



Annual Audit Letter

Newark and Sherwood District Council
Year ending 31 March 2019





CONTENTS

1. Executive summary
2. Audit of the financial statements
3. Value for Money conclusion
4. Other reporting responsibilities
5. Our fees
6. Forward look

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 Newark and Sherwood District 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 | <p>Our auditor's report issued on 31 July 2019 included our opinion that the financial statements:</p> <ul style="list-style-type: none">• give a true and fair view of the Council's financial position as at 31 March 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 | <p>Our auditor's report issued on 31 July 2019 included our opinion that:</p> <ul style="list-style-type: none">• The other information in the Statement of Accounts is consistent with the audited financial statements. |
| Value for Money conclusion | <p>Our auditor's report concluded that we are satisfied that in all significant respects, the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.</p> |
| Reporting to the group auditor | <p>In line with group audit instructions issued by the NAO, we reported to the group auditor in line with the requirements applicable to the Council's WGA return.</p> |
| Statutory reporting | <p>Our auditor's report confirmed that we did not use our powers under s24 of the 2014 Act to issue a report in the public interest or to make written recommendations to the Council.</p> |

2. AUDIT OF THE FINANCIAL STATEMENTS

Opinion on the financial statements

Unqualified

The scope of our audit and the results of our work

The purpose of our audit is to provide reasonable assurance to users that the financial statements are free from material error. We do this by expressing an opinion on whether the statements are prepared, in all material respects, in line with the 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 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 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 Accounts Committee. We call this our trivial threshold.

The table below provides details of the materiality levels applied in the audit of the main financial statements for the year ended 31 March 2019. A slightly higher materiality level applies for the group accounts.

| | | |
|---------------------------------|--|---|
| Financial statement materiality | Our financial statement materiality is based on 2% of Gross Revenue Expenditure at a Surplus/Deficit on Provision of Services level | £1,831k |
| Trivial threshold | Our trivial threshold is based on 3% of financial statement materiality. | £55k |
| Specific materiality | We applied a lower level of materiality to the following areas of the accounts: <ul style="list-style-type: none"> • Officers Remuneration • Termination Payments • Members Allowances • Audit Fee | £5,000 per individual officer £12k £50k £11k |

1. Executive summary

2. Audit of the financial statements

3. Value for Money conclusion

4. Other reporting responsibilities

5. Our fees

6. Forward look

2. AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

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 Accounts Committee in our Audit Strategy Memorandum and provided details of how we responded to those risks in our Audit Completion Report. The table below outlines the identified significant risks, the work we carried out on those risks and our conclusions.

| Identified significant risk | Our response | Our findings and conclusions |
|--|--|--|
| <p>Management override of controls</p> <p>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 override could occur there is a risk of material misstatement due to fraud on all audits.</p> | <p>We addressed this risk by performing audit work in the following areas:</p> <ul style="list-style-type: none"> • Documenting our understanding of the processes and controls in place to mitigate the risks identified; • Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements; • Evaluating the business rationale for any significant transactions outside the course of the business; • Understanding the oversight given by those charged with governance of management processes over fraud; • Making enquiries of management and Internal Audit regarding actual or any suspicions of fraud; and • Considering whether the Council's accounting policies are consistent with industry standards. | <p>There were no matters arising from our work on management override of controls</p> |
| <p>Valuation of property, plant and equipment</p> <p>The Council's accounts contain material balances relating to its holding of property, plant and equipment, investment properties and assets held for sale, with the majority of land and building assets required to be carried at valuation. Due to the high degree of estimation uncertainty associated with those held at valuation, we determined there was a significant audit risk in this area.</p> | <p>We addressed this risk through:</p> <ul style="list-style-type: none"> • Reconciling valuations from the valuer's report to those recorded in the Fixed Asset Register; • Testing a sample of assets valued during the year to valuation reports; • Where material, testing the basis for impairment of assets, the value and correct accounting treatment; • Critically assessing the Council's valuer's scope of work and methodology used; and • Considering the impact of any assets not valued during the year. | <p>There were no significant issues arising from our work and we were satisfied the valuation of property, plant and equipment was materially correct.</p> |

2. AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

| Identified significant risk | Our response | Our findings and conclusions |
|--|--|---|
| <p>Defined benefit liability valuation</p> <p>The Council's accounts contain material liabilities relating to the local government pension scheme. The Council uses an actuary to provide an annual valuation of these liabilities in line with the requirements of IAS 19 Employee Benefits. Due to the high degree of estimation uncertainty associated with this valuation, we determined there was a significant risk in this area.</p> | <p>We addressed this risk through:</p> <ul style="list-style-type: none"> • Reviewing 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 the consulting actuary engaged by the National Audit Office; • Agreeing 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 Council's financial statements. • Critically assessing the competency, objectivity and independence of the Nottinghamshire Pension Fund's Actuary, Barnett Waddingham; • Liaising with the auditors of the Nottinghamshire 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 IAS 19 valuation is complete and accurate; and • Performing a walkthrough of payroll transactions at the Council to understand how pension contributions which are deducted and paid to the Pension Fund by the Council. | <p>Our work provided the assurance sought and we were satisfied the local government pensions liability was not materially misstated. All local authorities have been affected by an accounting issue that impacts the value of pension liabilities. Two on-going legal cases (Guaranteed Minimum Pensions and McCloud/Sergeant) have created uncertainty over whether pension liabilities are fairly stated. The Council's actuary (via the Pension Fund) did not make an allowance in its actuarial valuation for either of these cases and early guidance given to councils was that the impact would not be material. The Council, as with nearly all local authorities in England, prepared the financial statements on this basis. In our view, these cases give rise to at least a constructive obligation, which is required to be recognised under IAS 19. As a result the Council obtained a revised valuation from the Pension Fund via its actuarial expert incorporating these two issues which necessitated extra audit work above that originally envisaged.</p> |

2. AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Internal control recommendations

As part of our audit we considered the internal controls in place that are relevant to the preparation of the financial statements. We did this to design audit procedures that allow us to express our opinion on the financial statements, but this did not extend to us expressing an opinion on the effectiveness of internal controls. We identified the following deficiencies in internal control as part of our audit.

| | |
|----------------------------------|--|
| Description of deficiency | <u>Fixed asset additions</u> Our testing of fixed asset additions identified capital expenditure of £42k against one asset that had been recognised in both 2017/18 and 2018/19. This was due to an address duplication of the information provided by Newark and Sherwood Homes in 2018/19, as the second amount of £42k should have been allocated to a different property address. While this is a control deficiency, there is no financial impact as the works have been included in the asset register and then revalued down to nil. |
| Potential effects | Assets could be overstated where assets are not revalued to nil. |
| Recommendation | The Council should ensure that fixed asset additions are recognised in the correct year. |
| Management response | While there is no overall financial impact of this recommendation, a comparison will be completed with the information provided by Newark and Sherwood Homes at the end of the financial year to make sure no properties are duplicated as above. |

3. VALUE FOR MONEY CONCLUSION

Value for Money conclusion

Unqualified

Our approach to Value for Money

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.

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 Value for Money 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 Completion Report, we reported that we had identified a single significant Value for Money risk. The work we completed in relation to the significant audit risks is outlined on the following page, which supported our auditor's report, issued to the Council on 31 July 2019, 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.

