

Auditor's Annual Report

Charnwood Borough Council – year
ended 31 March 2023

April 2024



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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 the Charnwood Borough Council ('the Council') for the year ended 31 March 2023. 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

Our audit report, issued 29 April 2024, gave an unqualified opinion on the financial statements for the year ended 31 March 2023.

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



Value for Money arrangements

In our audit report, we confirmed that we have completed our Value for Money work and Section 3 of this report 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

At the date of reporting our work on the Council's Whole of Government Accounts return remains incomplete whilst we wait for final instructions from the National Audit Office

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

At Appendix A, we have set out the main financial statement risks addressed in our audit – detailed findings were presented to the Audit Committee.

In the table below, we set out the main audit outcomes for 2022/23.

Audit Area	Outcomes
Financial Statements	<p>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 2023 and of its financial performance for the year then ended.</p> <p>Our audit report, issued in April 2024, gave an unqualified opinion on the financial statements for the year ended 31 March 2023.</p>
Qualitative aspects of the Council's accounting practices	<p>We reviewed the Council's accounting policies and disclosures and concluded they complied with the 2022/23 Code of Practice on Local Authority Accounting, appropriately tailored to the Council's circumstances.</p>
Internal Control Recommendations	<p>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 did not identify any 'High – level 3' recommendations for 2022/23.</p>
Annual Governance Statement	<p>We did not identify any matters where, in our opinion, the governance statement did not comply with the guidance issued by CIPFA/LASAAC Code of Practice on Local Authority Accounting.</p>
Wider responsibilities	<p>Our powers and responsibilities under the 2014 Act are broad and include the ability to:</p> <ul style="list-style-type: none">• issue a report in the public interest;• make statutory recommendations that must be considered and responded to publicly;• apply to the court for a declaration that an item of account is contrary to law; and• issue an advisory notice under schedule 8 of the 2014 Act. <p>We have not exercised any of these powers as part of our 2022/23 audit.</p>

