Annual Audit Letter

Selby District Council

Year ending 31 March 2018

CONTENTS

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 2018. 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 report issued on 25 July 2018 included our opinion that the financial statements: • give a true and fair view of the Council's financial position as at 31 March 2018 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 2017/18.
Other information published alongside the audited financial statements	Our report 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 2018.
Reporting to the group auditor	On 25 July 2018 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 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 2018 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 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 at numerous stages 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) due to the nature of these items or because they attract public interest. We also set a threshold for reporting identified misstatements to the Audit and Governance Committee. We call this our trivial threshold.

The table below provides details of the overall materiality levels applied in the audit of the Council's financial statements for the year ended 31 March 2018.

Financial statement materiality	Our financial statement materiality is based on 2% of gross operating expenditure.	£812k
Trivial threshold	Our trivial threshold is based on 3% of financial statement materiality.	£24k

2. AUDIT OF THE FINANCIAL STATEMENTS

Our response to significant risks and key areas of management judgement

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 and key areas of management judgement identified at the planning stage to the Audit and Governance 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 and judgements, the work we carried out on those risks and our conclusions.

Identified significant risk	Our response	Our findings and conclusions
Management override of controls 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 and a significant risk on all audits.	We addressed this risk by performing audit work in respect of: • accounting estimates impacting on amounts included in the financial statements; • 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.	Our work provided the assurance we sought and did not highlight any material issues to bring to your attention. We found no indication of management override of controls.
Revenue recognition – fees and charges In accordance with ISA 240 we presume there is a risk of fraud in respect of the recognition of revenue because of the potential for inappropriate recording of transactions in the wrong period. ISA 240 allows the presumption to be rebutted, and we have done this in relation to the Council's most significant sources of income, taxation and grant income. Our view is that there is insufficient scope within the recognition of fees and charges to conclude that there are grounds for rebuttal in that particular income stream. This does not imply that we suspect actual or intended manipulation but that we continue to deliver our audit work with appropriate professional scepticism.	We evaluated the design and implementation of controls to mitigate the risk of income being recognised in the wrong period. In addition, we undertook a range of substantive procedures including: • testing receipts in March, April and May 2018 to ensure they had been recognised in the right year; • testing material year end receivables; • testing adjustment journals; • obtaining direct confirmation of year-end bank balances; and • testing the reconciliations to the ledger.	Our work provided the assurance we sought and did not highlight any material issues to bring to your attention. We did not find any evidence of revenue being recognised in the wrong year.
Defined benefit liability valuation The financial statements contain material pension entries in respect of retirement benefits. The calculation of these pension figures, both assets and liabilities, can be subject to significant volatility and includes estimates based upon a complex interaction of actuarial assumptions. This results in an increased risk of material misstatement.	In addition to our standard programme of work in this area, we have evaluated the management controls in place to assess the reasonableness of the figures provided by the Actuary and we have considered the reasonableness of the Actuary's output, referring to an expert's report on all actuaries nationally which is commissioned annually by National Audit Office.	Our work provided the assurance we sought and did not highlight any material issues to bring to your attention. We found no indication of material estimation error in respect of pensions.

2. AUDIT OF THE FINANCIAL STATEMENTS

Identified significant risk	Our response	Our findings and conclusions
Property, plant and equipment (PPE) valuations The financial statements contain material entries on the Balance Sheet as well as material disclosure notes in relation to the Council's holding of PPE. Although the Council employs an internal valuation expert to provide information on valuations, there remains a high degree of estimation uncertainty associated with PPE valuations because of the significant judgements and number of variables involved. We have therefore identified the valuation of PPE to be an area of risk.	We considered the Council's arrangements for ensuring that PPE values are reasonable and engaged our own expert to provide data to enable us to assess the reasonableness of the valuations provided by the Council's valuer. We also assessed the competence, skills and experience of the valuer. Where necessary we also performed further audit procedures on individual assets to ensure that the basis and level of revaluation is appropriate.	Our work provided the assurance we sought and did not highlight any material issues to bring to your attention. We found no indication of material estimation error in respect of PPE valuations.

Identified key area of management judgement	Our response	Our findings and conclusions
Business Rates Appeals The Council is dependent on the Valuation Office Agency (VOA) for information regarding appeals against Business Rates bills. Management applies judgement in order to create a reasonable basis for the provision, given the level of appeals and other relevant information.	We reviewed the basis for the judgements used in creating the provision and assessed the reasonableness of any estimates.	There are no significant issues arising from our work.
Depreciation The annual depreciation charged against the Property, Plant and Equipment involves an estimation of both the valuation of the asset and the remaining useful economic life of the asset. The valuations risk was identified as a significant risk in the previous section. The residual risk around the remaining useful economic lives of assets is a key area of judgment, but does not amount to a significant risk to the audit.	We have reviewed a sample of balance sheet entries relating to income and expenditure and also reviewed the process used by management to create those entries.	There are no significant issues arising from our work.
Accruals A key accounting concept determines that expenditure and income should be accounted for in the period to which they relate, therefore management needs to assess transactions and apply judgement to ensure that they are translated into the appropriate accounting period.	We have reviewed a sample of balance sheet entries relating to income and expenditure and also reviewed the process used by management to create those entries.	There are no significant issues arising from our work. We did identify some issues relating to capital expenditure which did not have an impact on the revenue income and expenditure position of the Council.

