

# Annual Audit Letter

## Bolsover District Council

Year ending 31 March 2019





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# 1. EXECUTIVE SUMMARY

## Purpose of the Annual Audit Letter

Our Annual Audit Letter summarises the work we have undertaken as the auditor for Bolsover 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"><li>• 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</li><li>• have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.</li></ul>
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"><li>• The other information in the Statement of Accounts is consistent with the audited financial statements.</li></ul>
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, on 31 July 2019 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 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 2019:

Financial statement materiality	Our financial statement materiality is based on 2% of Gross Revenue Expenditure at a Surplus/Deficit on Provision of Services level	£1,464k
Trivial threshold	Our trivial threshold is based on 3% of financial statement materiality.	£44k
Specific materiality	We have applied a lower level of materiality to the following areas of the accounts: - Officers remuneration (bandings) - Members allowances - Audit Fees	£5k £92k £10k

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## 2. AUDIT OF THE FINANCIAL STATEMENTS

### Our response to significant risks

As part of our continuous planning procedures we considered whether there were risks of material misstatement in the Council's financial statements that required special audit consideration. We reported significant risks identified at the planning stage to the Audit Committee within the Audit Strategy Memorandum and provided details of how we responded to those risks in our Audit Completion Report. The table below outlines the identified significant risks, the work we carried out on those risks and our conclusions.

Identified significant risk	Our response	Our findings and conclusions
<p><b>Management override of controls</b></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:</p> <ul style="list-style-type: none"> <li>• Documenting our understanding of the processes and controls in place to mitigate the risks identified, and walk through those processes and controls to confirm our understanding;</li> <li>• Testing the appropriateness of journal entries recorded in the general ledger and other material adjustments made in the preparation of the financial statements;</li> <li>• Evaluating the business rationale for any significant transactions outside the course of the business;</li> <li>• Understanding the oversight given by those charged with governance of management process over fraud;</li> <li>• Making enquiries of management and Internal Audit regarding actual or any suspicions of fraud; and</li> <li>• Considering whether the Council's accounting policies are consistent with industry standards.</li> </ul>	<p>There are no matters arising from our work on management override of controls</p>
<p><b>Valuation of property, plant and equipment and investment properties</b></p> <p>The Council employs a valuation expert to provide information on revaluations, however there remains a high degree of estimation uncertainty associated with the revaluations of PPE due to the significant judgements and number of variables involved.</p>	<p>We addressed this risk through performing the following audit work:</p> <ul style="list-style-type: none"> <li>• Testing a sample of assets valued during the year to valuation reports;</li> <li>• Where material, testing the basis for impairment of assets, the value and correct accounting treatment;</li> <li>• Critically assessing the Council's valuer's scope of work and methodology used for a sample of valuations; and</li> <li>• Considering the impact of any assets not valued during the year.</li> </ul>	<p>We are satisfied the estimates were reasonable and materially correct.</p>

## 2. AUDIT OF THE FINANCIAL STATEMENTS

### Our response to significant risks (continued)

Identified significant risk	Our response	Our findings and conclusions
<p><b>Valuation of defined benefit pension net liability</b></p> <p>The Council's accounts contain material liabilities relating to the Local Government Pension Scheme (LGPS). 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 have determined there is a significant risk in this area.</p>	<p>To address this risk we:</p> <ul style="list-style-type: none"> <li>Reviewed the appropriateness of the Pension Asset and Liability valuation methodologies applied by the Pension Fund Actuary, and the key assumptions included within the valuation. This included comparing them to expected ranges, utilising information provided by PWC, the consulting actuary engaged by the National Audit Office;</li> <li>Agreed the data in the IAS 19 valuation reports provided by the Fund Actuary for accounting purposes to the pension accounting entries and disclosures in the Council's financial statements;</li> <li>Critically assessed the competency, objectivity and independence of the Nottinghamshire Pension Fund's Actuary, Hymans Robertson; and</li> <li>Liaised with the auditors of the Derbyshire 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.</li> </ul>	<p>The Council obtained an updated IAS19 valuation report from the Actuary in July 2019, to take into account:</p> <ul style="list-style-type: none"> <li>the implications of the GMP and McCloud judgments, which impacted on the estimated pension liabilities and had not been taken into account by the Actuary in their original report; and</li> <li>changes to the Pension Fund's asset values at 31 March 2019, as the Actuary's original report had been based on a forecast year-end valuation.</li> </ul> <p>The report included material differences to the original report used to prepare the draft financial statements. Management amended the draft financial statements for these differences.</p> <p>We are satisfied that the final estimates included in the financial statements are reasonable and materially correct.</p>

## 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. The matters we report are limited to those deficiencies and other control recommendations that we have identified during our normal audit procedures and that we consider to be of sufficient importance to merit being reported. We have not identified any significant control deficiencies that we are required to report to you.

# 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
- Working with partners and other third parties

Our auditor's report, issued to the Council on 31 July 2019, stated that, in all significant respects, the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31<sup>st</sup> March 2019.

