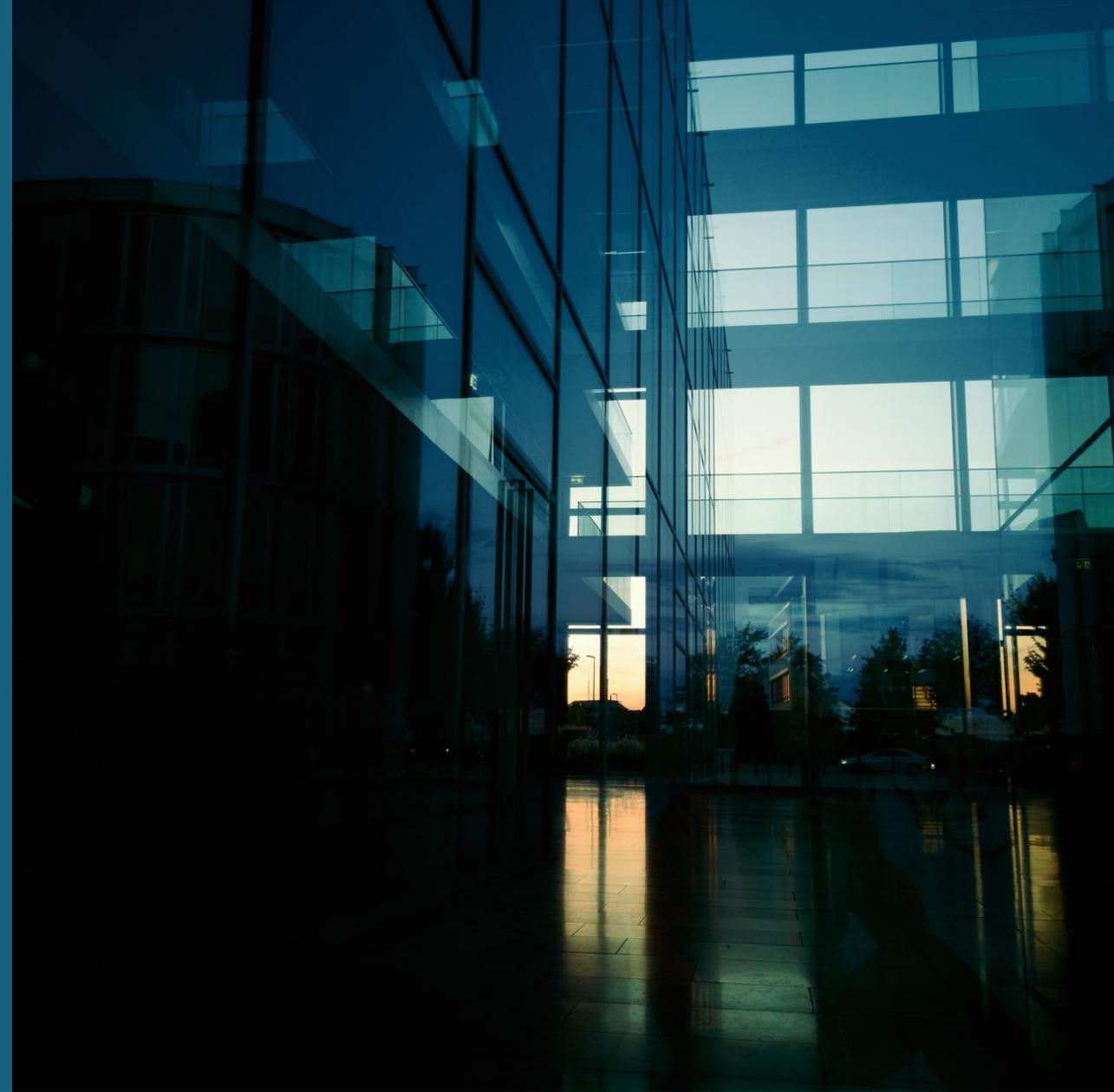


# Auditor's Annual Report

Newark & Sherwood District Council –  
year ended 31 March 2021

21 January 2022



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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 Newark and Sherwood 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 issued our audit report on 06 January 2022. Our opinion on the financial statements was unqualified. Our audit report did however include an emphasis of matter paragraph drawing attention to disclosures in the financial statements relating to a material valuation uncertainty of specific property assets.



