APPENDIX A

Annual Audit Letter

Selby District Council

Year ending 31 March 2019

CONTENTS

Our reports are prepared in the context of the ‘Statement of responsibilities of auditors and audited bodies’ issued by Public Sector Audit Appointments Ltd. Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the Council and we take no responsibility to any member or officer in their individual capacity or to any third party.
Mazars LLP is the UK firm of Mazars, an international advisory and accountancy group. Mazars LLP is registered by the Institute of Chartered Accountants in England and Wales.

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 2019. Although this 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 details 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	Our auditor's report issued on 31 July 2019 included our opinion that the financial statements: • give a true and fair view of the Council's financial position as at 31 March 2019 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 2018/19.
Other information published alongside the audited financial statements	Our auditor's report issued on 31 July 2019 included our opinion that: • the other information in the Statement of Accounts is consistent with the audited financial statements.
Value for money conclusion	Our 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 2019.
Reporting to the group auditor	On 16 August 2019 we reported that your activity was below the threshold set by the NAO, meaning we were not required to review the Whole of Government Accounts return.
Statutory reporting	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.

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 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 2019 and of its financial performance for the year then ended.

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, issued to the Council on 31 July 2019, stated that, in our view, the financial statements give a true and fair view of the Council's financial position as at 31 March 2019 and of its financial performance for the year then ended.

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 throughout the audit process, 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. As a result we have 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) if we decide attract public interest. We also set a threshold for reporting identified misstatements to the We call this our trivial threshold.

The table below provides details of the materiality levels applied in the audit of the financial statements for the year ended 31 March 2019:

Financial statement materiality	Our financial statement materiality is based on 2% of gross operating expenditure at surplus / deficit on provision of services level.	£1.079m
Trivial threshold	Our trivial threshold is based on 3% of financial statement materiality.	£0.032m

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. Risks are categorised as either significant (highest level), enhanced or standard.

We reported significant risks identified at the planning stage to the Audit and Governance Committee within the 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 and enhanced risks, the work we carried out on those risks and our conclusions.

Identified significant risk	Our response	Our findings and conclusions
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.	We addressed this risk by carrying out audit work in the following areas: • 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.	There were no significant issues arising from our work that we were required to report to you.

2. AUDIT OF THE FINANCIAL STATEMENTS

Significant risks (continued)

Identified significant risk	Our response	Our findings and conclusions
Property, plant and equipment valuations 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. 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 due to the significant judgements and number of variables involved in providing valuations.	We addressed this risk via: • assessed the valuer's scope of work, qualifications, objectivity and independence to carry out the Council's programme of revaluations; • considered whether the overall revaluation methodology used by the valuer is in line with industry practice, the CIPFA Code of Practice and the Council's accounting policies; • critically assessed the appropriateness of the underlying data and the assumptions used in the valuer's calculations, based on our expectations by reference to sector and local knowledge; • considered the movement in market indices between the revaluation dates and the year end to determine whether there have been material movements over that time.	Council Dwellings were valued at 1 April 2018. and there was no evidence of review for any material changes at the balance sheet date of 31st March 2019. Valuation indices confirmed there was a material movement, and Council Dwelling values needed to be increased in line with market indices, resulting in a £2.185m adjustment. For one group of Council Dwellings, the value in the asset register did not agree to the value provided by the valuer, resulting in a £2.2m understatement in the valuation of Council Dwellings. The Council has adjusted the financial statements. We identified 8 assets where the value in the asset register did not agree to the value provided by the valuer. This led to an overstatement of assets in the financial statements of £334k. The Council did not adjust the financial statements for this error. Overall we obtained the assurance sought that PPE valuations were not materially misstated.

2. AUDIT OF THE FINANCIAL STATEMENTS

Significant risks (continued)

Identified significant risk	Our response	Our findings and conclusions
Defined benefit liability valuation (pensions) 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 2016. 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. 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. 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 2018/19.	We addressed this risk by: • critically assessed the competency, objectivity and independence of the North Yorkshire Pension Fund's actuary, Aon Hewitt; • liaised with the auditors of the North Yorkshire Pension Fund to gain assurance that the controls in place at the Pension Fund are operating effectively. This included the processes and controls in place to ensure data provided to the actuary by the Pension Fund for the purposes of the IAS19 valuation is complete and accurate; • reviewed the appropriateness of the Pension Asset and Liability valuation methodologies applied by the Pension Fund actuary, and the key assumptions included within the valuation. This included comparing them to expected ranges, utilising information provided by PWC, consulting actuary engaged by the National Audit Office; and • agreed the data in the IAS 19 valuation report provided by the Fund actuary for accounting purposes to the pension accounting entries and disclosures in the financial statements.	Legal rulings in respect of GMP equalisation and transitional provisions created additional defined benefit liabilities. These were not taken into account in the actuary's original estimate of the defined benefit liability. Management obtained updated figures from the actuary to identify the impact of these rulings on the defined benefit liabilities. This confirmed the impact of these rulings are not material to the defined benefit liability. We have reviewed the reasonableness of the assumptions used to determine the figures and our audit work has not identified any issues with the basis of the estimation technique.

