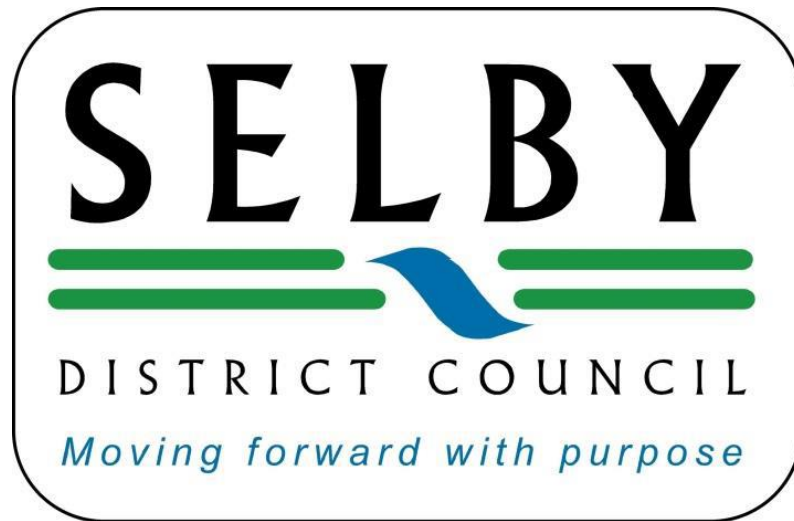


Annual Audit Letter

Selby District Council



For the year ended 31 March 2017



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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.

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Executive summary

Purpose of this report

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 2017. Although this letter is addressed to the Council, it is designed to be read by a wider audience including 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 work	Summary
Financial statements opinion	On 26 July 2017 we issued our opinion that: <ul style="list-style-type: none">the financial statements give a true and fair view of the Council's financial position as at 31 March 2017 and of its financial performance for the year then ended.
Opinions on other matters	On 26 July 2017 we issued our opinion that: <ul style="list-style-type: none">the Narrative Report published with the financial statements, is consistent with those financial statements.
Value for Money conclusion	On 26 July 2017 we issued our conclusion that the Council had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources.
Whole of Government Accounts	In line with instructions issued by the NAO, we reported that the Council was below the threshold requiring a review of the WGA return this year.
Matters that we report by exception	We have not identified any matters to report in relation to: <ul style="list-style-type: none">whether the Annual Governance Statement is in line with our understanding of the Council and the requirements of the Delivering Good Governance in Local Government Framework 2016;reports in the public interest or written recommendations made under s24 of the 2014 Act;exercise of other powers under the 2014 Act.

As we have discharged all of our responsibilities under the 2014 Act for the 2016/17 audit, we certified the closure of the audit on 26 July 2017.

Audit of the financial statements

Financial statements opinion

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 2017 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 for the UK and Ireland (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 the concept of 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 view 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 (specific materiality) for those items of account that we expect to attract a higher level of 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 materiality levels applied in the audit of the financial statements for the year ended 31 March 2017:

Financial statement materiality	£788k
Specific materiality	We have applied a lower level of materiality to the following items of account: <ul style="list-style-type: none">• officers remuneration;• Members allowances;• related party transactions;• termination payments; and• Audit fees.
Trivial threshold	£24k

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 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, the work we carried out on those risks and our conclusions.

Significant risk	How we addressed the risk	Audit conclusion
<p>Management override of control</p> <p>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. Due to the unpredictable way in which such overrides 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 through performing audit work on:</p> <ul style="list-style-type: none"> consideration and review of accounting estimates impacting on amounts included in the financial statements; consideration and review of any unusual or 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 on the financial statements did not identify any manipulation of the financial position, and we did not identify any evidence of management override of controls.</p>
<p>Pension Entries</p> <p>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 include estimates based upon a complex interaction of actuarial assumptions. This results in an increased risk of material misstatement.</p>	<p>We discussed with key contacts any significant changes to the pension estimates prior to the preparation of the financial statements. In addition to our standard programme of work in this area, we also:</p> <ul style="list-style-type: none"> evaluated the management controls in place to assess the reasonableness of the figures provided by the Actuary; and considered the reasonableness of the Actuary's output, referring to an expert's report on all actuaries nationally which is commissioned annually by the NAO. 	<p>Our work confirmed that reasonable assumptions had been used by the actuary and the required pension entries have been reflected in your financial statements.</p>

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.