### 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. No significant weaknesses in arrangements were identified and there are no recommendations arising from our work.



### Wider reporting responsibilities

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 issue our audit certificate until this is formally confirmed. We are unable to commence our work in this area until such instructions have been received.

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# 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 2021 and of its financial performance for the year then ended. Our audit report, issued on 06 January 2022 gave an unqualified opinion on the financial statements for the year ended 31 March 2021. Our audit report also included a paragraph on the material uncertainty relating to a material valuation uncertainty of specific property assets, drawing readers' attention to the disclosures made in Council's financial statements

## Qualitative aspects of the Council's accounting practices

We reviewed Council's accounting policies and disclosures and concluded they comply with the 2020/21 Code of Practice on Local Authority Accounting, appropriately tailored to Council's circumstances

## Significant difficulties during the audit

We did not encounter any significant difficulties during the course of the audit and we have had the full co-operation of management.

# 2. Audit of the financial statements

## Internal control recommendations

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

We identified a small number of opportunities to improve internal control as part of our audit and raised three internal control recommendations. Management agreed to address these recommendations during 2021/22.

# 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 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

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. We did not identify any risks of significant weaknesses through our work on Value for Money arrangements.

Where our risk-based procedures identify actual significant weaknesses in arrangements, we are required to report these and make recommendations for improvement. There are no significant weaknesses to report.

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	10	No	No
Governance	11	No	No
Improving economy, efficiency and effectiveness	12	No	No

# 3. VFM arrangements – Financial Sustainability

## Overall commentary on the Financial Sustainability reporting criteria

### Background to Newark & Sherwood DC operating environment in 2020/21

Newark & Sherwood DC entered the 2020/21 financial year as the first national lockdown began and the Council immediately faced a significant operational impact to respond to the range of challenges presented by the pandemic. As part of the national response to Covid-19, central government made a series of policy announcements, a number of which have impacted on local authorities such as Newark & Sherwood. The Council was at the forefront of efforts to protect local residents, including the most vulnerable, and to support local businesses.

Some of the government’s initiatives to respond to the covid-19 pandemic were supported by additional funding for the Council, and as a result, Newark & Sherwood received significant additional funding in the form of government grant for 2020/21. This emergency funding was to support the Council in managing the immediate pressures on public services and to fund support for vulnerable people. The Council also received a number of specific grants relating to additional responsibilities to address covid-19 including payments to local businesses with a value of approximately £43m. A range of other, smaller grant allocations were also paid to the Council over the course of the financial year.

### 2020/21 Financial statement performance

We undertook a high level analysis of the audited financial statements, including the Movement in Reserves Statement and the Balance Sheet. The total reserves per the Balance Sheet shows a £8.705m decrease to £226,283m, split by reduction in unusable reserves by £20.113m and an increase in useable reserves of £12.509m. However, net current assets increased by £2.775m to £22.422m showing a healthier short-term position. The Council’s cash position remained fairly stable when comparing the current year and prior year cash flow statement, showing a small £0.258m decrease.

Below is an Expenditure Funding Analysis which shows an increase in usable revenue reserves of £11.804m for general fund reserves and £0.705m for HRA reserves. It should be noted that the increase in general reserves of £11.804m, includes £8.161m of s31 grants relating to business rates relief that is not a surplus as there is a corresponding deficit in the collection fund arising from Government policy, which will need funding in 2021/22.