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.

Six deficiencies in internal control were identified during the audit.

UBS loan

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.

Management response

Review undertaken.

Unpresented cheques

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.

Management response

Procedures have been reviewed and will ensure out of date cheques are written back as part of the bank reconciliation authorisation process.

Classification of assets

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 with 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.

Management response

Will review assets being held in line with the Council's asset management plan and re-classify if and where necessary in 2018/19.

Accounting for overheads

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. [Note that this error has been corrected in the financial statements]

Management response

Reviewed process for preparing CIES balances to ensure CEC's are eliminated.

2. AUDIT OF THE FINANCIAL STATEMENTS

Payroll reconciliation

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.

Management response

Not applicable, as management has this issue in hand.

Capital spending

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.

Management response

Training and support are provided to budget managers through the closedown process. Finance will feedback to service areas to remind teams of the consequences of submitting incorrect accruals, and continue to offer training ahead of closedown.

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 (supplemented by our follow-up letter), issued to the Authority on 25 July 2018, 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 31 March 2018.

Sub-criteria	Commentary	Arrangements in place?
Informed decision-making	In November 2017, the LGA led a corporate peer challenge of Selby District Council. This process demonstrated the Council's openness to learning. The results of the corporate peer challenge were generally positive about the Council's arrangements, but did identify a number of areas for future focus including carrying out an annual refresh of the Corporate Plan, being more focused around priority actions including those in the Council's Programme for Growth, and in strengthening scrutiny. The Council has followed up on these actions since the review was published. 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. 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. It also highlights ongoing issues relating payroll reconciliations.	Yes

3. VALUE FOR MONEY CONCLUSION

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. In 2016/17, the Council used some of its surplus funds to repay Pension Fund deficit following the triennial actuarial revaluation of the North Yorkshire Pension Fund on 1 April 2016. This generated an annual saving as a contribution towards the savings needed to balance the budget over the medium term. One of the Council's main challenges is to utilise the additional funds effectively. This is mainly being done through the Council's Programme for Growth initiative. Although some projects have been delivered, much of the investment is still at the planning stage and is medium to long term in nature, which has led to some frustration at the pace of implementation. In May 2018, the Council refreshed its Programme for Growth and set out the governance arrangements to take the programme forward. The Council continues to deliver its financial plans and the 2017/18 outturn achieved a £414k underspend against the general fund budget. In the budget for the HRA, a key factor is the continuing requirement to reduce rents by 1% per annum. In 2017/18, the Council achieved a £734k underspend against the HRA budget. The HRA surplus that is achieved is required to support capital spending plans The Council has an Asset Management Strategy. There are good examples of the Council seeking to make best use of its assets, for example, through the Better Together partnership with North Yorkshire County Council. The Council has taken steps to develop its workforce, downsizing in the face of austerity and reorganising staff into wider roles. A recent example of these plans is the senior management restructure to better align the workforce with Council priorities.	Yes

3. VALUE FOR MONEY CONCLUSION

Sub-criteria	Commentary	Arrangements in place?
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, with measures to date including shared telephony, an improved website, shared premises and shared services such as ICT. 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 Executive considers an annual review of the operation of the contract with WLCT. This considers the extent to which the contract contributes to wider strategic objectives around healthy lifestyles in the district. 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. The largest contract is refuse collection and street scene (approximately £3.9m per annum). This contract was extended during 2016/17 and is now in place for a number of years.	Yes

Significant audit risks

The NAO's guidance requires us to carry out work to identify whether or not a risk to the value for money conclusion exists. Risk, in the context of our work, is the risk that we come to an incorrect conclusion rather than the risk of the arrangements in place at the Council being inadequate. In our Audit Strategy Memorandum, we reported that we had not identified any significant value for money audit risks.

4. OTHER REPORTING RESPONSIBILITIES

Exercise of statutory reporting powers	**No matters to report**
Completion of NAO group audit reporting requirements	**Below reporting 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 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 a referral to the Secretary of State where we believe that a decision has led to, or would lead to, unlawful expenditure, or an action has been, or would be unlawful and likely to cause a loss or deficiency; and
- make written recommendations to the Council which must be responded to publically.

We have not exercised any of these statutory reporting powers.