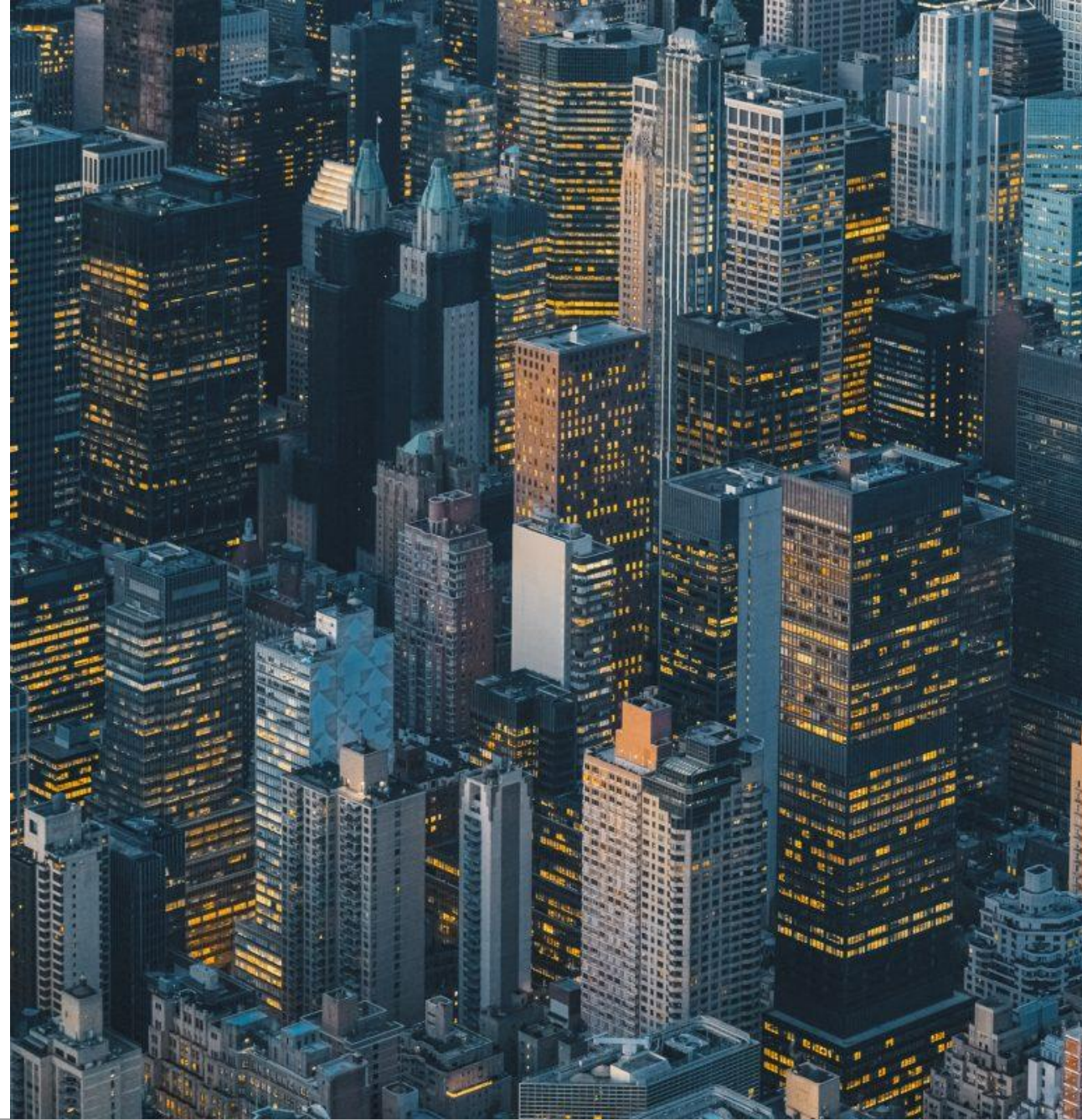
03

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 of 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's 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 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 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	Commentary page reference	Identified risks of significant weakness?	Actual significant weaknesses identified?	Other recommendations made?
 Financial sustainability	11	No	No	No
 Governance	15	No	No	No
 Improving economy, efficiency and effectiveness	18	No	No	No

3. Commentary on 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 2021/22	Nil.
Significant weaknesses identified in 2022/23	Nil.

Position brought forward from 2021/22

We reported in our Annual Auditor’s Report for 2021/22, that we had:

- Reviewed the 2021/22 financial performance and forecasts during the year and considered the Council’s financial outturn position as presented in the financial statements;
- Reviewed the 2022/23 General Fund and Housing Revenue Account Budget.
- Reviewed the Council’s Annual governance Statement for any significant issues; and
- Considered the general findings from our audit work in other areas.

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 2021/22. The Council’s underlying arrangements in relation to financial sustainability are not significantly different in 2022/23.

Overall responsibilities for financial governance

We have reviewed the Council’s overall governance framework, including Council and committee reports, the Annual Governance Statement, and Statement of Accounts for 2022/23. 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 Officers 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 well-established arrangements for year-end financial reporting.

2022/23 Budget Setting and the Medium-Term Financial Strategy

We considered the 2022/23 budget setting process, including the Medium-Term Financial Strategy as part of our work on the 2021/22 review of arrangements, with no significant concerns arising. We were satisfied that, the Budget Report for 2022/23 adequately explains revenue and capital budgets, with a sufficient explanation on the impact to the general fund balance.

The Council reported its financial outturn position to Cabinet in July 2023 and in the 2022/23 Statement of Accounts: the HRA delivered a surplus of £2.2m compared with the budgeted break-even position and the general fund reported a net surplus of £0.2m vs a £0.2m budgeted deficit. The variance does not give rise to concern in relation to the Council’s arrangements for financial sustainability.

