government pension scheme represents significant balances on the Council's balance sheet. The Council relies on an actuary to provide an annual valuation of these liabilities in line with the requirements of IAS 19 Employee Benefits. Due to the high degree of estimation uncertainty associated with this valuation, we have determined there is a significant risk of misstatement in this area.	**Significant risk**	Our procedures to address this risk included, but was not limited to: • liaising with the auditors of the Nottinghamshire Pension Fund to gain assurance that the controls in place at the Pension Fund are designed and implemented correctly. This included the processes and controls in place to ensure data provided to the Actuary by the Pension Fund for the purposes of the IAS 19 valuation is complete and accurate; • reviewing the appropriateness of the Pension Asset and Liability valuation methodologies applied by the Pension Fund Actuaries, and the key assumptions included within the valuations. This included comparing them to expected ranges, utilising information by the consulting actuary engaged by the National Audit Office.	A £0.9m adjustment was made to the financial statements, following which we were satisfied that the evidence obtained delivered the assurances we required.

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 or arrangements for each of the specified reporting criteria using a variety of information sources which may include:

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

Although we describe this work as planning work, we keep our understanding of arrangements under review and update our risk assessment throughout the audit to reflect emerging issues that may suggest there are further risks of significant weaknesses.

Phase 2 - Additional risk-based procedures and evaluation

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

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

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

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

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

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

- **Other recommendations**

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

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

3. VFM arrangements – Overall summary

Overall summary by reporting criteria

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

3. VFM arrangements

Financial Sustainability

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

3. VFM arrangements – Financial Sustainability

Overall commentary on the Financial Sustainability reporting criteria

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

Position brought forward from 2020/21

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

Overall responsibilities for financial governance

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

The Council's financial planning and monitoring arrangements

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

We reviewed the Council's financial outturn for 2021/22 as presented to Cabinet in July 2022. This report explained explanations for variation for significant variances against revised budget for the General Fund, the Housing Revenue Account (HRA) and the Capital Programme. The report is evidence of arrangements in place to track and manage the budget, with the variances not indicative of a significant weakness in the Council's arrangements.

Financial Statement performance 2021/22

We reviewed the Council's balance sheet, income statement and movement in reserves and compared this to the prior year and are satisfied the reported financial position does not indicate a risk of significant weakness in VFM arrangements for financial sustainability

3. VFM arrangements – Financial Sustainability

Overall commentary on the Financial Sustainability reporting criteria

Financial Statement performance 2021/22 (continued)

We also considered performance on commercial property investments as presented in notes 15 and 25 of audited the financial statements, as well as the year end property portfolio report presented to Audit Committee in July 2022 with the following observations:

- Underlying arrangements for oversights of the Council's investment property portfolio are unchanged from prior years.
- The fair value of the Council's investment properties has fallen by nearly £8m in the two years 2020/21 (£5.8) to 2021/22 (£2.2m).
- The acquisition cost of these properties was £62m vs a fair value as at 31 March 2022 of £51m.
- Net rental income from investment properties per the financial statements is £4.4m, but when all borrowing costs are included, this reduces to £3.2m, which is a return of around 5% against the cost of acquisition.
- The Council has maintained a £3.5m investment reserve to mitigate the impact of rental void periods and mitigate fluctuations in the market. This is approximately 80% of the annual net revenue income for 2021/22.

Revisions to CIPFA's Treasury Management Code and the Prudential Code were made in December 2021 leading to enhanced levels of reporting and governance for 2022/23. We confirmed the Council updated its Treasury Management Strategy and Capital Strategy for 2022/23 as presented to the Audit Committee in January 2023.

Financial performance and management of the risk surrounding large commercial investment portfolio's is increasingly under pressure and an area the Council needs to maintain close oversight over.

	2021/22 £'000
Net Rental Income From Investment Properties (financial statements)	4,393
Total investment property net income (after borrowing costs)	3,181
Opening Fair Value of investment properties	52,793
Impairments	(2,123)
Closing Fair Value of investment properties	50,670
Commercial property investment reserve	3,500

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

3. Commentary on VFM arrangements

Governance

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

3. VFM arrangements – Governance

Overall commentary on the Governance reporting criteria

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

The Authority's governance structure

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

Our review of corporate governance arrangements confirms the Council has an agreed Constitution, setting out how it operates, how decisions are reached and what procedures are followed to ensure that these are transparent and accountable to local people. Within the Constitution is a Scheme of Delegation that sets out who can take which type of decisions, with decisions published on the Council's website.

Risk management and internal control

The Council has an established risk management framework and systems in place which are built into the governance structure of the organisation. We reviewed specific reports provided to the Audit Committee in March 2022 setting out updates to the corporate risk register and to corporate governance arrangements, with no concerns arising. These arrangements are consistent with what we would expect at a local authority and are adequate for the Council's purposes.

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

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

Our work on the financial statements did not identify any significant internal control weaknesses.

Internal Audit

We have documented our understanding of the internal audit function and are satisfied that the Head of Internal Audit has direct access to all levels of management, all employees and to all elected members and particularly to those charged with governance. We have met with management and the Head of Internal Audit regularly during the year and reviewed Audit Committee reports and attended Audit Committee to observe the functioning of the Committee and receipt of Internal Audit Reports.