Valuation of Council dwellings in the balance sheet

Description of deficiency	<p>It has not been possible to agree the number of properties in the housing rents system to the financial asset register. For over 3,000 dwellings, there was a discrepancy of one property between the 2 data sources. For around 400 garages, there was a discrepancy of 10 garages. Officers have confirmed to us that the data in the rents system which is used to manage Council properties is accurate, and this issue relates only to data held in the Fixed Asset Register (FAR).</p> <p>Some errors were made uploading data supplied by the external valuer to the FAR (£191k of discrepancies relating to the classification of property types) which were subsequently corrected.</p>
Potential effects	<p>Although the impact of this issue is not material, it is important to ensure that the correct information is reflected in the financial statements, and ties in to the housing rental system.</p>
Recommendation	<p>The Council should ensure that accurate information is recorded in the FAR, and that this is reconciled to the housing rents system, and checks are made to ensure that data from the valuer is input to the FAR correctly.</p> <p>Timescale - End of December 2017</p>
Management response	<p>We accept the findings of this recommendation. We will put in place further controls to ensure that information on assets held in the Operational Asset Management System, specifically for Council Dwellings and Garages, are more effectively interfaced with the Financial Fixed Asset Register. These measures include prompt reconciliation of the two systems and early preparation of the financial Fixed Asset Register well in advance of 2017/18 financial year end.</p>

Value for Money conclusion

Value for Money conclusion	Unqualified
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Summary of our work

We are required to form a conclusion as to whether the Council 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.

The following table provides commentary of our findings in respect of each of the sub-criteria and an indication as to whether proper arrangements are in place.

Sub-criteria	Commentary	Arrangements in place?
<p>Informed decision making</p> <p>Acting in the public interest, through demonstrating and applying the principles and values of sound governance.</p> <p>Understanding and using appropriate and reliable financial and performance information to support informed decision making and performance management.</p> <p>Reliable and timely financial reporting that supports the delivery of strategic priorities.</p> <p>Managing risks effectively and maintaining a sound system of internal control.</p>	<p>The Council operates an Executive with a Leader model, and this is governed by a Constitution including the normal features of an effective governance framework in local government.</p> <p>The Council has a clear Corporate Plan that sets out its priorities, including to do business, to enjoy life and to make a difference. Key priorities for the Council include delivering affordable housing and promoting economic growth and development. Delivery of priorities is monitored in quarterly performance reports and in the Annual Report.</p> <p>New decisions are supported by reports that outline appropriate 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 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.</p> <p>Performance issues are included in reports where appropriate, and overall performance outcomes are monitored quarterly and also included in the Council's Annual Report.</p> <p>The Council has a risk management strategy and framework in place. The Council has refreshed its corporate risk register in 2016/17.</p> <p>The system of internal control is subject to Internal Audit and for 2016/17, Veritau, the Council's internal auditors, have given an opinion of reasonable assurance.</p> <p>An Audit and Governance Committee is in place to oversee the governance framework including the work of internal audit and approval of the Council's financial statements.</p> <p>The Annual Governance Statement includes a balanced assessment of the effectiveness of the Council's governance arrangements and identifies appropriate areas for further improvement, most notably around information governance and disaster recovery. It also highlights issues relating to duplicate payments and payroll reconciliations.</p>	<p>Yes</p>

Sub-criteria	Commentary	Arrangements in place?
<p>Sustainable resource deployment</p> <p>Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions.</p> <p>Managing and utilising assets effectively to support the delivery of strategic priorities.</p> <p>Planning, organising and developing the workforce effectively to deliver strategic priorities.</p>	<p>The Council has made 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.</p> <p>In recent years the Council has benefitted from an annual windfall in business rates income of £5.4m largely arising from renewables at the Drax power station. The Council is uncertain how long this windfall will continue and has set it aside for the Council's Programme for Growth initiative.</p> <p>In the 2017/18 budget, the Council has not assumed that the windfall will recur. The general fund budget has been set at £11.644m, with a small deficit of £377k to be funded from reserves.</p> <p>The Council decided to repay its Pension Fund deficit following the triennial actuarial revaluation of the North Yorkshire Pension Fund on 1 April 2016. The Council made a payment of £9.4m as an early repayment of the deficit in March 2017. This will generate an annual saving as a contribution towards the savings needed to balance the budget over the medium term.</p> <p>In the budget for the HRA a key factor in the next few years will continue to be the requirement to reduce rents by 1% per annum. The Council has still been able to set a budget for 2017/18 for the HRA which predicts a £1.2m surplus, although this will be required to support capital spending plans</p> <p>The Council has an Asset Management Strategy. There are good examples of the Council seeking to make best use of its assets with some key elements being part of the Better Together partnership with North Yorkshire County Council. More recently, North Yorkshire Police are co-locating with the District Council at the Civic Centre in Selby.</p> <p>Several years ago, the Council took steps to downsize its workforce and reorganise staff into wider roles. More recently, a senior management restructure has been undertaken to better align the workforce with the Council's priorities. This has included creating some targeted additional capacity in key areas, for example, to support economic growth and development, which is crucial to the Council's long term sustainability.</p>	<p>Yes</p>