2022/23 Statement of Financial Position

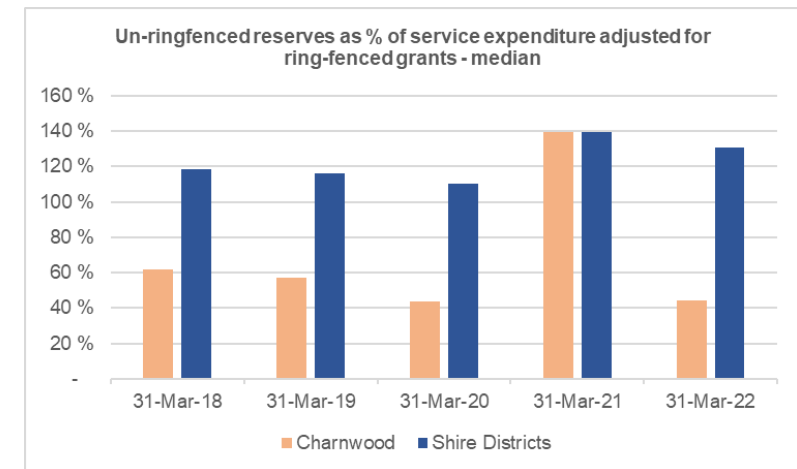
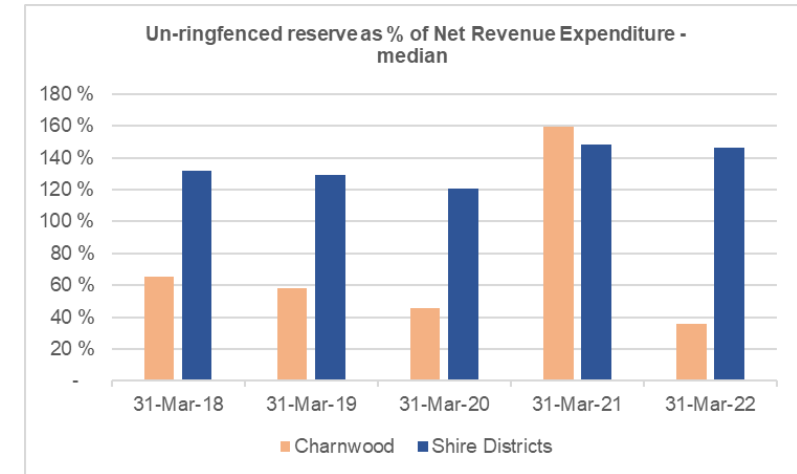
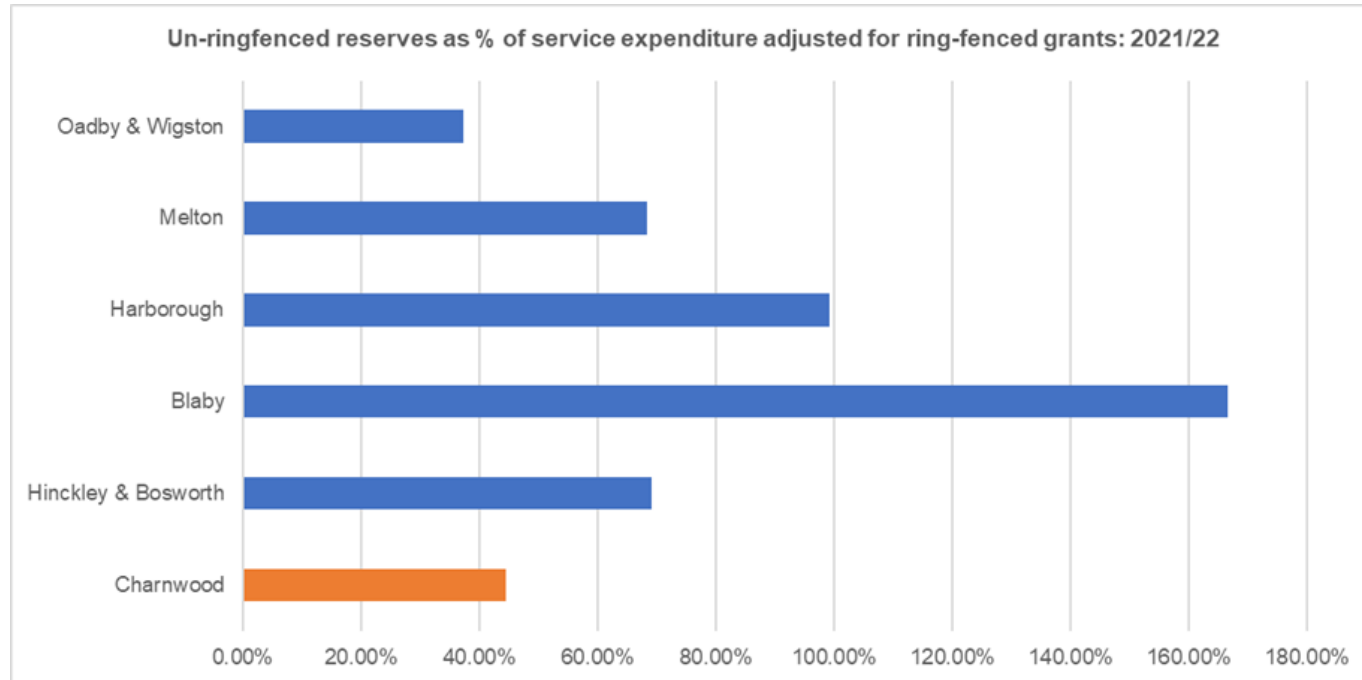
We carried out a high-level analysis of the financial statements subject to our audit, including the Movement in Reserves Statement and the Balance Sheet. The Council’s useable reserves have increased from £46.2m to £51.4m in 2022/23 and our work to date has not highlighted any risks of significant weakness in arrangements or indicators of a risk to the Council’s financial sustainability.

