

# Auditor's Annual Report

Gedling Borough Council – year ended  
31 March 2021

May 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 Gedling Borough 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 16 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.



### Wider reporting responsibilities

We have not yet received group instructions from the National Audit Office confirming their requirements in relation to the Council's Whole of Government Accounts. We are unable to issue our audit certificate until this is formally confirmed.

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. We did not receive any questions or objections in respect of the Council's financial statements.

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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, gave an unqualified opinion on the financial statements for the year ended 31 March 2021.

## Qualitative aspects of the Council's accounting practices

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

## Significant difficulties during the audit

During the course of the audit, we did not encounter any significant difficulties and we have had the full cooperation of management.

The audit was again carried out remotely but there were no significant difficulties in carrying out our normal audit procedures and obtaining the audit evidence required to complete the audit. We continue to work with management to complete any remaining audit work and resolve audit queries and are grateful for the cooperation and support provided.

# 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.

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. We did not identify any risks of significant weakness, or actual significant weakness, in the Council’s arrangements. On the following pages 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	9	No	No
Governance	11	No	No
Improving economy, efficiency and effectiveness	14	No	No



# 3. VFM arrangements – Financial Sustainability

## Overall commentary on the Financial Sustainability reporting criteria

### Background to the Council’s operating environment in 2020/21

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 Gedling Borough 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. The Council received £1.6m of Covid-19 Response funding to cover the Council’s extra costs. The Council also received around £1.6m relating to income compensation scheme for the sales, fees and charges income lost during the lockdown periods.

### 2020/21 Financial statement performance

We have carried out a high level analysis of the audited financial statements, including the Comprehensive Income and Expenditure Statement, the Balance Sheet and Movement in Reserves Statement.

The Council's balance sheet does not give us cause for concern relating to financial stability. Net current assets have increased from £18.7m to £33m, with short term creditors increasing from £5.7m to £16.7m. This is largely due to the grant initially paid to Gedling as the billing authority now being repayable to MHCLG for onward allocation to other preceptors, and to sums repayable as a result of the Council's agency arrangements for the issue of business grants during the pandemic (as disclosed within Note 21 of the financial statements). The level of total year-end Cash and Cash Equivalents rose from £6.8m to £9.1m this was in line with cash flow forecast and requirements.

The most significant change in the balance sheet relates to movements in the Council's share of the pension fund net liability (being a deficit position) of £69.5m, up from £49.2m in the prior year. It is not unusual to see material movements in the net pension liability and this is consistent with our experience at other local authorities. The deficit position is not unusual and is a recognised area of financial challenge for local authorities.

The Council's useable reserves have increased from £11.5m to £19.3m in 2020/21, with:

- General Fund and Earmarked Reserves of £16m, up from £9.9m in 2019/20; and
- Capital Grants Unapplied of £3.3m, up from £1.7m in 2019/20.

These reserves 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. 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 set balanced General Fund budgets for the 2020/21 financial year. During the year the Council reported its financial position through quarterly financial performance reports, and carried out an early in-year review to reflect the impact of Covid-19 on budgets and financial performance.

We noted that budget monitoring was reported to the Cabinet on a quarterly basis. We reviewed the final report covering the whole year and outturn that was received by the Cabinet in July 2021 and the reports contain detail on any significant variances to budget and an update on performance against 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 Council reported the final revenue outturn position for the 2020/21 year showing the General Fund had an underspend of £3.6m, resulting in a £3.3m transfer to reserves. This equated to a net underspend of £0.3m.

We have considered the arrangements in place in respect of budget management as part of the Governance criteria on page 11 and not identified any significant weaknesses in the Council's arrangements.

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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

We confirmed a Medium Term Financial Plan (MTFP) is in place to cover 2021/22 to 2025/26 and that it supports the Council's priorities communicated in its strategy, and identifies its financial implications. It shows the approach the Council will take in order to deliver its services and priorities within its financial constraints and in doing so, how it will look to provide value for money.

A key part of the strategy 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. There is a process in place for challenging any growth items and agreeing the achievability of planned savings.

### 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.

A balanced General Fund budget for 2021/22 were approved at the February 2021 Cabinet meeting with any required savings expected to be covered by actions in hand.

We reviewed the Council's budget to actual performance as presented in the financial statements. The Council has a track record of spending within the net budget to within an immaterial variance in both 2018/19 and 2019/20 with General Fund revenue outturn positions against budget respectively. As the underlying arrangements for financial planning and control have not significantly changed for 2020/21, there is no indication of a significant weakness in arrangements for financial forecasting and financial planning.

We have reviewed the MTFP and supporting reports to Cabinet in February and are satisfied that it adequately explained the financial risks and that the main financial assumptions were not unreasonable.