	Balance at 31/03/2020	Increase / decrease	Balance at 31/03/2021
General fund	£25.535m	£11.804m	£37.339m
HRA fund	£6.756m	£0.705m	£7.461m
Total	£32.291m	£12.509m	£44.800m

### Financial planning and monitoring arrangements

In March 2020 the Council set a balanced budget for the 2020/21 financial year. The budget proposals were formulated in accordance with the framework set out in the Council’s Constitution. The Council’s General Budget showed the Council’s net budget requirements for the 2020/21 financial year, broken down by gross expenditure and gross income. The budget shows a budgeted net expenditure £13.5m. This is including total service budgets (£15.2m), other operating income & expenditure (£1.6m), financing and investment income (-£0.3) & expenditure, New Homes bonus and reversal of capital charges (-£3m). It’s noted that the net service expenditure has increased from 2019/20 by £0.58m largely due to three main reasons:

- 1) Employee costs expected to increase as the Council has increased the number of posts for 2021,
- 2) Computer software costs increases. This mainly relates to an increase in licensing costs as part of the Council’s move towards using the Microsoft Office 365 suite of applications.

During the year the Council reported its financial position through the quarterly financial performance reports, and carried out a thorough mid-year review before agreeing the revised budget in November 2020. 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 to provide adequate scrutiny and oversight.

The general fund revenue outturn report for 2020/21 shows an unfavourable variance of £0.082m on service budgets, with a total favourable variance of £10.413m, which was transferred into specific reserves at year end. Therefore, there were no transfers into the general fund reserve, which keeps the overall general fund balance at £1.5m at March 2021. This is in accordance with the Medium Term Financial Plan approved on 09 March 2021.

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# 3. VFM arrangements – Financial Sustainability

## Overall commentary on the Financial Sustainability reporting criteria - continued

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

The Medium Term Financial Plan (MTFP) is a four year plan which sets out the resources available to deliver the Council’s overall commitment to provide services that meet the needs of people locally and that represent good value for money.

A key part of the MTFP is to highlight the budget issues that need to be addressed by the Council in each of the years covered. This includes assumptions to allow forecasting of the level of available resources from all sources together with the budget pressures relating to both capital and revenue spending. It also assesses the adequacy of reserves and provisions held for past events which may impact on the Council’s resources.

The Council has in place an embedded budget setting process with approval being sought for the assumptions and principles on which the budget is to be based. These are used as a part of the determination of the overall budget position. As part of the budget process, the Council explicitly identifies its savings gap for the following year. Once the gap has been identified, a savings programme is determined.

The savings gap identified in the MTFP, approved on 09 March 2021, for 2021/22, 2022/23 and 2023/24 are £1.681m, £2.327m and £2.719m respectively. The Council has a strong track record of delivery against savings programmes to bridge budget gaps in recent years.

### 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. The budget for 2021/22 was approved at the 09 March 2021 Council meeting.

We noted above a series of short falls in the MTFP report for 2022/23, 2023/24 and 2024/25. The Council has established the following in addressing these short falls. For 2022/23, the Council intends to use surpluses made in previous year by use of contribution to reserves to offset contributions from reserves in future years. For 2023/24 and 2024/25, the Council has established further initiatives to cover the gap in fund such as dividends and profits from Council’s more commercial endeavours, Savings/efficiencies from making business processes more efficient and savings from service reviews.

After the proposed mitigations noted above, the Council expects contributions from reserves for the years

2022/23 and 2023/24 of £0.120m and £0.603m respectively. The Council’s total income will need to increase significantly, if it is to continue delivering and improving the services it currently provides and not use its reserves to cover the deficits currently anticipated for 2022/23 and 2023/24.

We have reviewed the 2021/22 budget papers and confirmed that the budget assumptions are sensible, realistic and properly applied.