VFM arrangements – Financial Sustainability

Financial sustainability and revenue reserves

We have also performed a more detailed review of the Council's revenue reserves. We reviewed data published in May 2023 by the Department for Levelling Up, Housing and Communities on Local authority general fund earmarked and unallocated reserve levels, 2017-18 to 2021-22.

The Council's reserves have generally been below the median compared to shire districts since 2018 (charts right), and lower than most other Leicestershire district councils (one missing data, therefore not included in the chart).



Details on the definitions and data quality arrangements are available here: <https://www.gov.uk/government/publications/local-authority-general-fund-earmarked-and-unallocated-reserve-levels-2017-18-to-2021-22>

VFM arrangements – Financial Sustainability

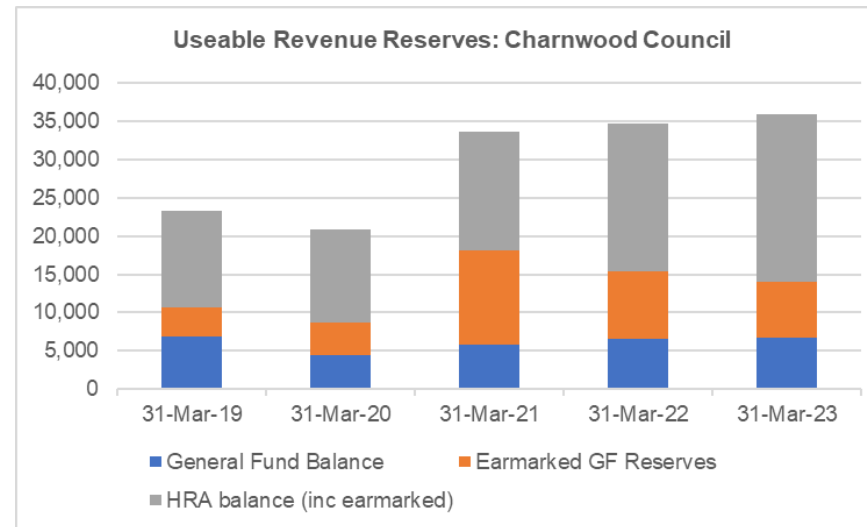
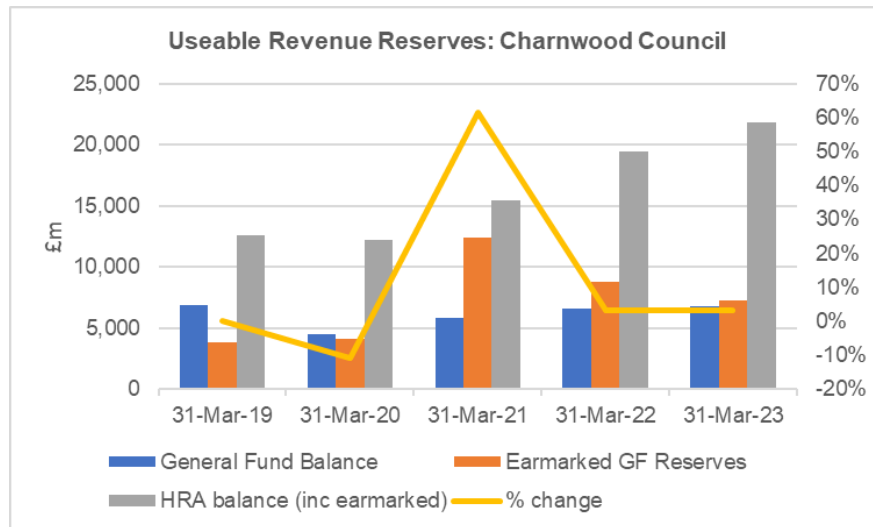
Financial sustainability and reserves (continued)

