

Annual Audit Letter Selby District Council

Year ending 31 March 2020





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1. EXECUTIVE SUMMARY

Purpose of the Annual Audit Letter

Our Annual Audit Letter summarises the work we have undertaken as the auditor for Selby District Council (the Council) for the year ended 31 March 2020. Although our letter is addressed to the Council, it is designed to be read by a wider audience including members of the public and other external stakeholders.

Our responsibilities are defined by the Local Audit and Accountability Act 2014 (the 2014 Act) and the Code of Audit Practice issued by the National Audit Office (the NAO). The detailed sections of this letter provide information on those responsibilities, the work we have done to discharge them, and the key findings arising from our work. These are summarised below.

Area of responsibility	Summary
Audit of the financial statements	<p>Our auditor's report issued on 30 November 2020 included our opinion that the financial statements:</p> <ul style="list-style-type: none">• give a true and fair view of the Council's financial position as at 31 March 2020 and of its expenditure and income for the year then ended; and• have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20
Other information published alongside the audited financial statements	<p>Our auditor's report included our opinion that:</p> <ul style="list-style-type: none">• the other information in the Statement of Accounts is consistent with the audited financial statements.
Value for money conclusion	<p>Our auditor's report concluded that we are satisfied that in all significant respects, the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020</p>
Reporting to the group auditor	<p>In line with group audit instructions issued by the NAO on 4th November, we have confirmed the Council is below the threshold. We will send our WGA Assurance Statement when officers have completed the Council's submission.</p>
Statutory reporting	<p>Our auditor's report confirmed that we did not use our powers under s24 of the 2014 Act to issue a report in the public interest or to make written recommendations to the Council.</p>



2. AUDIT OF THE FINANCIAL STATEMENTS

Opinion on the financial statements

Unqualified

The scope of our audit and the results of our work

The purpose of our audit is to provide reasonable assurance to users that the financial statements are free from material error. We do this by expressing an opinion on whether the statements are prepared, in all material respects, in line with the relevant financial reporting framework and whether they give a true and fair view of the Council's financial position and of its financial performance.

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

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

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

Emphasis of Matter – Effect of the Covid-19 pandemic on the valuation of land and buildings and investment properties

We drew attention to Notes 4, 15 and 16 of the financial statements, which describe the effects of the Covid-19 pandemic on the valuation of the Council's land and buildings and investment properties. The Council's valuers included a material valuation uncertainty declaration within their report as a result of the Covid-19 pandemic creating a shortage of relevant market evidence upon which to base their judgements. Our opinion was not modified in respect of this matter.

Emphasis of Matter - Material uncertainty relating to pension fund property valuations

We drew attention to Note 4 of the financial statements, which describes the effects of the Covid-19 pandemic on the valuation of the Council's share of North Yorkshire Pension Fund's property investment assets. As disclosed in Note 4 of the financial statements, the Pension Fund included a 'material valuation uncertainty' declaration within their report as a result of the Covid-19 pandemic. Our opinion was not modified in respect of this matter.

Our approach to materiality

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

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

The table below provides details of the materiality levels applied for the year ended 31 March 2020.

Financial statement materiality	Our financial statement materiality is based on 2% of Gross Operating Expenditure at the surplus/deficit on provision of services	£1,216m
Trivial threshold	Our trivial threshold is based on 3% of financial statement materiality.	£0.36m



2. AUDIT OF THE FINANCIAL STATEMENTS

Our response to significant risks

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

Identified significant risk	Our response	Our findings and conclusions
<p>Management override of controls In all entities, management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Because of the unpredictable way in which such override could occur, we consider there to be a risk of material misstatement due to fraud and thus a significant risk on all audits</p>	<p>We addressed this risk by performing audit work in the following areas:</p> <ul style="list-style-type: none"> • accounting estimates impacting on amounts included in the financial statements; • consideration of identified significant transactions outside the normal course of business; and • journals recorded in the general ledger and other adjustments made in preparation of the financial statements. 	<p>Our work provided the required assurance.</p>



