

Annual Audit Letter

Derbyshire Dales District Council

Year ended 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 Derbyshire Dales 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 30 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 30 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, 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 30 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 Council. 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	£692,000
Trivial threshold	Our trivial threshold is based on 3% of financial statement materiality.	£21,000
Specific materiality	We have applied a lower level of materiality to the following areas of the accounts:	
	- officers' remuneration	£5,000*
	- termination payments	£4,000
	- members' allowances and expenses	£28,000
	- external audit costs	£4,000
*Reflecting movement from one salary band to another		

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 Governance and Resources 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>Management override of controls 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 override 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 by performing audit work in the following areas:</p> <ul style="list-style-type: none"> • accounting estimates impacting on amounts included in the financial statements; • consideration of identified 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>There are no matters arising from our work on management override of controls.</p>
<p>Valuation of property, plant and equipment 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 by considering the Council's arrangements for ensuring that PPE values are reasonable and we engaged our own expert to provide data to enable us to assess the reasonableness of the valuations provided by the Council's valuer. We also assessed the competence, skills and experience of the valuer. We discussed methods used with the valuer and challenged the assumptions used. We used indices provided by our own expert to confirm the assets not revalued are unlikely to have materially changed in value. We sample tested revaluations in year to valuation reports and supporting calculation sheets and ensured the calculations were correct and agreed to source data such as floor plans.</p>	<p>We are satisfied the estimate is 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>Defined benefit liability valuation</p> <p>The financial statements contain material pension entries in respect of the retirement benefits. The calculation of these pension figures, both assets and liabilities, can be subject to significant volatility and includes estimates based upon a complex interaction of actuarial assumptions. This results in an increased risk of material misstatement.</p>	<p>We discussed with key contacts any significant changes to the pension estimates. In addition to our standard programme of work in this area, we evaluated the management controls you have 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. We reviewed the appropriateness of the key assumptions included within the valuations, compared them to expected ranges and reviewed the methodology applied in the valuation. We also considered the adequacy of disclosures in the financial statements.</p>	<p>Our work has provided the assurance sought. The changes relating to the impact of Guaranteed Minimum Pensions and the McCloud legal case on pension liabilities are national issues and the Council has adjusted its 2018/19 accounts to reflect these issues.</p>
<p>Transfer of leisure services</p> <p>On 1 August 2018 the Council transferred its four leisure facilities to Freedom Leisure. The staff members previously employed by the Council transferred over to this new employer under this arrangement which is embodied in a 10 year contract. This is the key change management task the Council has been engaged in during 2018/19 and there was a risk that not all the associated requirements would have been fully addressed and appropriately reflected in the financial statements.</p>	<p>In relation to the transfer of leisure services we:</p> <ul style="list-style-type: none"> • considered whether appropriate methodologies had been used by the Council to ensure the relevant transactions and valuations are reflected in the Council's 2018/19 accounts; • tested related transactions at the Council to provide assurance over the transfer values included in the Council's 2018/19 accounts; • ensured that the Council had made appropriate disclosures to reflect the transfer; and • agreed the data relating to the leisure facilities in the IAS 19 valuation report provided by the Fund Actuary to the associated accounting entries made by the Council. 	<p>Our audit work has provided the assurance we sought and has not identified any material issues.</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. We identified the following deficiencies in internal control as part of our audit.

Depreciation and asset lives

Description of deficiency	In certain instances the Council has not correctly reversed depreciation where it has reassessed the life of the asset.
Potential effects	As a result of this depreciation charges have not always been correctly calculated.
Recommendation	We recommend that depreciation is removed from all assets where a change in the life of asset occurs.
Management response	This results from historic entries made in the asset register in 2015/16. The tested asset was fully disposed of during 2018/19 and so there is no continuing impact from these historic entries. The Council agrees the treatment for this asset was not correct and will ensure all assets that are re-lived are treated as full revaluations.

Revaluations and the fixed asset register

Description of deficiency	In certain instances the Council has not correctly applied revaluation amounts against all individual lines of the relevant asset on the fixed asset register.
Potential effects	As a result of this the Council has not correctly applied all cost and depreciation amounts in the fixed asset register.
Recommendation	We recommend that revaluation entries are checked to ensure amounts are applied correctly across all relevant asset lines.
Management response	This issue results from the way revaluation information was input into the assets register. As the misstatement did not affect the NBV of the asset it was not immediately identified. Future revaluations will be independently checked to ensure the revaluation results are as expected.

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 30 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 31st March 2019.