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 no internal control recommendations as part of audit. The results of our follow up of prior year recommendations rre set out below.

Other deficiencies in internal control – Level 2

Description of deficiency

In trying to obtain third party confirmation for a loan balance held with UBS, we have been delayed due to the Council's signatory details not being up to date. The signatories on the account date back a number of years and most of whom are no longer employed by the Council.

Potential effects

Other than the delay to our audit, it could pose other administrative problems for the Council should they need to discuss the Loan Balance, or if the bank needed to contact the Council to discuss a late or missed payment of interest, which could potentially result in additional charges for the Council.

Recommendation

The Council should review all arrangements and business relationships to ensure contact and signatory details held with third parties are up to date and relevant.

2018/19 Update

We did not encounter the same issues when obtaining the confirmation for 2018/19

Description of deficiency

In our work reviewing the bank reconciliation, we identified 71 cheques, totalling over £6,000 that were over 6 months old.

Potential effects

The likelihood of these payments being realised is low and as such the bank balance as per the ledger is misstated, albeit the overall value is minimal. Also there is an additional administration burden on the Council to continue to include these cheques in the bank reconciliation.

Recommendation

In the short term, cheques over 6 months old should be written off from the unpresented cheques listing. Over a longer term, the Council should ensure review processes to ensure that, with sufficient regularity, old cheques are removed from the bank reconciliation, unless there is a legitimate reasons for their continued inclusion.

2018/19 Update

Our work on the bank reconciliation during 2018/19 has confirmed the number of cheques over 6 months old has significantly reduced.

2. AUDIT OF THE FINANCIAL STATEMENTS

Internal control recommendations (continued)

Description of deficiency

There are assets currently held on the asset register that are rented out yielding income for the Council. The classification of a number of these assets is based on the original intention of the Council for that asset. This means that the use of the asset for rental purposes was originally intended to be a temporary arrangement.

Potential effects

There could be assets held as property, plant and equipment rather than as investment properties. This would be out of line with accounting standards and the CIPFA Code of Practice. We have performed some procedures in the course of our work which has provided assurance that there is unlikely to be a material error in classification.

Recommendation

The Council should review the intention on which their assets are held and determine whether a change in classification is required.

2018/19 Update

The Council has re-classified a number of assets as inivestment properties in 2018/19.

Description of deficiency

The draft statements contained double-counting of recharged overheads within the CIES.

Potential effects

Although the net impact of the error has not been impacted, both income and expenditure are overstated.

Recommendation

Despite this being a purely presentational error, the treatment of recharges should be reviewed to ensure that they are not double-counted in financial information. This will mean that external reporting is more accurate but also that the true cost of services can be ascertained.

2018/19 Update

This error has not occurred in 2018/19.

2. AUDIT OF THE FINANCIAL STATEMENTS

Internal control recommendations (continued)

Description of deficiency

As also reported last year, the payroll reconciliation shows items unreconciled at the year end. Officers are comfortable that the small difference is being managed but this has also been “self-reported” by management in the Annual Governance Statement with a target date of July 2018 to report to Those Charged with Governance.

Potential effects

Differences on control account reconciliations are normally an indication of a wider issue; in this case the wider issue is already known; that is, a problem exists with the costing information provided by the payroll provider (North Yorkshire County Council).

Recommendation

Officers should continue to work with NYCC to rectify the costing issue.

2018/19 Update

This issue has been rectified during 2018/19.

Description of deficiency

We have noted three incidences where the cut-off of capital schemes has resulted in errors within the statements. One resulted in a substantial amount of expenditure (£99k) in respect of one scheme being included in additions in error; a second resulted in an adjustment being required (£35k) to increase creditors and additions; and the final one related purely to the capital commitments note (£507k).

Potential effects

Although none of the above have an impact on the Income and expenditure position of the council for the year; it is important that capital contracts are manged appropriately to ensure progress on schemes is monitored and the invoices are subsequently managed to ensure timely payment.

Recommendation

Finance officers need to reiterate to service managers the importance of following the established rules for capital accruals.