1. Executive summary

2. Audit of the financial statements

3. Value for Money conclusion

4. Other reporting responsibilities

5. Our fees

6. Forward look

3. VALUE FOR MONEY CONCLUSION (CONTINUED)

Significant Value for Money risks

| Risk | Work undertaken | Conclusion |
|---|---|--|
| <p>The Authority has been successful in reducing its net budget requirement significantly over the previous seven years and has set a balanced budget for 2018/19. Projections show an underspend against budget of around £600k for the financial year. In response to falling central government funding levels and increases in service demands, the Authority has established an efficiency programme which has delivered savings of almost £6 million since 2010/11. The medium term financial plan, covering the period to 2022/23, shows a balanced budget for each of the years covered by the plan. However, this is based on a number of assumptions around inflation, business rates income and council tax increases. Sensitivity analysis against the assumptions indicates that there will be a need to make savings of up to £2.6 million over the period of the medium term financial plan. The Council's budget gap in future years will be partly met from savings on ongoing schemes but there is also a need to develop new revenue streams. The Authority has developed a Commercialisation Strategy and an Investment Strategy which aim to drive the generation of new income and the initiatives which derive from these strategies will be crucial in bridging the budget gap whilst meeting the Authority's strategic priorities.</p> | <p>We have critically reviewed whether the Council has:</p> <ul style="list-style-type: none"> • Used reasonable assumptions in the development of its medium term financial plan; • Considered any changes in the accounting and regulatory environment within any sensitivity analysis conducted as part of its investment decision making process; and • Ensured that Members have sufficient expertise to understand the process and decisions that they have ultimate responsibility for approving. | <p>Having completed our planned procedures, we are satisfied that the Council has adequate arrangements for securing economy, efficiency and effectiveness in its use of resources. It has a robust Medium Term Financial Plan (MTFP) and has clearly presented the financial challenges facing the organisation and the sector. It has laid out plans for the next three years, including potential budget gaps. Specifically, the MTFP details the assumptions which have been made in developing the Plan and these are reasonable and well-articulated. These include:</p> <ul style="list-style-type: none"> • Salary and inflationary increases • Council tax • Business rates and levels of provision for appeals • Levels of Government funding including Revenue Support Grant, Business Rates Retention and New Homes Bonus <p>The MTFP includes a sensitivity analysis which models the effect of any changes in assumptions on major areas of income and expenditure for example council tax, business rates, fees and charges and salaries. It also highlights areas where outcomes are still unknown such as changes in national and local policy and the results of the Fair Funding review. The MTFP also shows where the budget reductions have come from in 2018/19 and 2019/20.</p> |

5. VALUE FOR MONEY CONCLUSION (CONTINUED)

| Risk | Work undertaken | Conclusion |
|------|-----------------|--|
| | | <p>The Council has a well-established decision making structure and arrangements for Member involvement in the financial and investment decisions of the organisation. Reports to Members include clear information on future plans, in year financial performance, treasury management activities and performance, investment decisions and plans. There is no evidence to suggest that Members have not been given the relevant information to make informed decisions on financial and investment issues. The Council's Investment Strategy confirms its commitment to ensuring that Officers and Members are provided with the right capacity, skills and information to make investment decisions.</p> <p>The 2018/19 year end position was a £0.323 million surplus against service budgets, with a total underspend variance of £1.957 million, enabling the Council to make a transfer to usable reserves of £3.375 million. This further strengthened the Council's already strong position with regard to reserves, taking usable reserves to £53 million overall with general fund reserves of £1.5 million and earmarked reserves of £25 million within this balance. The Council is therefore in a good position but will need to keep the emphasis on its commercialisation and investment decisions in order to bridge the gap in funding for future years.</p> |

4. OTHER REPORTING RESPONSIBILITIES

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

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

Matters on which we report by exception

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

- Issue a report in the public interest
- Make 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 publicly.

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. We submitted this information to the NAO in accordance with their deadline.

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 Accounts Committee in March 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 | £37,213 | £37,213 |
| Total | £37,213 | £37,213 |

Fees for other work

We have completed our work for the 2018/19 financial year, but at the time of producing this report, we have not yet finalised our audit fees for the year. As described on page 5, we carried out additional audit work to address the risk of material misstatement on the Council's pension liability, arising from the actuarial impact of GMP and McCloud, resulting in an additional fee of £750. This fee variation requires the approval of Public Sector Audit Appointments Limited, before finalising the audit fee.