Sub-criteria	Commentary	Arrangements in place?
Informed decision making	<p>We reviewed financial, performance and risk management reports throughout the year and attended meetings of the Governance and Resources Committee. We did not identify any concerns regarding data quality or the decision-making process.</p> <p>We considered the following aspects of proper arrangements specified by the National Audit Office as part of our risk assessment, and, based on our risk-based approach, we did not identify any significant issues or exceptions in the Council's arrangements:</p> <p>a) Acting in the public interest, through demonstrating and applying the principles and values of sound governance;</p> <p>b) Understanding and using appropriate and reliable financial and performance information to support informed decision making and performance management;</p> <p>c) Reliable and timely financial reporting that supports the delivery of strategic priorities; and</p> <p>d) Managing risks effectively and maintaining a sound system of internal control.</p>	Yes

3. VALUE FOR MONEY CONCLUSION

Sub-criteria	Commentary	Arrangements in place?
Sustainable resource deployment	<p>Financial and performance reports demonstrate a history of achieving cost reductions without adversely affecting services and a balanced medium term financial strategy is in place up to 2024/25 provided recurrent savings of £0.4m can be achieved in 2020/21.</p> <p>We considered the following aspects of proper arrangements specified by the National Audit Office as part of our risk assessment, and, based on our risk-based approach, we did not identify any significant issues or exceptions in the Council's arrangements:</p> <ul style="list-style-type: none"> a) Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions; b) Managing and utilising assets effectively to support the delivery of strategic priorities; and c) Planning, organising and developing the workforce effectively to deliver strategic priorities. 	Yes
Working with partners and other third parties	<p>The Council has consulted with local people with a view to establishing a joint venture with a private company to further its corporate aims for affordable housing, employment and regeneration. This demonstrates the Council's commitment to increase collaboration and build partnership arrangements to achieve improvements</p> <p>We considered the following aspects of proper arrangements specified by the National Audit Office as part of our risk assessment, and, based on our risk-based approach, we did not identify any significant issues or exceptions in the Council's arrangements:</p> <ul style="list-style-type: none"> a) Working with third parties effectively to deliver strategic priorities; b) Commissioning services effectively to support the delivery of strategic priorities; and c) Procuring supplies and services effectively to support the delivery of strategic priorities. 	Yes



3. VALUE FOR MONEY CONCLUSION

Significant Value for Money risk

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 one significant Value for Money risk. The work we carried out in relation to this significant risk is outlined below.

Risk	Work undertaken	Conclusion
<p>Delivery of budgets – The continual pressures on Local Government finances are well documented and led to another challenging budget setting process for 2018/19. A total of £0.35m of leisure service savings were removed from the 2017/18 base budget to produce the 2018/19 budget. The Council approved balanced budgets for 2018/19 and 2019/20. The budgets included the required S.151 Officer assurances relating to the robustness of the budget and the adequacy of the level of reserves, but acknowledged the risks around the delivery and timing of savings initiatives and the need to address medium term budget shortfalls from 2020/21 onwards.</p> <p>The Medium Term Financial Plan indicates that a new Corporate Savings Target should be set to identify further ongoing savings (or additional income) of £0.4m by 2020/21. The 2019/20 revenue budget does however include a reserve provision to allow a strategic response to emerging budgetary shortfalls.</p> <p>There will be significant changes in Local Government finances over the next few years, which will culminate in a major change in the way Local Government is financed from 2020/21 onwards. These include the 2019 Spending Review, the Fair Funding Review and the introduction of 75% local retention of business rates (up from 50% retention). As a result, the need for savings (or income generation) will continue to have a significant impact on the Council's financial resilience.</p>	<p>We have assessed whether any matters have come to our attention through the course of our audit that lead us to conclude that a risk to our 2018/19 VFM conclusion does indeed exist. We addressed this requirement by reviewing the Council's arrangements for developing and delivering its MTFP and for working in partnership.</p>	<p>We obtained sufficient assurance to conclude that the Council continues to have appropriate arrangements in place.</p>

4. OTHER REPORTING RESPONSIBILITIES

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

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

Matters 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 on 30 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 Governance and Resources Committee in February 2019.

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. If the final fee varies from that in the table below, we will write to the Head of Resources setting out the proposed variation and any reasons for the variation, and seeking agreement to it. Any variations to the final fee will also require the approval of Public Sector Audit Appointments Limited, which manages the contracts for our work.

Area of work	2018/19 proposed fee	2018/19 final fee ***
Delivery of audit work under the NAO Code of Audit Practice	£29,487+ VAT	£29,487+ VAT

*** Please note that at the time of producing this report, the audit fee has not yet been finalised.

Fees for other work

We have been engaged to carry out non-audit work in relation to the Council's housing benefit subsidy claim for 2019/20, however this future work does not involve us receiving any fees in relation to 2018/19.

6. FORWARD LOOK

Financial outlook

It is clear that the Council will face challenges 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. The key message from those councils that have 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. Decisive action to bridge any budget gap over the medium term remains 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 any duplication of work;
- attending Governance and Resources 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 sectors.

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.