Sub-criteria	Commentary	Arrangements in place?
<p>Working with partners and other third parties</p> <p>Working with third parties effectively to deliver strategic priorities.</p> <p>Commissioning services effectively to support the delivery of strategic priorities.</p> <p>Procuring supplies and services effectively to support the delivery of strategic priorities.</p>	<p>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.</p> <p>Another example is the commissioning of leisure services, including the opportunity presented by the new leisure village, through Wigan Leisure and Cultural Trust (WLCT).</p> <p>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.</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. The largest contract is refuse collection and street scene (approximately £3.9m per annum). This contract was extended during 2016/17.</p>	<p>Yes</p>

Significant Value for Money risks

The NAO's guidance requires us to carry out work to identify whether or not an audit risk to our 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. We did not identify any significant audit risks for our VFM conclusion.

Other reporting responsibilities

Exercise of statutory reporting powers	No matters to report
Annual Governance Statement	No matters to report
Whole of Government Accounts consistency with the financial statements	Below the threshold requiring a review
Other information published alongside the 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 reporting powers where matters come to our attention that require reporting to parties other than the Council. We have the power to:

- report in the public interest; and
- make statutory recommendations to the Council, which must be responded to publicly.

In addition we must respond to any objections or questions on items contained within the accounts raised by a local government elector. We did not receive any such objections or questions.

We are also required to report if, in our opinion, the Annual Governance Statement does not comply with the guidance issued by CIPFA in 'Delivering Good Governance in Local Government; Framework 2016' or is inconsistent with our knowledge and understanding of the Council.

We did not exercise any of our reporting powers during our 2016/17 audit and had no matters to report to the Council in relation to the Annual Governance Statement.

Reporting to the NAO in respect of Whole of Government Accounts

The NAO requires us to report to them whether consolidation data that the Council has submitted is consistent with the audited financial statements, and to undertake specified procedures on that data. The NAO only requires this work to be undertaken where values are above a threshold level. Selby District Council was below the threshold levels and consequently a WGA review was not required.

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 information in the Narrative Report is consistent with the audited financial statements.

Our fees

Fees for work as the Council's appointed 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 2017.

Having completed our code audit work for the 2016/17 financial year, we can confirm that our final fees are as follows:

Area of work	2016/17 proposed fee	2016/17 final fee
Code audit work	£44,708	£44,708
Certification of Housing Benefit Subsidy Claim	£10,628	£10,628
Other non-Code work	£0	£0

Please note that our work on the Housing Benefit Subsidy Claim is not yet completed and consequently the final fee quoted above is still on an estimated basis.

We confirm that the fees are in line with the scale fees set by Public Sector Audit Appointments Ltd.

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

Selby and District Housing Trust

In the interests of transparency, we are reporting that we have been separately engaged to carry out an independent examination of the charity, Selby and District Housing Trust. This is not part of the Council, but it is a related party of the Council and the Council is represented on the Board.

Area of work	2016/17 proposed fee	2015/16 final fee
Independent Examination of Selby and District Housing Trust	£1,200	£1,200

Future challenges

Financial outlook

In recent years the Council has benefitted from an annual windfall in business rates income, largely arising from renewables at the Drax power station. The Council is uncertain how long this windfall will continue and has set it aside for the Council's Programme for Growth initiative. In the 2017/18 budget, the Council has not assumed that the windfall will recur. The general fund budget has been set at £11.644m, with a small deficit of £377k to be funded from reserves.

The Council decided to repay its Pension Fund deficit following the triennial actuarial revaluation of the North Yorkshire Pension Fund on 1 April 2016. The Council made a payment of £9.4m as an early repayment of the deficit in March 2017. This will generate an annual saving as a contribution towards the savings needed to balance the budget over the medium term.

In the budget for the HRA a key factor in the next few years will continue to be the requirement to reduce rents by 1% per annum. The Council has still been able to set a budget for 2017/18 for the HRA which predicts a £1.2m surplus, although this will be required to support capital spending plans

Operational challenges

The key challenges for the future include:

- making best use of the additional resources available for investment through the programme for growth, whilst delivering savings that will ensure services are sustainable over the medium term;
- delivering economic development objectives and enabling the supply of housing, including affordable housing; and
- positioning the district to achieve economic growth and prosperity.

How we will work with the Council

We will focus our 2017/18 audit on the risks that these challenges present to your financial statements and your ability to maintain proper arrangements for securing value for money. We will also share with you 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.

We have worked successfully with your officers to bring forward the accounts and audit timetable ahead of the statutory requirement to do so. We will reflect on the experience this year and seek to make improvements so that the process is further improved for the 2017/18 financial year.

Our added value offer

Our primary responsibilities as the Council's external auditor are outlined in the main body of this report. As your external auditor we are ideally placed to provide added value in delivering those responsibilities and the diagram below provides a summary of how we do this.