## Significant Value for Money 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 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 not identified any significant Value for Money risks but we set out our findings in relation to two areas which we had kept under review:

- Financial sustainability - the 2020/21 onwards financial position is uncertain, which is a common issue for all bodies in the local government sector. The current service demands and funding assumptions indicate a likely shortfall in those years with nearly £1m savings required by 2020/21. The Council was revisiting its budget and setting up a transformation team and programme which is expected to generate proposals to bridge the gap. We needed to monitor the progress made and revisit position in relation to this significant risk before forming our VFM conclusion.
- Commercial Property Investment Strategy – the initial proposals considered by members were being developed further with a view to ensuring the Council has a clear strategy and established governance arrangements for properly considering options and opportunities. The Executive considered the latest strategy in February 2019 and we needed to keep a watching brief on these activities.

Before forming our Value for Money Conclusion we:

- Reviewed the 2018/19 financial performance and forecasts during the year and considered the Council's financial outturn position as presented in the financial statements.
- Reviewed the 2019/20 Revenue and Capital budgets and Medium Term Financial Plan, Treasury Management Strategy, incorporating the Minimum Revenue Provision Policy and Capital and Investment Strategies
- Considered the Council's latest financial monitoring information and its updated medium term outlook
- Discussed the Transformation Programme arrangements with managers and reviewed progress monitoring reports
- Continued to monitor steps taken in relation to the commercial property investments and confirmed that there are no significant matters relevant to our VFM conclusion.

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### 3. VALUE FOR MONEY CONCLUSION

Value for Money conclusion

Unqualified

The Council recognises the key issues are achieving efficiencies to balance its medium term financial plan, in the face of demand and cost pressures, and managing its general reserves to a level that ensures it remains financially resilient and able to deliver sustainable services. The Medium Term Financial Plan (MTFP) sets out the key assumptions on both income and expenditure as well as the savings required over the period. The 2018/19 Derbyshire Business Rates Pilot has provided a gain of around £1.7m and the £8.3m 'Transformation' reserve provides the Council with a platform for the next 12-18 months important to deliver the transformation required to secure long term financial sustainability. The Transformation Programme is broad based and includes themes designed to strengthen the organisation's capacity and capability to escalate the delivery of the specific improvements and efficiencies required in the medium term. There are programme and project management arrangements in place and progress is being tracked. The identification and delivery of savings will continue to be challenging and further work is in hand to firm up specific saving plans for 2020/21 and beyond. The outcome of the Fair Funding review will help inform the Council's plans.

From the work performed, no new significant VFM risks were identified.

## 4. OTHER REPORTING RESPONSIBILITIES

<b>Exercise of statutory reporting powers</b>	<b>No matters to report</b>
<b>Reporting to the NAO in respect of Whole of Government Accounts consolidation data</b>	<b>Assurance Statement submitted</b>
<b>Other information published alongside the audited financial statements</b>	<b>Consistent</b>

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 statutory recommendations that must be considered and responded to publicly;
- apply to the court for a declaration that an item of account is contrary to law; and
- issue an advisory notice under schedule 8 of the 2014 Act.

We have not exercised any of these statutory reporting powers.

The 2014 Act also gives rights to local electors and other parties, such as the right to ask questions of the auditor and the right to make an objection to an item of account. We did not receive any such objections or questions.

### 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 on 31 July 2019.

### 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 Committee in April 2019.

We have completed our work for the 2018/19 financial year, including the additional work required relating to the material amendments to the Pension estimates included in the Financial Statements as described at page 5. The final fee for the audit is subject to PSAA approval and has not been confirmed yet:

Area of work	2018/19 proposed fee	2018/19 final fee*
Delivery of audit work under the NAO Code of Audit Practice	£38,046	£38,046*

\* the final fee for the 2018/19 audit has not been confirmed yet.

### Fees for other work

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

## 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, into 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
- 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.

## 6. FORWARD LOOK

### Financial outlook

It is clear that the Council faces some of the most difficult decisions it has ever faced in balancing the budget going forwards. Although the Council does have reserves available to minimise the immediate impact these are a temporary or transitional cushion while the savings needed are identified and delivered.

In addition, the reserves available to support the budget are reducing and the available balances will soon reach the minimum needed to deal with unforeseen circumstances and risk, and will not be available to support the revenue budget in the way that they have in recent years. The key message from those councils that have already faced a financial crisis, such as Northamptonshire and others, is the importance of taking early action to secure financial sustainability before the position becomes unmanageable.

The position beyond 2019/20 is very uncertain as much depends on the outcome of the comprehensive spending review, fair funding review and the measures that will be taken in relation to the future operation of the business rates system. However, it seems unlikely that the overall financial position for the Council will improve sufficiently to allow it to defer any of the difficult decisions that are now needed.

Decisive action to bridge the budget gap over the medium term is a key priority for the Council.