**Based on the above considerations we are satisfied there is not a significant weakness in Newark & Sherwood’s arrangements in relation to financial sustainability.**

# 3. VFM arrangements – Governance

## Overall commentary on the Governance reporting criteria

### Risk management and monitoring arrangements

The Council has an established risk management framework and systems in place which are built into the governance structure of the organisation. There is an updated and approved Risk Management Strategy which includes the Council's approach, guidance, the Council's risk appetite and roles and responsibilities. There is a Strategic Leadership Team (SLT) in place which includes relevant senior managers. The group oversees all the Council's operational and strategic risk registers and provides challenge as part of the process. The Council provides regular reports to provide assurance on the risk management arrangements in place and confirm that they are regularly reviewed and are working effectively. These arrangements are consistent with what we would expect at a local authority and are adequate for the Council's purposes.

As mentioned above, there is a specific team within the Council that manages and monitors risk. The team categorises risk into three: strategic risk, operational risk and fraud risk. The Strategic risk register is reviewed and updated with agreement of the SLT. The strategic risk register provides the Council's SLT with oversight of the key risks faced by the organisation. The strategic risks are reviewed twice a year by the SLT, with each strategic risk identified being assigned a 'risk owner' in order for there to be accountability. The 'risk owners' would then review their allocated strategic risks at quarterly intervals. Additionally, the strategic risks are also communicated to the Audit and Accounts Committee for additional scrutiny. Similar actions are taken with operational and fraud risks.

In order to provide assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud, The Council has a team of internal auditors, led by the Head of Internal Audit. The annual Internal Audit plan is agreed with management at the start of the financial year and is reviewed by the Audit and Accounts Committee prior to final approval. We have reviewed the 2020/21 internal audit plan. The internal Audit plan has a series of key control assignments throughout the year which look at the critical areas of business for the Council. The main reason for these audits are to ensure that internal controls surrounding these key tasks are working effectively. Furthermore, the audit plan is based on an assessment of risks the Council faces and is determined to ensure there is assurance on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control.

Internal Audit progress reports are presented to each Audit and Accounts Committee meeting including follow up reporting on recommendations from previous Internal Audit reports. We are satisfied this allows the Committee to effectively hold management to account. At the end of each financial year the Head of Internal Audit provides an opinion based on the work completed during the year. For 2020/21 the Head of Internal Audit

concluded that an adequate level of assurance can be given that the Council's overall framework of governance, risk management and control remains appropriate and has been complied with.

We have confirmed that the committee receive regular updates on both internal audit progress and risk management in the form of risk registers. We have seen active member engagement from the audit committee who challenge the papers and reports which they receive from officers, internal audit and external audit. We have also reviewed meeting minutes from Council which evidence an appropriate level of member engagement and challenge.

### Arrangements for budget setting and budgetary control

Business plans were prepared and approved by the Strategic Leadership Team (SLT) in January 2021 for a 14 month period, taking into account the anomalies that COVID 19 has brought. The Council's business plans set out the key activities that a Business Unit of the Council will undertake, alongside their performance indicators to demonstrate how the Council will monitor if a service is high or low performing. The business plans should also correlate with activities included in the approved Community Plan. Business plans are prepared in conjunction with Financial Services to ensure their activities are planned for in the budget planning process.

The business planning cycle was refreshed during 2020/21 to include a robust cycle of key council activities throughout a particular financial year. For example, business plan development, budget development, Community Plan refresh and customer insight activities. It is intended that this cycle will be followed during 2021/22.

A budget strategy is drafted and presented to the Policy and Finance Committee during the June cycle of meetings to set the context and the high level assumptions to be used in the budget production. We have reviewed the budget assumptions which are deemed to be appropriate and are consistently applied.

Subsequently, financial services officers would then liaise with budget holders to review their anticipated resource requirements, based on their deliverable objectives within the Community Plan. Once the resource requirements have been built into the budget, a report to SLT on the overall budget (with projected Business Rates and Council Tax allocations) is presented at the end of November for senior management approval. Following approval of the budget, budget monitoring commences to monitor progress against targets. Budget monitoring responsibilities of budget holders are documented and they are supported in this role by the finance team.