The purpose of the Council’s general fund reserve is to meet costs arising from any unplanned or emergency events. It also acts as a financial buffer to help mitigate against the financial risks the Council faces and can be used to a limited degree to ‘smooth’ expenditure on a one-off basis across years. Whereas earmarked reserves, are set aside for specific purposes.

Through a review of the financial statements, we have considered the Council’s revenue reserves over time:

- As set out on the previous page, the Council’s opening revenue reserves are slightly below the median for district councils.
- The general fund balance has remained stable (£6.8m in 2023 vs £6.9m in 2019), however the combined general fund and earmarked revenue reserves are on a downward trend.

Overall, we are satisfied that the Council’s Reserves position does not give rise to an immediate risk of significant weakness in arrangements to secure financial sustainability.



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 2023.

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 2021/22	Nil.
Significant weaknesses identified in 2022/23	Nil.

Position brought forward from 2021/22

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 the previous year.

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.

Our review of Committee papers confirms that a template covering report is used for all reports, ensuring the purpose, risks, and recommendations are clear. Minutes are published and reviewed by Committees to evidence the matters discussed, challenge and decisions made.

2023/24 Budget Setting and the Medium-Term Financial Strategy

The Council’s budget setting and medium-term financial planning follows a similar process and format to previous years and our review is supported by discussions with officers during the year and experience from prior year audits. The arrangements in place for budget setting and updating the Medium-Term Financial Strategy are as expected for a District Council, with arrangements for the evaluation of financial risk, alignment to business plans and sources of funding.

There is no indication of excessive use of capital flexibilities to support revenue expenditure. Furthermore, there is no indication that the Council’s Medium Term Financial Strategy and budget setting process is not aligned to

supporting plans.

We reviewed the Council’s balanced budget for 2023/24 where it was confirmed that the s151 Officer was satisfied that the budget was appropriately prudent and, if delivered, will leave the Council’s General Fund Working Balance at £4.4m by 2023/24, which is above the £2.5m minimum level set by the s151 Officer

We read the Medium-Term Financial Strategy (MTFS) as included in reports to Cabinet and Council in February 2023. As in previous years, it covers three financial years. In our view, these include an adequate level of detail over the assumptions and cost pressures facing the Council, which are consistent with our experience at similar sized authorities and not unreasonable. In addition, there is sufficient narrative to explain the rationale and key financial risks.

The MTFS presents the need to draw on the general fund to balance the MTFS leading to the general fund working balance falling to below the s151 Officer’s minimum levels, if no action were taken, by the last year of the MTFS, being 2025/26. Arrangements are in place, via performance reporting and budgetary control, to monitor the progress against addressing the gap in the MTFS and Council’s financial sustainability, including a structural deficit task and finish group.

In both the 2022/23 MTFS and the 2023/24 MTFS, the Council has shown the final year of the MTFS to be the year in which the general fund working balance falls below the Council’s acceptable levels. The MTFS is clear that work and action will take place to manage the financial position over the two years where balances remain above the minimum, which does provide time to develop and implement said actions.