Within the MTFP was a fully funded capital programme of £21.7m. The majority of expenditure falls to existing schemes. We have discussed the Council's approach to capital planning, and utilisation of capital funding and have not identified any significant weaknesses in arrangements.

There was an acknowledgement in approving the MTFP that the roll over of the Local Government Funding Settlement meant that some of the expected changes in the Fair Funding Review and in relation to New Homes Bonus and any Business Rates reset were not enforced. Changes in these areas were regarded as a risk through expected loss of funding. The Council actively encourage the Government to move forward with funding reforms with the expectation of helping to support and improve their future financial position.

The continuing uncertainty does make though strategic financial planning difficult for Councils, particularly in relation to its General Fund services. The MTFP forecasts a balanced budget for 2021/22.

For 2021/22 and 2022/23, the Council has forecast a cumulative funding gap of £1.1m with these sums to be met from useable reserves or via savings targets. As set out on page 9, General Fund and Earmarked Reserves were £16m as at 31 March 2021. In the context of the level of useable revenue reserves, the £1.1m funding gap do not present an immediate risk of significant weakness in the Council's arrangements for financial sustainability, action does need to be taken to ensure savings plans are robustly planned and delivered.

**Based on the above considerations we are satisfied there is not a significant weakness in the Council'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 a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of effectiveness, economy and efficiency. In doing this it is responsible for putting in place proper arrangements for the governance of its affairs, effective exercise of its functions and arrangements for the management of risk.

The Council has an established risk management strategy framework and systems in place which are built into the governance structure of the organisation. This includes the Council’s approach to managing risk, guidance, the Council’s risk appetite and roles and responsibilities.

We have met with officers regularly during the year and made specific inquiries regarding risk management arrangements, including examples of the Council putting risk mitigation actions into place and reporting those to the Senior Leadership Team and Members. We have reviewed the Corporate Risk Register and determined it is adequate for the Council’s purposes and consistent with sector norms.

The Audit Committee is responsible for overseeing the effectiveness of the Council’s risk management arrangements, and challenging risk information. On a quarterly basis the Senior Leadership Team consider the Corporate Risk Register and determine appropriate risk appetite, risks and opportunities against the respective risk owners. Where appropriate changes are proposed. The Audit Committee receive quarterly update reports and note the progress of actions. 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. As such, those who are responsible for those arrangements must approve it. The Annual Governance Statement formally signed by the Chief Executive and the Leader of the Council. This emphasises that the document is about all corporate controls and is not just financial controls. We reviewed the Annual Governance Statements as part of our work on the financial statements with no significant issues arising

To provide assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud, the Council has an external Internal Audit function (via BDO). The annual Internal Audit plan is agreed with management at the start of the financial year and is reviewed by the Audit Committee prior to final approval. The audit plan is based on an assessment of risks the Council faces and is designed to ensure there is assurance on the overall adequacy and effectiveness of the Council’s framework of governance, risk management and control. The planned work can be supplemented if necessary by ad hoc reviews in respect of suspected irregularities and other work commissioned by Officers and Members of the Council where relevant to respond to emerging risks and issues. We have reviewed the Internal Audit plans for 2020/21 and 2021/22 and confirmed they are consistent with the risk based approach.

Internal Audit progress reports are regularly presented to the Audit Committee meeting including follow up reporting on recommendations from previous Internal Audit reports. From our attendance at meetings, 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 and Annual Report including an opinion, based on the work completed during the year, on the overall adequacy and effectiveness of the council’s control environment. For 2020/21 Internal Audit concluded ;

‘Overall, we are able to provide moderate assurance that there is a sound system of internal control, designed to meet the Council’s objectives and that controls are being applied consistently.’

Throughout the year we have attended Audit Committee meetings. Through attendance at these meetings we have confirmed that the Committee receives regular updates on both internal audit progress and risk management. We have seen active Member engagement from the Committee who challenge the papers and reports which they receive from officers, internal audit and external audit.

# 3. VFM arrangements – Governance

## Overall commentary on the Governance reporting criteria (continued)

### Arrangements for budget setting and budgetary control

The Council has an established set of arrangements in place for budget setting and control. The process is set out and approved through the Constitution, which encompasses the budget setting rules and financial procedures. The framework includes:

- Clear responsibilities, including the role of the Cabinet and drawing up initial proposals; Cabinet providing consultation; and the Council in making the final decision on whether to adopt the proposals.
- Close working between the finance team and with external advisors and neighbouring councils to agree the key budget assumptions, which are challenged and agreed through the budget review process by Management, Cabinet and Council.

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. Budget monitoring reports are produced and there are regular meetings held, including finance team members, to discuss the financial performance and forecasts. There are rules in place regarding the reporting of budget variances and budget changes. There are similar processes and controls in place for development and control of the capital programme alongside the revenue budget setting. The Treasury Strategy reports are approved at the same time as the revenue budgets and monitored and reported on throughout the year.