2. AUDIT OF THE FINANCIAL STATEMENTS

Identified significant risk	Our response	Our findings and conclusions
<p>Property, plant and equipment (PPE) valuation</p> <p>The CIPFA Code requires that where assets are subject to revaluation, their year-end carrying value should reflect the appropriate fair value at that date. The Council has adopted a rolling revaluation model which sees all land and buildings revalued over a five year cycle.</p> <p>Although the Council employs external experts to provide information on valuations, there remains a high degree of estimation uncertainty associated with the valuation of PPE because of the significant judgements and number of variables involved.</p>	<p>We addressed this risk by carrying out the following procedures:</p> <ul style="list-style-type: none"> critically assessed the Council's valuer's scope of work, qualifications, objectivity and independence to carry out the required programme of revaluations; considered whether the overall revaluation methodologies used by the Council's valuer's are in line with industry practice, the CIPFA Code of Practice and the Council's accounting policies; assessed whether valuation movements are in line with market expectations by using information available from other sources; and critically assessed the treatment of the upward and downward revaluations in the Council's financial statements with regards to the requirements of the CIPFA Code of Practice. 	<p>We identified £61k of assets held in the fixed asset register that are no longer in use. The accounts were adjusted to remove these assets.</p> <p>We identified one property that has been omitted from the full valuation during the year. The net book value of the property at 31 March 2020 was £38k. We performed further audit procedures to gain assurance the asset was not materially misstated. We included this as an unadjusted misstatement.</p> <p>We identified one asset where we were unable to agree the floor area used in the valuation to supporting records. We obtained confirmations from the valuer and asset manager the floor area used was in line with their knowledge of the asset.</p> <p>We identified one asset where the floor area used did not agree to the supporting information. This has resulted in the value of the asset being understated by £40k. In accordance with our audit methodology we extrapolated this error across the remaining population. This gave an extrapolated error of £100k. This was included as an unadjusted misstatement.</p> <p>As detailed on page 3, our Audit Report included an emphasis of matter associated with material uncertainty relating to valuations of land and buildings and investment properties.</p> <p>Our work obtained the required audit assurance.</p>



2. AUDIT OF THE FINANCIAL STATEMENTS

Identified significant risk	Our response	Our findings and conclusions
<p>Defined benefit liability valuation</p> <p>The net pension liability represents a material element of the Council's balance sheet. The Council is an admitted body of the North Yorkshire Pension Fund, which had its last triennial valuation completed as at 31 March 2019.</p> <p>The valuation of the Local Government Pension Scheme relies on a number of assumptions, most notably around the actuarial assumptions, and actuarial methodology which results in the Council's overall valuation.</p> <p>There are financial assumptions and demographic assumptions used in the calculation of the Council's valuation, such as the discount rate, inflation rates and mortality rates. The assumptions should also reflect the profile of the Council's employees, and should be based on appropriate data. The basis of the assumptions is derived on a consistent basis year to year, or updated to reflect any changes.</p> <p>There is a risk that the assumptions and methodology used in valuing the Council's pension obligation are not reasonable or appropriate to the Council's circumstances. This could have a material impact to the net pension liability in 2019/20.</p>	<p>We addressed this risk using the following audit procedures:</p> <ul style="list-style-type: none"> • reviewing the controls that the Council has in place over the information sent to the Scheme Actuary, including the Council's process and controls with respect to the assumptions used in the valuation; • evaluating the competency, objectivity and independence of the scheme Actuary, Aon Hewitt; • reviewing the appropriateness of the methodology applied, and the key assumptions included within the valuation, comparing them to expected ranges, utilising the information provided by PwC, consulting actuary engaged by the National Audit Office; and • reviewing the methodology applied in the valuation of the liability by Aon Hewitt. 	<p>As detailed on page 3, our Audit Report included an emphasis of matter associated with material uncertainty relating to valuations of Pension Fund property valuations.</p> <p>Our work obtained the required audit assurance.</p>



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 the following deficiencies in internal control as part of our audit.

Description of deficiency	IT – Change management We noted that changes to the Revenue and Benefits System and Benefits System (Northgate) and the Finance system (COA) are performed externally to the Council. As a consequence, we have been unable to determine that changes to the systems were authorised, tested and approved prior to implementation.
Potential effects	Lack of internal oversight of the change management process can lead to unforeseen changes to functionality.
Recommendation	Ensure that the Council’s IT department is informed and retain evidence of the authorisation, testing and approval of changes / upgrades to the systems.
Management response	The Data & Systems team will ensure that any changes to systems performed externally are documented to include details of testing and sign off performed prior to live implementation.

Description of deficiency	Property, plant and equipment – evidence to support valuations We noted in two instances we have been unable to obtain evidence to support the floor area of an asset used in the valuation.
Potential effects	Asset valuations are materially misstated.
Recommendation	All asset valuations should be supported by evidence to confirm the floor areas used.
Management response	Internal records to be reviewed to ensure details are held centrally to support site and building plans for Council properties.