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# 3. VFM arrangements – Governance

## Overall commentary on the Governance reporting criteria - continued

### Decision making arrangements and control framework

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

The governance structure, as described in the AGS includes the Council’s Local Code of Corporate Governance and the Constitution. The governance structure comprises the systems, processes, culture and values by which the Council is directed and controlled. The structure also includes activities through which the Council accounts to, engages with, and leads the communities that it serves. It enables the Council to monitor and assess the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.

The Council’s Local Code of Corporate Governance sets out the governance principles which the Council are committed to and within which the Council conducts its business and affairs. The Local Code identifies the arrangements in place to enable the Council to meet the good governance principles.

The Constitution is kept under review and updated as required. The Constitution sets out how the Council operates, how decisions are made and the procedures to support the Council’s aims of being transparent and accountable. The Constitution is subject to periodic review and change either through national legislation or local decision. The Constitution includes the Budget and Policy Framework, Financial Regulations and Contract Rules, Member and Officer codes of conduct.

During 2020/21 the Council facilitated policy and decision-making through a Committee system. Meetings are open to the public except where exempt or confidential matters are being considered. In addition, the Council’s Constitution gives delegated authority for senior officers of the Council to make decisions in certain specified circumstances. Throughout this year the Council has utilised “The Local Authorities and Police and Crime Panels (Coronavirus) (Flexibility of Local Authority and Police and Crime Panel Meetings) (England and Wales) Regulations 2020” in order to conduct its meetings. This has meant that all Members and Officers, that are presenting reports, have met virtually over Microsoft Teams in order for decision making to continue whilst in a Covid safe manner. As those regulations were not in place during March and early April 2020, the Planning Committee on 31st March 2020 and the Policy and Finance Committee 2nd April 2020, which met informally virtually recommended decisions to the Chief Executive in order for him to make the required decisions, in

accordance with the provisions within the Constitution.

The Council has a cross-service Risk Management Group that meets regularly to identify and evaluate all significant risks. Strategic, Corporate and Operational Risk Registers are in place and appropriate staff have been trained in the assessment, management and monitoring of risks. In addition to this, a Fraud Risk Register is in place and a full refresh took place during 2020/21. This was presented to the Audit and Accounts Committee at its meeting in April 2021.

### Regulators

There are few external regulators for district councils and we have not identified any matters reported which indicate significant weaknesses in the Council’s governance arrangements. We reviewed the Local Government and Social Care Ombudsman’s (LGSCO) 2020/21 report to the Council. We also reviewed the report to the Standards Committee at its November 2021 meeting, which included benchmarking of the LGSCO report findings against neighbouring councils and did not highlight any specific concerns.

**Based on the above considerations we are satisfied there is not a significant weakness in the Council’s arrangements in relation to governance.**

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

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

### Performance Management

The Council has agreed a set of priorities in relation to Customers, Economy and the Environment. The Council has identified the key performance indicators, and target levels of performance, in relation to these priorities. The performance targets are informed by national standards, local benchmarking and experience and subject to initial challenge and confirmation.

In aim of achieving these priorities, the Council prepared quarterly finance and performance reports which are submitted to the Senior Leadership Team (SLT) and to the Council's Policy and Finance Committee. Increasingly, more customer insight is being used to drive performance improvement, for example, through complaints and compliments data and residents' surveys. Also, to inform the Community Plan refresh in 2020/21, the Council took on informal consultation with their residents in the form of feedback and from local community groups who had mobilised to support communities during the pandemic. The results from feedback informed the annual refresh of the Community Plan.