### How we will work with the Authority

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

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

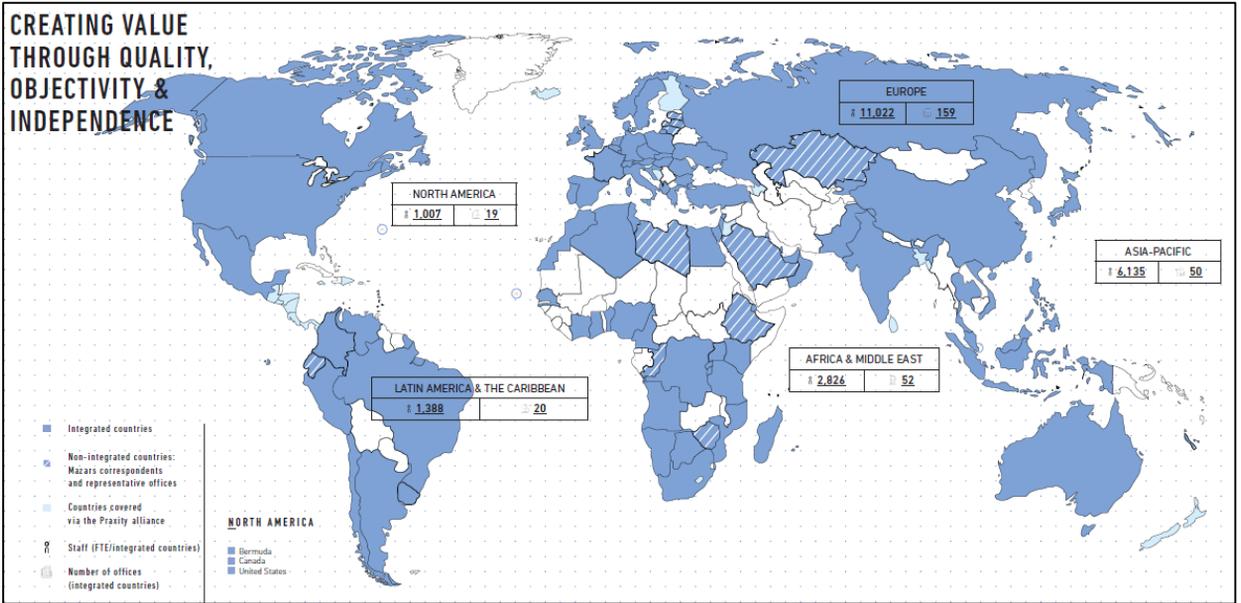
The Council has taken a positive and constructive approach to our audit and we wish to thank Members and officers for their support and co-operation during our audit.

# MAZARS AT A GLANCE

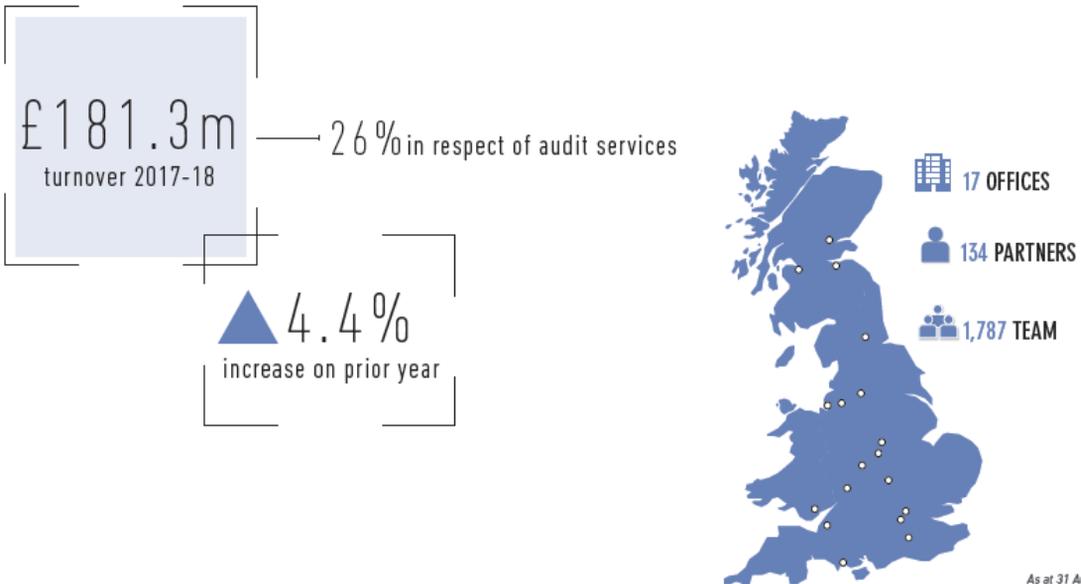
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## CONTACT

### **Mark Surridge**

Director & Engagement Lead

Phone: 07875 974291

Email: [Mark.Surridge@Mazars.co.uk](mailto:Mark.Surridge@Mazars.co.uk)

### **Mike Norman**

Senior Manager

Phone: 07909 984151

Email: [Michael.Norman@Mazars.co.uk](mailto:Michael.Norman@Mazars.co.uk)