Annual Audit Letter 2017/18

Ashfield District Council

Section one

Summary for Audit Committee

Summary for Audit Committee

This Annual Audit Letter summarises the outcome from our audit work at Ashfield District Council ("the Authority") in relation to the 2017/18 audit year.

Although it is addressed to Members of the Authority, it is also intended to communicate these key messages to key external stakeholders, including members of the public, and will be placed on the Authority's website.

This is KPMG's last Annual Audit Letter to the Authority. We would like to take this opportunity to thank the Authority's officers and the members of the Audit Committee for their support throughout the six years of our audit appointment.

Audit opinion

We issued an unqualified opinion on the Authority's financial statements on 31 July 2018. This means that we believe the financial statements give a true and fair view of the financial position of the Authority and of its expenditure and income for the year.

Financial statements audit

Our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole.We set materiality at £1.2 million which equates to around 1.45 percent of gross expenditure. We design our procedures to detect errors in specific accounts at a lower level.

We report to the Audit Committee any misstatements of lesser amounts, other than those that are "clearly trivial", to the extent that these are identified by our audit work. In the context of the Authority, an individual difference is considered to be clearly trivial if it is less than £60,000.

There were no material misstatements identified during our audit of Ashfield District Council's financial statements for the year ended 31 March 2018.

Our audit work was designed to specifically address the following significant risks:

— **Management Override of Controls** – Management is typically in a powerful position to carry out fraud, as it can manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Our audit methodology includes the risk of management override as a default significant risk. In line with our methodology, we carried out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual.

— **Valuation of PPE** – At 31 March 2017 the Authority had land and buildings with a total net book value of £289.2 million (including council dwellings). The Code requires that where assets are subject to revaluation, their year end carrying value should reflect the appropriate fair value at that date. The Authority has adopted a rolling revaluation model which sees all land and buildings revalued over a five year cycle. As a result of this, however, individual assets may not be revalued for four years. This creates a risk that the carrying value of those assets not revalued in year differs materially from the year end fair value. In addition, as the valuation is undertaken as at 31 January, there is a risk that the fair value is different at the year end.

— **Pensions Liabilities** – The net pension liability represents a material element of the Authority's balance sheet. The Authority is an admitted body of Nottinghamshire County Council Pension Fund, which had its last triennial valuation completed as at 31 March 2016. This forms an integral basis of the valuation as at 31 March 2018. 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 Authority's overall valuation.

Summary for Audit Committee (cont.)

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 the valuation of the Authority's pension obligation are not reasonable. This could have a material impact to net pension liability accounted for in the financial statements.

— **Faster Close** – In prior years, the Authority has been required to prepare draft financial statements by 30 June and then final signed accounts by 30 September. For years ending on and after 31 March 2018 however, revised deadlines apply which require draft accounts by 31 May and final signed accounts by 31 July 2018. These changes represent a significant change to the timetable that the Authority has previously worked to. The time available to produce draft accounts has been reduced by one month and the overall time available for completion of both accounts production and audit is two months shorter than in prior years. In order to meet the revised deadlines, the Authority may need to make greater use of accounting estimates. In doing so, consideration will need to be given to ensuring that these estimates remain valid at the point of finalising the financial statements. In addition, there are a number of logistical challenges that will need to be managed. These include:

  — Ensuring that any third parties involved in the production of the accounts (including valuers, actuaries) are aware of the revised deadlines and have made arrangements to provide the output of their work in accordance with this;

  — Working papers and other supporting documentation are available at the start of the audit process; and

  — Applying a shorter paper deadline to the July meeting of the Audit Committee in order to accommodate the production of the final version of the accounts and our ISA 260 report.

We did not identify any evidence of material misstatement as a result of our audit work on these significant risk areas.

Whole of Government Accounts

The Authority prepares a consolidation pack to support the production of Whole of Government Accounts by HM Treasury. We are not required to review your pack in detail as the Authority falls below the threshold where an audit is required. As required by the guidance we have confirmed this with the National Audit Office.

Value for Money conclusion

We issued an unqualified conclusion on the Authority's arrangements to secure value for money (VFM conclusion) for 2017/18 on 31 July 2018. This means we are satisfied that during the year the Authority had appropriate arrangements for securing economy, efficiency and effectiveness in the use of its resources.

To arrive at our conclusion we looked at the Authority's arrangements to make informed decision making, sustainable resource deployment and working with partners and third parties.

Summary for Audit Committee (cont.)

Value for Money risk areas

We undertook a risk assessment as part of our VFM audit work to identify the key areas impacting on our VFM conclusion and considered the arrangements you have put in place to mitigate these risks.