Description of deficiency	Property, plant and equipment – valuations We identified one asset which was incorrectly omitted from the in-year valuation.
Potential effects	Asset valuations are materially misstated.
Recommendation	All assets should be valued in line with the accounting policies. Reconciliations should be completed by the finance team to ensure all assets are captured.
Management response	Valuation schedules sent to valuer to be cross checked and reconciled internally to ensure details sent for valuation are accurate.



3. VALUE FOR MONEY CONCLUSION

Value for money conclusion

Unqualified

Our audit approach

We are required to consider whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The NAO issues guidance to auditors that underpins the work we are required to carry out in order to form our conclusion, and sets out the criterion and sub-criteria that we are required to consider.

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

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

Our auditor’s report, stated that, in all significant respects, the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31st March 2020.

Sub-criteria	Commentary	Arrangements in place?
Informed decision making	<p>The Council operates an Executive with a Leader model, and this is governed by a Council Constitution including the normal features of an effective governance framework in local government.</p> <p>The Corporate Plan sets out priorities which include delivering affordable housing and promoting economic growth and development. Delivery is monitored in quarterly performance reports. New decisions are supported by reports that outline options and relevant considerations, including references to financial, legal and performance issues where appropriate.</p> <p>There is evidence of financial reporting being used to deliver strategic objectives, for example, through the Medium Term Financial Plan (MTFP) and in allocating resources to priority areas such as the Programme for Growth. In addition, regular financial reporting takes place, with formal reporting quarterly to the Executive.</p> <p>The Audit and Governance Committee met regularly during the year. The Audit and Governance Committee monitors the Council’s system of internal control. The Internal Audit plan has been delivered for the year and the Head of Internal Audit Opinion provided ‘moderate’ assurance. Internal Audit report directly to the Audit and Governance Committee. The Audit Committee receive regular reports tracking services progress in responding to Internal Audit recommendations. The Audit Committee challenges management to ensure recommendations are implemented and this is in a timely manner.</p>	Yes



3. VALUE FOR MONEY CONCLUSION

Value for money conclusion

Unqualified

Sub-criteria	Commentary	Arrangements in place?
Sustainable resource deployment	<p>The MTFP was approved by the Executive in February 2020. The plan set out the pressures faced by the Council in the coming year including demand and funding pressures. The plan included the need for savings over the medium term including £1.8m in 2020/21 financial year. When the plan was developed it was forecasting savings of £6.5m over the life of the plan. The plan was developed and agreed prior to the Covid-19 pandemic and before the full consequences could be foreseen. The Council is now revisiting the MTFP in light of Covid-19 and the anticipated economic effects. This includes consideration of the key expenditure and income assumptions and is understandably difficult given the significant levels of ongoing uncertainty. Our VFM conclusion considers the arrangements in place for the 2019/20 financial year and recognises that the consequences of the pandemic affect arrangements in the 2020/21 financial year.</p> <p>The 2019/20 outturn shows that this was a challenging financial year, with an overall revenue budget overspend of £363k. Income shortfalls across a number of areas contributed to a large proportion of the overspend. Planning service income was down £194k, the majority of which was a result of large applications not coming forward as anticipated. Recycling income was £90k lower than planned because the low rate received per tonne for recyclable materials no longer covered the costs of bulking. These pressures have been reported to the Executive throughout the year and mitigating actions put in place.</p> <p>In recent years the Council has benefitted from additional business rates income which is now around £9m per year largely arising from renewables at the Drax power station. The Council has prudently assumed that this is not guaranteed to continue and has set sums aside for investment, rather than using them to support the base budget, although there has been some investment in the capacity needed to manage the use of the additional funds.</p> <p>There has been progress on the Programme for Growth during 2019/20 with £1.9m project spend and further spend committed across a range of projects for 2020/21.</p>	Yes

Executive summary

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Other reporting responsibilities

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3. VALUE FOR MONEY CONCLUSION

Value for money conclusion	Unqualified
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Sub-criteria	Commentary	Arrangements in place?
Working with partners and other third parties	<p>The Council works with a range of third parties. The Better Together partnership with North Yorkshire County Council is a strong example. The effectiveness of the partnership was reviewed by the Executive during 2019/20, and the decision to extend the agreement to 2023 was made.</p> <p>The Council has procurement procedures in place and maintains a contracts register. The Council seeks to achieve best value from the procurement process, driving savings where possible, but also aiming to deliver sustainable services.</p>	Yes



4. OTHER REPORTING RESPONSIBILITIES

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

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

Matters on which we report by exception

The 2014 Act provides us with specific powers where matters come to our attention that, in our judgement, require reporting action to be taken. We have the power to:

- issue a report in the public interest;
- make statutory recommendations that must be considered and responded to publicly;
- apply to the court for a declaration that an item of account is contrary to law; and
- issue an advisory notice under schedule 8 of the 2014 Act.