VFM arrangements – Governance

Overall commentary on the Governance reporting criteria

2023/24 Budget Setting and the Medium-Term Financial Strategy (continued)

Over the period of the MTFS, total revenue reserves remain positive, but with a substantial fall in the general fund working balance in 2025/26:

Extracted from MTFS 2023-26 to Cabinet February 2023	2023/24	2024/25	2025/26
Opening General Fund working balance (£m)	6.2	4.4	2.8
Use of balances	(1.8)	(1.6)	(2.5)
General Fund working balance at the end of the year	4.4	2.8	0.3
Plus: Other revenue reserves at the end of the year	5.9	5.9	5.9
Total revenue reserves	10.3	8.7	6.2

We supplemented our review of the 2023/24 budget and MTFS by reviewing the report of the Head of Finance to the Finance and Performance Scrutiny Committee on 28 November 2023 regarding the revenue outturn and forecast position at Period 7 2023/24. This forecasts an underspend of £148k compared to the general fund budgeted costs. With 5 months of the year remaining, the Council has forecast an outturn position to be an overall favourable variance of £66k.

We have also read the draft 2024/25 budget to the December 2023 meeting of cabinet, where it is reported that no use of the general fund working balance is proposed in 2024/25.

Key observation: The Council recognises that planned use of reserves is not a sustainable option. The development of robust savings plans for the period 2025/26 onwards is and must be a priority, making the calendar year 2024 very important with regard to the development and agreement of transformation and savings plans to feed into the 2025/26 budget. Furthermore, with ongoing and increasing financial uncertainty across local government, the Council should consider incorporating more granular detail over the mitigation strategies over the duration of the MTFS from 2025/26 to 2028/29 to avoid the use of drawing on the general fund working balance.

Risk management

The Council has an established risk management framework and systems in place which are built into the governance structure of the organisation.

The Audit Committee is responsible for overseeing the effectiveness of the Council's risk management arrangements, challenging risk information and escalating issues to the Executive. We have attended meetings of the Committee and reviewed minutes and reports presented during the year, including matters relating to risk. Our review of the risk reports presented to Members during the year is that the risk register adequately explains the risk, provides an inherent and residual risk score (informed by officers and open to challenge by members); and explains the change since the previous assessment.

From our attendance at meetings and review of the minutes, we are satisfied there is sufficient evidence of Member oversight of risk management, including holding Officers to account.

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 Statement as part of our work on the financial statements with no significant issues arising.

Audit Committee

The Council has an established Audit Committee. We have reviewed supporting documents and confirmed the Committee meets regularly and reviews its programme of work to maintain focus on key aspects of governance and internal control. Our attendance at Audit Committee has confirmed there is an appropriate level of effective challenge.

Internal Audit

We have met with management and the Head of Internal Audit regularly during the year, reviewed Audit Committee reports and attended Committee meetings to observe the performance of Internal Audit and the Audit Committee. We also confirmed that the Head of Internal Audit Opinion has been adequately reflected in the Annual Governance Statement. No issues arose from our review to indicate there is a significant weakness in the Council's arrangements for governance.

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 2023.

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 2021/22	Nil.
Significant weaknesses identified in 2022/23	Nil.

Position brought forward from 2021/22

As set out in the table above, there are no indications of a significant weakness in the Council's arrangements brought forward from the prior year.

Performance Monitoring

The Council's arrangements are consistent with the prior year, which were deemed adequate, with the Strategic Plan setting out what it wants to achieve for local residents and communities through to 2024.

The Finance & Performance Scrutiny Committee receives performance reports on a quarterly basis to allow it to monitor progress against achieving the agreed targets which support the delivery of the Council's objectives as set out in the Corporate Strategy. We reviewed the performance outturn for 2022/23 as evidence of the Council's approach to evaluating performance. In our view, reports contain sufficient narrative to demonstrate that there are adequate arrangements to assess performance and identify areas for action.

Regulators / Inspections

Our work has not identified any adverse findings from inspectors leading to any intervention action at the Council.

Partnerships and procurement

We identified no significant changes in arrangements regarding partnership working and are satisfied the Council continues to have arrangements for standing financial instructions, including purchase order controls. Our work on the financial statements has not identified any significant internal control deficiencies regarding purchasing controls.