Bringing together finance and performance in this way has enabled more informed choices to be made about the allocation and re-allocation of resources. For example, over the previous year, additional investment has been allocated to a number of key services that were experiencing high levels of demand in relation to the COVID pandemic. A new business planning cycle has been designed so that the business plans are developed alongside the budget process. This enables the budget to accurately reflect the plans within the service areas. This is accompanied by the review of performance for the previous year. Business Managers are required to present their plans for the new year and performance from the previous to the SLT. Where there is a change in demand this is highlighted within the performance reporting and the senior managers can discuss the need for increased or reduced budget to reflect this.

As part of the internal audit function, improvements to the control environment are recommended to the Council as well as making plan of action for management to enact. This process assists the Council with performance improvements in services to ensure that services continue to deliver efficient and effective services.

The Council has a clear performance monitoring process. Performance is assessed using the following: Achievement of objectives and activities within the community plan, performance indicators of key activities, customer insight (customer satisfaction, resident panel, engaged tenants, customer experience survey, customer feedback) and staff delivery (sickness levels, staff survey results etc.). These four elements together give a broad and cohesive approach to performance measures and directly linked to identifying areas of improvement.

Additionally, the Council are also committed to ensuring efficiency and effectiveness through their procurement process. The Council procures services from third party procurement service to assist with any procurements the Council is involved in. The third party service runs procurement services for a number of other local authorities. They provide challenge and advice around ensuring that procurements are run in conjunction with legislative requirements and internal contract procedure rules. Once contracts are let, the Council has a contract management toolkit, which managers have training on, in order to ensure that contracts are managed effectively.

### Council group activity

The Council has three entities within its group structure in order to assist with the delivery of key community priorities, taking the lead where it is considered appropriate or advantageous to do so. The three entities form part of the Council's group for accounting purposes and therefore included in the Council's consolidated financial statements. These entities include two wholly owned subsidiaries and a 50% joint venture for the redevelopment of a local hotel. These are listed below respectively:

- Arkwood Development Company Ltd – a wholly own subsidiary,
- Active4Today Ltd – a wholly owned subsidiary, and
- RHH Newark Ltd – a 50% joint venture

There are relevant governance frameworks in place for these three entities and the Council continues to keep its role in these activities under review. Designated officers are responsible for taking action or referring it on where appropriate.

**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.**

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# 04

Section 04:

**Other reporting responsibilities and  
our fees**

## 4. Other reporting responsibilities and our fees

### Matters we report by exception

The Local Audit and Accountability Act 2014 provides auditors with specific powers where matters come to our attention that, in their judgement, require specific reporting action to be taken. Auditors have the power to:

- issue a report in the public interest;
- make statutory recommendations that must be considered and responded to publicly;
- apply to the court for a declaration that an item of account is contrary to the law; and
- issue an advisory notice.

We have not exercised any of these statutory reporting powers.

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

### Reporting to the NAO in respect of Whole of Government Accounts consolidation data

The NAO, as group auditor, requires us to complete the WGA Assurance Statement in respect of its consolidation data.

We have not yet received group instructions from the National Audit Office confirming this to be the case. We are unable to issue our audit certificate until this is formally confirmed.

## 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 presented to the Audit Committee in July 2021. Having completed our work for the 2020/21 financial year, we can confirm that our fees are as follows:

Area of work	2019/20 fees	2020/21 fees
Planned fee in respect of our work under the Code of Audit Practice	£37,213	£37,213
Additional fees in respect of additional work on PPE valuation	£7,067	£7,067
Additional fees in respect of implementation of new auditing standards	-	£2,000
Additional fees in respect of work arising from the change in the Code of Audit Practice		£10,000
Additional fees in respect to work on Group Accounts	£3,000	£2,000
Additional fees in respect of testing and reporting of uncertainties in key estimates	£5,032	-
<b>Total fees</b>	<b>£52,312</b>	<b>£58,280</b>

\* Fee variations subject to confirmation from PSAA.

### Fees for other work

We confirm that we have not undertaken any non-audit services for the Council in the year.

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# David Hoose – Audit Engagement Partner

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