Our work identified the following significant matters:

— **Delivery of Budgets -** The Authority continues to face similar financial pressures and uncertainties to those experienced by others in the local government sector as a result of significant reductions in central government funding. For 2018/19 over £900,000 savings has been identified by the Authority to enable a balanced budget to be set. The Medium Term Financial Strategy has also identified a need for further savings of £630,000 by 2022/23 which the Authority are addressing through your Transformation Programme. The Authority is also considering a number of revenue generating schemes such as borrowing money to invest in capital projects that appreciate in value and generate an income stream.

We **r**eviewed the Authority's arrangements for assuring delivery of the savings programme. We also reviewed the delivery of the saving plans to date including any actions taken by the Authority where savings are not achieved in line with the plan and considered the arrangements the Authority have in place for identifying further savings for future years.

— **Investment Properties -** The Authority established in its Capital Programme an initial investment target of £10m, with a further £15m approved in January 2018. The Authority has already spent £12.2m of the target and is at an advanced stage to purchase another property for £2.9m. If this property purchase completes then the total Investment Property expenditure will increase to £15.1m. These investments are both within (£5m) and outside (£10m) the District, and the authority has utilised borrowings to fund these acquisitions. Ministry of Housing, Communities and Local Government recently issued the Consultation document on the Prudential Framework of Capital Finance and a further document called 'Clarification on proposed changes' which detailed the proposed changes in the Minimum Revenue Provision (MRP) calculations for the Investment Properties, which come into effect from 1 April 2019. At present the Authority are applying Option 4 –depreciation method for determining MRP, under the existing guidance which means that MRP will only be set aside should there be a reduction in valuation or when the asset is sold. There is a reserve of £400k for commercial investments but this is being reviewed in light of recent and potential acquisitions. However due to the potential changes to the Prudential Framework, the Authority may not be able to apply Option 4, which would result in a decreased return from the investment as the MRP charges will be approximately 10 times higher than the MRP budgeted for, under the existing guidance.

As part of our work, we reviewed the commercial properties the Authority has invested in and the associated costs, risks and rewards and ensured investments were made following appropriate legal and financial advice. We also reviewed the Medium Term Financial Plan to ensure it has duly taken into consideration factors such as potential changes in the MRP calculation and interest charges

High priority recommendations

We raised one high priority recommendation as a result of our 2017/18 work regarding the Authority's liquidity position. This is detailed in Appendix 1 together with the action plan agreed by management.

Other information accompanying the financial statements

Whilst not explicitly covered by our audit opinion, we review other information that accompanies the financial statements to consider its material consistency with the audited accounts. This year we reviewed the Annual Governance Statement and Narrative Report. We concluded that they were consistent with our understanding and did not identify any significant issues.

Summary for Audit Committee (cont.)

Certificate

We issued our certificate on 31 July 2018. The certificate confirms that we have concluded the audit for 2017/18 in accordance with the requirements of the Local Audit & Accountability Act 2014 and the Code of Audit Practice.

Audit fee

he PSAA Scale fee for the 2017/18 audit was £56,036 (excluding VAT). We propose to charge a further fee of £1,500 due to additional work undertaken in respect of the new VFM risk identified in 2017/18 as part of the planning process and included in the Audit Plan. We reviewed the commercial properties worth £15m that the Authority purchased in 2017/18. We considered the governance, legal and financial advice sought, reviewed the accounting treatment and the impact on the MTFS.

The PSAA scale fee for 2016/17 was also £56,036 and we charged additional fee of £3,805 for further work we undertook in relation to the CIES restatement and data migration following the transfer of Ashfield Homes Limited.

The proposed additional fee for 2017/18 has been agreed with the Authority but is still subject to determination by PSAA.

Exercising of audit powers

We have a duty to consider whether to issue a report in the public interest about something we believe the Authority should consider, or the public should know about.

We have not identified any matters that would require us to issue a public interest report.

Appendices

Appendix 1:

High risk recommendations

This appendix summarises the high risk recommendations raised as a result of our audit.

High risk recommendations are defined as those issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.

Details of lower risk recommendations can be found in our *ISA260 Report 2017/18*.