Reporting to the NAO in respect of Whole of Government Accounts (WGA) consolidation data

On 25 July 2018 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.

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 2018.

Having completed our work for the 2017/18 financial year, we can confirm that our final fees are as follows:

Area of work	2017/18 proposed fee	2017/18 final fee
Delivery of audit work under the NAO Code of Audit Practice	£44,708	£44,708
Certification of Housing Benefit Subsidy claim*	£13,450	£13,450

* subject to completion of work.

6. FORWARD LOOK

Financial outlook

The Council has continued to make good 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.

In 2016/17, the Council used some of its surplus funds to repay Pension Fund deficit following the triennial actuarial revaluation of the North Yorkshire Pension Fund on 1 April 2016. This generated an annual saving as a contribution towards the savings needed to balance the budget over the medium term.

One of the Council's main challenges is to utilise the additional funds effectively. This is mainly being done through the Council's Programme for Growth initiative. Although some projects have been delivered, much of the investment is still at the planning stage and is medium to long term in nature, which has led to some frustration at the pace of implementation. In May 2018, the Council refreshed its Programme for Growth and set out the governance arrangements to take the programme forward.

Looking forward to 2020/21, the Council is facing major uncertainties in relation to business rates retention and the fair funding review.

Operational and strategic 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.

Against this backdrop, the Council will require organisational capacity, continued good governance and strong risk and project management arrangements. The Council will need to ensure operational and financial plans deliver statutory duties within available resources.

How we will work with the Council

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. A key focus in the coming year will be the adoption of IFRS 9 Financial Instruments, a new standard for 2018/19 , which changes the approach to financial assets and accounting for impairment.

Looking further ahead, IFRS 16 Leases is a new standard to be adopted from 2019/20, which establishes a new model for lessees and removes existing classifications of operating and finance leases. It is anticipated that the impact on the accounts of this could be material.

We will continue to offer accounting workshops to finance officers and the audit team 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.

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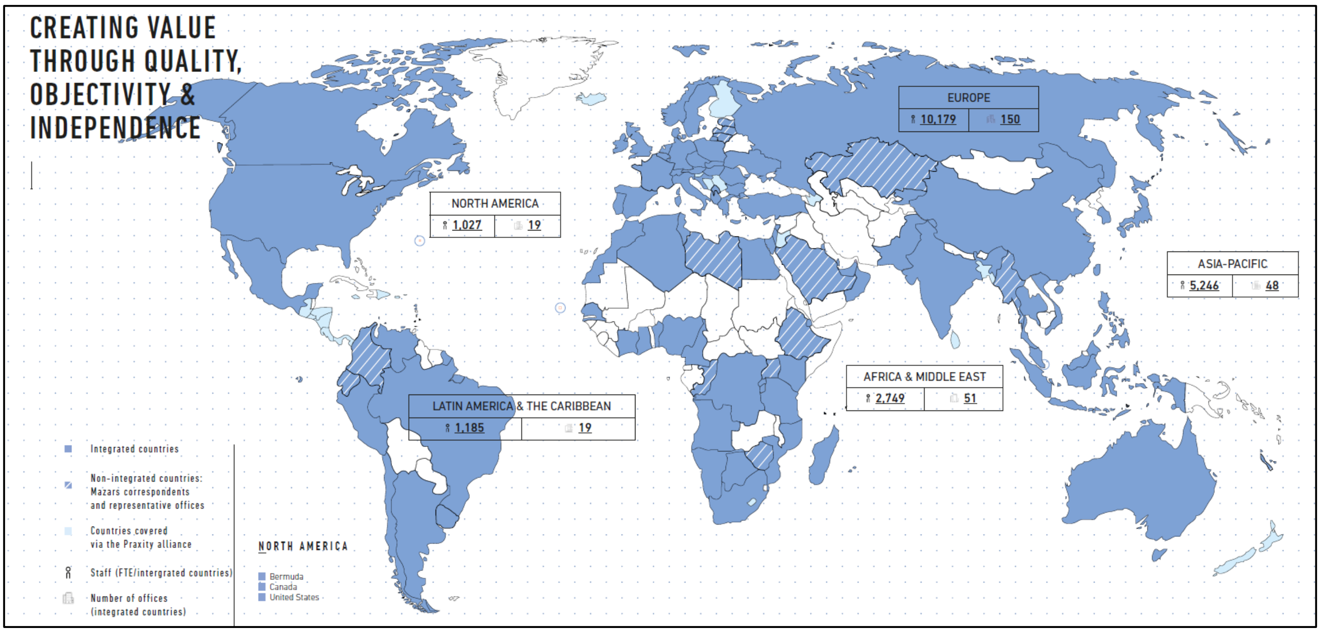
Mazars Internationally



Mazars in the UK

£173.6m
turnover 2016-17

27% in respect of audit services

▲8.5%
increase on prior year

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