We have reviewed minutes of meetings and the year end 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.

# 3. VFM arrangements – Governance

## Overall commentary on the Governance reporting criteria (continued)

### Decision making arrangements and control framework

The Council has an established governance framework in place which is set out within its Annual Governance Statement (AGS). The governance framework, as described in the AGS includes the Council's Code of Corporate Governance, the Constitution and the scheme of delegation which shows the levels of authority required for all key decisions, and the Council's Corporate Strategy (referred to as the Gedling Plan).

The Council's 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 Code identifies the arrangements in place to enable the Council to meet the good governance principles identified. 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 includes the Budget and Policy Framework Rules, Contract Procedure Rules, Member and Officer codes of conduct.

The Council has a scrutiny function in place with arrangements shaped to reflect Council priorities. The Audit Committee provides further focus on risk, governance and control matters. Cabinet have work programmes in place to steer their coverage of services and key decisions. We have reviewed the Cabinet minutes throughout the year and not identified any concerns.

### Regulators

There are few external regulators for district councils and we have not identified any matters that indicate significant weaknesses in the Council's governance arrangements.

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

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

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

### Performance Management

The 'Gedling Plan' sets out the Council's priorities and objectives for the period covered by the plan, including the values which underpin the overarching vision is to;

- A competent Council that delivers on its promises, acts professionally and can be trusted to provide good quality services;
- A co-operative Council that listens to, involves and responds to the concerns of its citizens, partners and employees;
- A commercial Council that is innovative and forward thinking in its use of resources and focused on achieving value for money;
- A caring and compassionate Council that reaches out to the lonely and marginalised and encourages other to do the same; and
- A considerate Council that recognises and respects difference and is sensitive to the impact of its actions on others.

The core areas in the Plan are: Cohesive, Diverse and Safe Communities, High Performing Council, Vibrant Economy, Sustainable Environment and Healthy Lifestyles. Each of the areas have a detailed delivery plan in place with specific indicators to measure success.

The Council produces an annual report that summarises key achievements and performance measures against the Plan that is approved by Cabinet each year. We have reviewed the 2020/21 report and noted that for all of the areas an action plan has been developed, with measurable success criteria and an indicator of direction of travel. This allows the Council to monitor successful delivery and identify any areas where corrective action is required.

We have reviewed a sample of the performance reports and the Cabinet minutes which show member challenge of the reported performance. The reports demonstrate that performance has been managed throughout the 2020/21 year and there were no major unexpected gaps in performance at the year end. The process has continued in the first half of 2021/22.

### Procurement

The Council has a Procurement Strategy which outlines how the procurement of goods, works and services is achieved. These documents provide a corporate framework for the procurement of goods, works and services. There are also controls in place designed to ensure that all procurement activity is conducted with openness, honesty and accountability. Our work on the financial statements has not identified any significant internal control deficiencies.

### Partnerships

The Council has a number of partnership arrangements in place as detailed on their website, through which the Council works to deliver services in line with its ambitions and priorities. These include (to name a few):

- The Gedling Employment and Skills Group;
- Federation of Small Businesses;
- East Midlands Chamber;
- Gedling Business Partnership;
- Department for Work and Pensions;
- The Department for Business, Energy and Industrial Strategy;
- NVB
- D2N2 one of the largest Local Enterprise Partnerships (LEPs) in England. Its purpose is to lead and support economic growth across Derby, Derbyshire, Nottingham and Nottinghamshire

We do not consider these to be significant in relation to our VFM commentary.

**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 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

We have not yet received group instructions from the National Audit Office confirming their requirements in relation to the Council's Whole of Government Accounts. 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 and Audit Completion Report presented to the Audit Committee in March 2021 and February 2022. We expect our final audit fees to be as follows.

Area of work	2019/20 fees	2020/21 fees
Scale fee in respect of our work under the Code of Audit Practice	£32,779	£32,779
Additional testing as a result of changes arising from increased audit quality expectations involving the work on the valuation of land and buildings and on the local government pension scheme	£6,194	£6,194*
Additional testing as a result of the implementation of new auditing standards	-	£2,892*
Additional testing as a result of a new significant audit risk relating to Covid-19 grants	-	£1,188*
Other additional testing - additional testing and reporting in 2019/20 on uncertainties in key estimates as a result of Covid-19	£5,032	-
Additional work as a result of the new Code of Audit Practice and VFM reporting	-	£9,293*
<b>Total fees</b>	<b>£44,005</b>	<b>£52,346*</b>

\* Fee variations subject to approval and confirmation by Public Sector Audit Appointments Limited.

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