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 2023.

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. As at the date of writing, instructions regarding sampled components have not yet been received.

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 completed our work for the 2022/23 financial year, we can confirm that our fees are as follows:

Area of work	2021/22 Actual fees	2022/23 fees**	2023/24
Planned fee in respect of our work under the Code of Audit Practice	42,325	49,387	157,540
Additional fees in respect of additional testing undertaken to comply with increased regulatory requirements relating to: IAS19 pension liabilities; and valuation of land, buildings and investment properties.	9,940	2,878	N/A included in revised scale fee
Additional fees in respect of additional work from the introduction of new auditing standards (ISA 540 estimates)	3,587	3,591	N/A included in revised scale fee
Additional fees in respect of the VFM Commentary	8,771	9,188	N/A included in revised scale fee
<i>Sub-total: comparable amount</i>	<i>64,623</i>	<i>65,044</i>	
Additional fees in respect of additional work from the introduction of new auditing standards (ISA 315)	-	5,068	-
Other additional testing and correction of errors (prior period adjustment, asset valuation errors, cashflow, errors in investments – as reported in the Audit Completion Report and follow up letter)	4,081	12,095	N/A
Sub-total: variations	26,380	32,819	TBC
Total fees	68,705	82,206	TBC

These costs are subject to PSAA review and approval. The Council received **£21,819 of grant funding to meet rising audit costs.

Fees for other work

In 2022/23, we were engaged to provide assurance related services on the pooling of housing capital receipts (£3,300).



Appendix

Appendix A: Further information on our 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
<p>Management override of controls</p> <p>This is a mandatory significant risk on all audits due to the unpredictable way in which such override could occur.</p>	<p>Significant risk: an area that, in our judgment, requires special audit consideration.</p>	<p>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 test accounting journals.</p>	<p>There are no significant matters to report.</p>
<p>Valuation of the net pension liability</p> <p>The defined benefit liability relating to the Local Government and Fire-Fighter's pension scheme represents significant balances on the Council's balance sheet and involves a high degree of estimation uncertainty. The Council uses two actuaries to provide an annual valuation of these liabilities in line with the requirements of accounting standards.</p>	<p>Significant risk</p>	<p>Our procedures to address this risk included, but was not limited to:</p> <ul style="list-style-type: none"> critically assessing the competency, objectivity and independence of each actuary; liaising with the auditors of the Leicestershire 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 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, including comparing them to expected ranges using a consulting actuary; agreeing the data in the valuation report provided by the Fund Actuaries for accounting purposes to the financial statements; and considering whether the pension asset should be capped. 	<p>We noted two unadjusted misstatements in relation to the pension liability.</p> <p>The first error is a £241k actuarial gain reconciling item in 2022/23; this is due to Charnwood Borough Council's lower pension contributions in year compared to Hymans Valuation Report.</p> <p>The other error is based on the Pension Fund Auditor response letter which has identified a £7.75m understatement of plan assets. When we apply the Council's percentage share of this understatement (2%) this gives an error of £151,000</p>

Appendix A: Further information on our audit of the financial statements

Main financial statement audit risks and findings continued.

Audit Risk	Level of audit risk	How we addressed the risk	Audit conclusions
<p>Valuation of land & buildings, council dwellings and investment properties</p> <p>Land, Building and Investment Property assets are significant balances on the Council's balance sheet and the valuation of these assets is complex and is subject to a number of management assumptions and judgements.</p>	<p>Significant risk</p>	<p>Our procedures to address this risk included, but was not limited to:</p> <ul style="list-style-type: none"> • considering whether the overall valuation 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 are materially correct; and • engaging our own valuation expert to support our testing of 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. 	<p>We noted one unadjusted misstatements in relation to PPE revaluations.</p> <p>We have noted that the Council has not fully accounted for all the movements in the valuation report, deciding only to adjust for those where a movement in excess of £10k exists (in line with the accounting policy). Whilst this is in line with the internal accounting policy it is not in line with IAS16 which states that once a revaluation is undertaken "The asset is carried at a revalued amount, being its fair value at the date of revaluation less subsequent depreciation and impairment".</p>

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