Fees for non PSAA work

In addition to the fees outlined above in relation to our appointment by PSAA, we have been separately engaged by the Council to carry out additional work as set out in the table below. Before agreeing to undertake any additional work we consider whether there are any actual, potential or perceived threats to our independence.

| Area of work | 2018/19 proposed fee | 2018/19 final fee |
|-----------------------------------|----------------------|-------------------|
| Housing benefit subsidy assurance | £5,500 | £TBC |
| HCA compliance | £850 per scheme | £TBC |

1. Executive summary

2. Audit of the financial statements

3. Value for Money conclusion

4. Other reporting responsibilities

5. Our fees

6. Forward look

6. FORWARD LOOK

Audit Developments

Code of Audit Practice

The Code of Audit Practice sets out what local auditors of relevant local public bodies are required to do to fulfil their statutory responsibilities under the Local Audit and Accountability Act 2014. We have responded to the National Audit Office's consultation on the content of the Code (<https://www.nao.org.uk/code-audit-practice/about-code/>).

A new Code will be laid in Parliament in time for it to come in to force no later than 1 April 2020.

Financial Resilience

Fair Funding Review

The Council will need to incorporate the outcome of the Spending Review, due in the latter half of 2019, to its Medium Term Financial Plan. The Spending Review will set out the department allocations for 2020/21 and potentially beyond. Regardless of the timing and period covered by the Spending Review, the Council recognises the key issue is the management of general reserves to a level that ensures it remains financially resilient and able to deliver sustainable services. It must, therefore, ensure it clarifies and quantifies how it will bridge the funding gap through planned expenditure reductions and/ or income generation schemes.

Local Authority Financial Resilience Index

CIPFA is moving forward with its financial resilience index, which it believes will be a barometer on which local authorities will be judged. We would expect the Council to have at least considered the index once it is formally released.

Commercialisation

The National Audit Office will be publishing a report on Commercialisation during 2019. Depending on the Council's appetite for Commercialisation, we would expect the Council to consider the outcome of the report and ensure any lessons learnt are incorporated into business practice.

Further, the UK Debt Management Office's Annual Report, published on 23 July 2019, reported that, as at 31 March 2019, the Public Works Loan Board's loan book was £78.3 billion with 1,308 new loans totalling £9.1 billion advanced during the year. As a result, we expect local authorities to clearly demonstrate:

- the value for money in the use of Public Works Loan Board funds to acquire commercial property; and
- the arrangements for loan repayment through the updated Statutory Guidance on Minimum Revenue Provision in 2019/20, 2020/21 and beyond.

Financial Reporting

UK Local Government Annual Accounts

The CIPFA/LASAAC Local Authority Code Board specifies the financial reporting requirements for UK local government. A consultation is underway to inform the direction and strategy for local government annual accounts. We will be submitting our response and suggest practitioners also voice their opinion.

Lease accounting

The implementation of IFRS 16 Leases in the Code is delayed until 1 April 2020. The Council will need a project plan to ensure the data analysis and evaluation of accounting entries is completed in good time to ensure any changes in both business practice and financial reporting are captured.

1. Executive summary

2. Audit of the financial statements

3. Value for Money conclusion

4. Other reporting responsibilities

5. Our fees

6. Forward look

6. FORWARD LOOK (CONTINUED)

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 support the Council by:

- continued liaison with the Council's Internal Auditors to minimise duplication of work;
- attending Audit and Accounts Committee meetings and presenting an Audit Progress Report including updates on regional and national developments; and
- hosting events for staff, such as our Local Government Accounts workshop.

We will meet with the Council 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 and officers for their support and co-operation during our audit.

1. Executive summary

2. Audit of the financial statements

3. Value for Money conclusion

4. Other reporting responsibilities

5. Our fees

6. Forward look

CONTACT

David Hoose

Partner

Phone: +44 (0) 115 964 4744

Email: david.hoose@mazars.co.uk

Helen Brookes

Manager

Phone: +44 (0) 7867 208057

Email: helen.brookes@mazars.co.uk