In addition, we reviewed the Internal Audit's annual opinion which is provided to the Audit Committee and supports the Annual Governance Statement providing assurance that there is no significant weakness in arrangements for 2021/22.

3. VFM arrangements – Governance

Overall commentary on the Governance reporting criteria - continued

Arrangements for budget setting and budgetary control

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

We reviewed the medium term financial strategy presented to Cabinet in February 2022 covering the period 2022/23 to 2024/25. We also considered the Council's main assumptions, mainly being pay and non-pay inflationary pressures of between 2% and 5% as well as noting a cumulative funding gap of £2.3m over the duration of the MTFS. Overall, we do not believe the assumptions made are unduly unreasonable and are satisfied that there is no indication of a significant concern over the Council's financial sustainability, when also taking into consideration that, as at 31 March 2022, the balance on the General Reserve was £9m.

The Council's reserves position does not indicate a risk of significant weakness in VFM arrangements for financial sustainability and provide some mitigation against future financial challenges, and will assist in addressing future volatility and support savings and efficiencies plans. The Council will need to continue to ensure that any use of reserves to smooth the financial position over the next few years is properly planned and the use of reserves cannot be relied on to provide a long term solution to funding gaps.

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

3. Commentary on VFM arrangements

Improving economy, efficiency and effectiveness

How the body uses information about its costs and performance to improve the way it manages and delivers its services

3. VFM arrangements – Improving Economy, Efficiency and Effectiveness

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

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

Overall arrangements

The Council's arrangements in 2021/22 are not significantly changed from 2020/21.

The Corporate Plan sits above a wider strategic context which includes the Corporate Project Management Framework, Corporate Performance Indicators and a range of strategic documents relating to the Council and its services, including the Strategic Direction. The performance framework incorporates balanced performance scorecards on place, corporate and service outcomes.

The Corporate Plan has been developed in alignment with the Medium-Term Financial Strategy and the financial sustainability of the organisation. The 'Innovate and Improve' Priority proposes key programmes and projects which will be focussed on identifying and delivering efficiencies and more effective working practices to support financial sustainability, whilst concurrently delivering improved customer focussed services. Financial performance is included within a detailed Corporate Scorecard reported to Corporate Leadership Team and Scrutiny.

We reviewed the Corporate Plan refresh based on 2021/22 outturn presented to Cabinet in June 2022, which included an update on the year-end Corporate Performance Scorecard. Having reviewed the levels of performance and delivery achieved against the Corporate Plan and Corporate Scorecard, as at year-end 2021/22, no evidence of a significant weakness in arrangements was identified.

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

Towns Board

In June 2021 a £63m Towns Fund deal for Ashfield was announced, with Ashfield District Council as the Accountable body. We have reviewed a variety of governance documents supporting the Towns Fund to confirm that the Discover Ashfield Board is the body that oversees the Towns Fund to ensure that there is involvement and engagement with a wide range of people and organisations. The Board also has oversight of the Shared Prosperity Fund. The Board membership includes local MPs, community representation and the Integrated Care Partnership. The Board serves an advisory function to the Council with regards to the Town Deal funding.

As reported to Cabinet, there has been £3.3m slippage (71%) on towns fund capital through to 31 March 2022 due to the ongoing impact of covid and availability of consultants.

We obtained a copy of the Local Assurance Framework (LAF) to confirm one was in place. This sets out how Ashfield District Council and Discover Ashfield undertake their respective roles in relation to good governance and delivery of the projects being funded through the Towns Fund. The framework sets out the structure and roles that each organisation will undertake and the processes and policies that will apply to the decision making and oversight that are required in managing the Town Deal programme.

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

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

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

4. Other reporting responsibilities and our fees

Fees for work as the Council's auditor

We reported our proposed fees for the delivery of our work under the Code of Audit Practice in our Audit Strategy Memorandum. Having substantially completed our work for the 2021/22 financial year, we can confirm that our fees are as follows:

	2020/21 Actual	2021/22 Final
Scale fee in respect of our work under the Code of Audit Practice	**43,148**	**43,148**
Additional cost in respect of increased regulatory expectations:		
• Additional testing on IAS19 Pension Liabilities	2,998	3,740
• Additional testing on valuation of land, buildings, council dwellings and investment properties	4,954	6,200
Additional costs arising from:		
• Additional work from the introduction of new auditing standards (ISA 540 Estimates)	2,892	3,590
• Other additional testing - audit adjustments to resolve prior period errors	-	2,205
• Other additional testing (explain) - COVID	1,188	-
Subtotal	***12,032***	***15,735***
Additional cost in respect of the new VFM approach	6,000	6,000
Grand Total	**61,180**	**64,883**

The Council was provided with a share of £15 million in additional funding in 2021/22 to meet rising audit costs, this being £22,243

Fee variations subject to PSAA approval process.

Fees for other work

We confirm that we have undertaken one assurance related service for the Council in the year: Assurance return on the pooling of housing capital receipts for £3,600

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