2018/19 Update

Our audit work in this area has not identified any further issues in 2018/19.

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, issued to the Council on 31 July 2019, 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 2019.

Sub-criteria	Commentary	Arrangements in place?
Informed decision-making	The Council operates an Executive with a Leader model, and this is governed by a Council Constitution including all of the normal features of an effective governance framework in local government. The Corporate Plan sets out priorities which include delivering affordable housing and promoting economic growth and development. Delivery is monitored in quarterly performance reports and in the Annual Report. New decisions are supported by reports that outline options and relevant considerations, including references to financial, legal and performance issues where appropriate. There is evidence of financial reporting being used to deliver strategic objectives, for example, through the Medium Term Financial Strategy 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. Performance issues are included in reports where appropriate, and overall performance outcomes are monitored quarterly and also included in the Council's Annual Report. The Council has a risk management strategy and framework in place. and the Audit and Governance Committee oversees the governance framework including the work of internal audit. The Annual Governance Statement includes an assessment of the effectiveness of arrangements and identifies appropriate areas for further improvement, most notably around information governance and strengthening scrutiny arrangements.	Yes

3. VALUE FOR MONEY CONCLUSION

Value for money conclusion	Unqualified

Sub-criteria	Commentary	Arrangements in place?
Sustainable resource deployment	The Council has made progress in addressing the financial challenges from public sector austerity and has a proven track record of strong budget management and delivering planned budget reductions. In recent years the Council has benefitted from an annual windfall in business rates income which is now £8.6m 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 that are available. There has been progress on the Programme for Growth during 2018/19 with £1.7m project spend and further spend committed across a range of projects for 2019/20. The Council continues to deliver its financial plans and the 2018/19 outturn achieved a £59k underspend against the general fund budget.	Yes
Working with partners and other third parties	The Council works with a range of third parties. The Better Together partnership with North Yorkshire County Council is a strong example. The Council have also strengthened their joint working with North Yorkshire Police during 2018/19. Another example is the commissioning of leisure services, including the opportunity presented by the new leisure village, through Wigan Leisure and Cultural Trust (WLCT). 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.	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 National Audit Office's (NAO) 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.

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. On 16 August 2019 we reported that your activity was below the threshold set by the NAO, meaning we were not required to review the WGA return.

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, presented to the Audit and Governance Committee in April 2019.

Having completed our work for the 2018/19 financial year, we can confirm that our final fees are as follows:

Area of work	2018/19 proposed fee	2018/19 final fee
Delivery of audit work under the NAO Code of Audit Practice	£34,425	£34,425
Housing Benefit Subsidy Claim	£12,450	£12,450*

*subject to completion of work.

Fees for other work

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

6. FORWARD LOOK

Financial outlook

The Council delivered an underspend of £59k for 2018/19. The Council is forecasting a breakeven position for 2019/20 but the financial outlook remains uncertain for the short and medium-term.

In recent years the Council has benefitted from an annual windfall in business rates income which is now £8.6m 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 that are available. The Programme for Growth has further spending planned for 2019/20.

Strategic and operational challenges

As set out above, the Council is in a position where it has one-off windfall funds available for investment, but the base budget continues to face the same austerity pressures as other public sector bodies, meaning that a key area of focus for the Council will be continued strong budget management and the identification of further savings in the base budget, wherever possible. The Council will need to ensure operational and financial plans deliver statutory duties within available resources.

Next year’s audit and how we will work with the Council

We will focus our work on the risks that your challenges present to your financial statements and your ability to maintain proper arrangements for securing value for money.

In the coming year we will continue to:

- liaise with the Council’s Internal Auditors to minimise duplication of work;
- attend Audit and Governance Committee meetings and present Audit Progress Reports including updates on regional and national developments; and
- host events for officers such as our Local Government Accounts workshop.

We will meet officers to identify any learning from the 2018/19 audit and will continue to share our insights from across local government and relevant knowledge from the wider public and private sector.

In terms of the technical challenges that officers face around the production of the statement of accounts, we will continue to work with them to share our knowledge of new accounting developments and we will be on hand to discuss any issues as and when they arise.

The Council has taken a positive and constructive approach to our audit and we wish to thank Members, the Audit and Governance Committee and officers for their support and co-operation during our audit.

CONTACT

Mark Kirkham
Partner & Engagement Lead

Phone: 0113 387 8850
Email: mark.kirkham@mazars.co.uk

Nicola Hallas
Manager

Phone: 07781 283 559

Email: nicola.hallas@mazars.co.uk

MAZARS