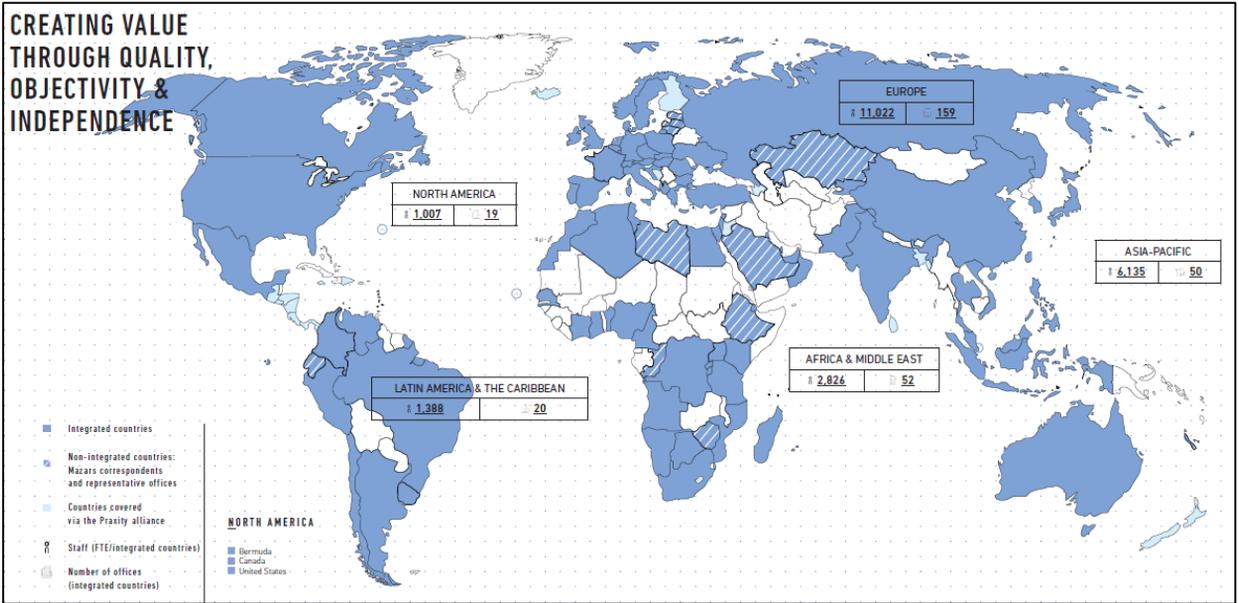
The Council has taken a positive and constructive approach to our audit and we wish to thank Members and officers for their support and co-operation during our audit.

MAZARS AT A GLANCE

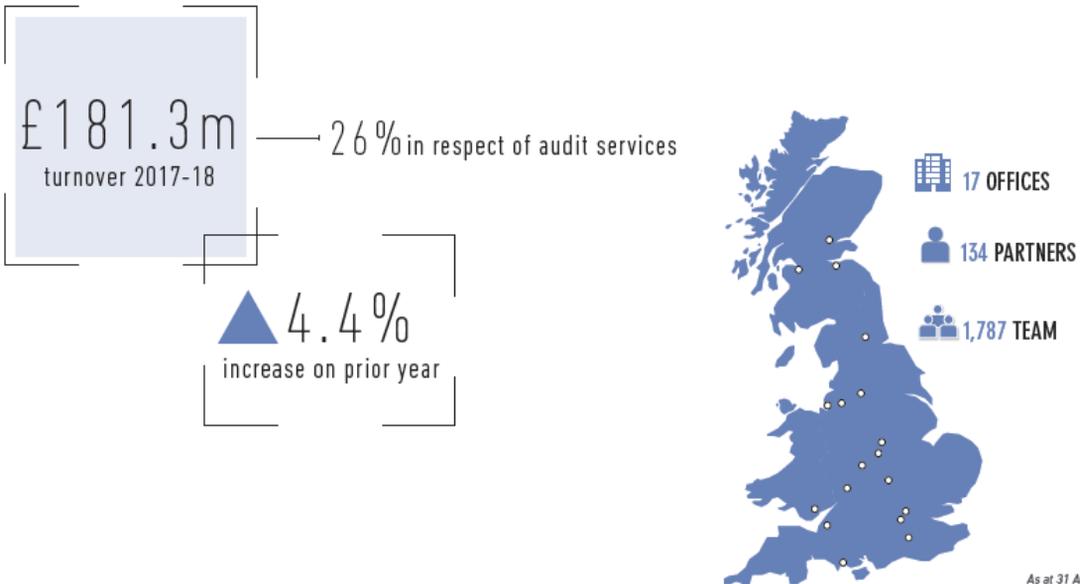
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- Fee income €1.6 billion
- Over 86 countries and territories
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Mazars Internationally



Mazars in the UK



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