We have not exercised any of these statutory reporting powers.

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

Reporting to the 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, and to carry out certain tests on the data. We have confirmed the Council are below the threshold, and will submit this information to the NAO once the Council have made their submission.

Other information published alongside the financial statements

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



5. OUR FEES

Fees for work as the Council's auditor

We reported our proposed fees for the delivery of our work in the Audit Strategy Memorandum which we presented to the Audit Committee in July 2020.

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

Area of work	2019/20 proposed fee	2019/20 final fee
Delivery of audit work under the NAO Code of Audit Practice	£34,425	£44,220*
Certification of Housing Benefit Subsidy Claim	£14,000	£14,000**

*Additional fee to meet the additional work requirements for property valuations and pensions.

** Subject to satisfactory completion of the work



6. FORWARD LOOK

Financial outlook

The Covid-19 pandemic and the consequences of local and regional lockdowns and restrictions will have a significant impact on the UK economy for years to come. The pandemic has created significant uncertainties and pressures in the Council's medium term financial planning arrangements. Clarity over the impact will only be obtained when the virus has been brought under control and the impact on the economy becomes clearer. The Council is monitoring and updating plans but is anticipating future pressures in the income it receives. In particular, Collection Fund income is likely to be affected by any negative impact to the local and national economy. Public spending is also likely to be tightly controlled as the Government begins to manage the levels of borrowing incurred.

There is also uncertainty stemming from the UK's new trading arrangements with the European Union. While this may not directly impact on the Council's supply chains, the impact on the overall economy may create indirect pressures.

It is critical that the Council continues to monitor and refresh its medium term plan so that potential funding shortfalls can be identified as early as possible and mitigations identified to minimise the impact on services.

Operational challenges

The Covid-19 pandemic has had a significant impact on the services provided by the Council. Services have either been suspended or redesigned in order for them to be delivered in a safe manner for officers and users. The Council's Civic Centre has been largely closed since March 2020 so officers have had to adapt to working from home. It is likely that these measures will continue until the roll out of a vaccine and coronavirus is brought under control.

Aside from Covid-19, other key challenges faced by the Council include:

- successfully generating the savings necessary to deliver the medium term financial plan;
- delivering the projects associated with the Programme for Growth

How we will work with the Council

In terms of the technical challenges around the production of the statement of accounts, we will continue to offer accounting workshops to finance officers, and the audit team will continue to share our knowledge of new accounting developments. We will also be on hand to discuss any issues as and when they arise.

Given the impact of Covid-19 on the 2019/20 reporting timetable, there is some uncertainty in respect of the 2020/21 completion dates. We will continue to work with the finance team to ensure timely completion of our audit work.

We will also share relevant insights that we have as a national and international accounting and advisory firm with experience of working with other public sector and commercial service providers.



6. FORWARD LOOK

Changes to the Code of Audit Practice

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

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

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

The auditor's work on value for money arrangements

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

Our work on value for money arrangements will focus on three criteria, specified in the revised Audit Code:

- financial sustainability: how the body plans and manages its resources to ensure it can continue to deliver its services;
- governance: how the body ensures that it makes informed decisions and properly manages its risks; and
- improving economy, efficiency and effectiveness: how the body uses information about its costs and performance to improve the way it manages and delivers its services.

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

Reporting the results of the auditor's work

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

The guidance supporting the new Audit Code is being developed by the National Audit Office and we will provide you with any further updates to our approach arising from this guidance when it is release. In particular we will communicate any increases in work which will impact on the audit fees charged.



6. FORWARD LOOK

Redmond Review

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

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

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

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

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



CONTACT

Mark Kirkham

Partner

07747 764 529

Mark.Kirkham@mazars.co.uk

Nicola Hallas

Manager

07881 283 559

Nicola.Hallas@mazars.co.uk

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