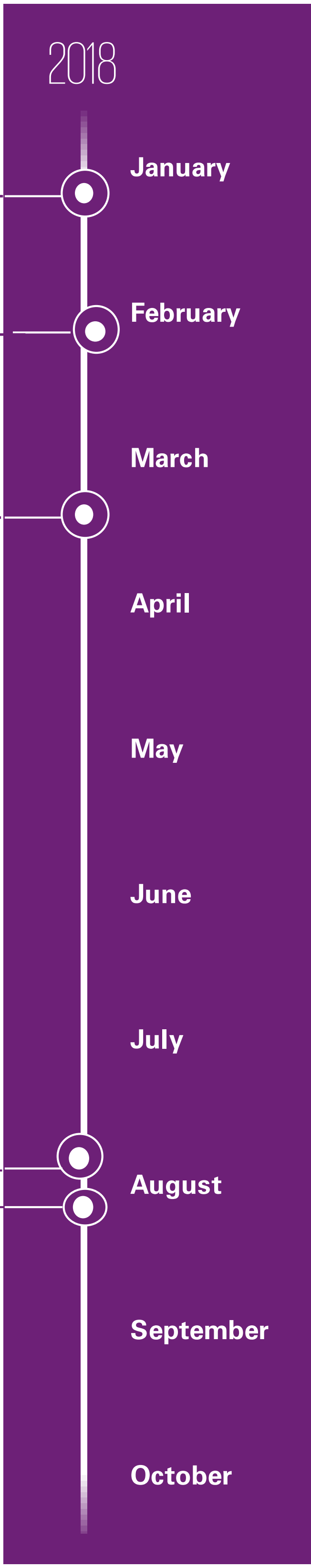
No.	Risk	Issue & Recommendation	Management Response
1	1	***Liquidity*** The Authority's current liabilities at the year end were greater than the current assets which presents a risk of going concern. However, we have confirmed that the position of the Authority has improved since the year end, with a net current assets balance of £3.4m as at 30 June 2018. ***Risk*** While the position has improved since the year end, there is a risk of the Authority not being able to meet its payment commitments due to a fluctuating Cashflow position. This can result in an increase in the interest costs as the Authority will need to borrow additional funds on a short term basis. ***Recommendation*** We recommend that the Authority review its Cashflow / borrowing requirements to ensure adequate cash balances are held throughout the year.	Agreed ***Responsible Officer*** Pete Hudson ***Implementation Deadline*** September 2018

Follow up of previous recommendations

As part of our audit work we followed up on the Authority's progress against previous audit recommendations. We are pleased to report that the Authority has taken appropriate action to address the issues that we have previously highlighted through high priority recommendations.

Summary of reports issued

This appendix summarises the reports we issued since our last Annual Audit Letter. These reports can be accessed via the Audit Committee pages on the Authority's website at www.ashfield.gov.uk.



Certification of Grants and Returns

This report summarised the outcome of our certification work on the Authority's 2016/17 grants and returns.

Interim Audit

The Interim Audit summarised the results from the preliminary stages of our audit, including testing of financial and other controls.

External Audit Plan

The External Audit Plan set out our approach to the audit of the Authority's financial statements and to support the VFM conclusion.

Report to Those Charged with Governance

The Report to Those Charged with Governance summarised the results of our audit work for 2017/18 including key issues and recommendations raised as a result of our observations. We also provided the mandatory declarations required under auditing standards within it.

Auditor's Report

The Auditor's Report included our audit opinion on the financial statements along with our VFM conclusion and our certificate.

Annual Audit Letter

This Annual Audit Letter provides a summary of the results of our audit for 2017/18.

Appendix 3:

Audit fees

This appendix provides information on our final fees for the 2017/18 audit.

External audit

The PSAA Scale fee for the 2017/18 audit was £56,036 (excluding VAT). We propose to charge a further fee of £1,500 due to additional work undertaken in respect of the new VFM risk identified in 2017/18 as part of the planning process and included in the Audit Plan. We reviewed the commercial properties worth £15m that the Authority purchased in 2017/18. We considered the governance, legal and financial advice sought, reviewed the accounting treatment and the impact on the MTFS.

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The proposed additional fee for 2017/18 has been agreed with the authority but is still subject to determination by PSAA.

Certification of grants and returns

Under our terms of engagement with Public Sector Audit Appointments we undertake prescribed work in order to certify the Authority’s Housing Benefits Grants. This certification work is still ongoing. The planned fee for this work is £19,900 and the final fee will be confirmed through our reporting on the outcome of that work in January 2019.

Other services

We charged £3,500 for the independent assurance report on the 2016/17 Pooling of Housing Receipts Return. This work was not related to our responsibilities under the Code of Audit Practice and was agreed through a separate Engagement Letter.

All fees quoted are exclusive of VAT.

The key contacts in relation to our audit are:

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This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. We draw your attention to the Statement of Responsibilities of auditors and audited bodies, which is available on Public Sector Audit Appointment's website (www.psaa.co.uk).

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact John Cornett, the engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Andrew Sayers, by email to Andrew.Sayers@kpmg.co.uk. After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing generalenquiries@psaa.co.uk by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3HZ.

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