



# Annual Audit Letter

**Broxtowe Borough 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 Broxtowe Borough Council (the 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 Whole of Government Accounts (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 Governance Audit and Standards 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

Financial statement materiality	Our financial statement materiality is based on 2% of Gross Revenue Expenditure at a Surplus/Deficit on Provision of Services level (Group Accounts)	£1,305,000
Trivial threshold	Our trivial threshold is based on 3% of financial statement materiality.	£39,000
Specific materiality	We have applied a lower level of materiality to the following areas of the accounts: <ul style="list-style-type: none"><li>• Officers' Remuneration</li><li>• Members' Allowances</li><li>• Audit Fee</li></ul>	£5,000 per individual officer £36,000 £8,000

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

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 performing audit work in the following areas:</p> <ul style="list-style-type: none"> <li>• documenting our understanding of the processes and controls in place to mitigate the risks identified;</li> <li>• testing the appropriateness of journal entries recorded in the general ledger and other 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 were no matters arising from our work on management override of controls.</p>
<p><b>Valuation of property, plant and equipment</b></p> <p>The Council's accounts contain material balances relating to its holding of property, plant and equipment 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 risk in this area.</p>	<p>We addressed this risk through:</p> <ul style="list-style-type: none"> <li>• reconciling valuations from the valuer's report to those recorded in the Fixed Asset Register;</li> <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; and</li> <li>• considering the impact of any assets not valued during the year.</li> </ul>	<p>The procedures we have undertaken have not identified any material errors or uncertainties in the financial statements.</p>

## 2. AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Identified significant risk	Our response	Our findings and conclusions
<p><b>Defined benefit liability valuation</b></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"> <li>• 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 PWC, the consulting actuary engaged by the National Audit Office; and</li> <li>• 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.</li> <li>• Critically assessing the competency, objectivity and independence of the Nottinghamshire Pension Fund's Actuary, Barnett Waddingham;</li> <li>• 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</li> <li>• Performing a walkthrough of payroll transactions at the Council to understand how pension contributions which are deducted are paid to the Pension Fund by the Council.</li> </ul>	<p>A material adjustment was made, increasing the Council's net pension liability, due to the impact of two ongoing legal cases (Guaranteed Minimum Pension equalisation and the McCloud judgment) that were not taken into account by the Council's actuary in their original valuation, in addition to updating estimated asset return values to an actual basis.</p> <p>A revised actuarial report was received to reflect these changes and this resulted in additional work to check the revised figures.</p> <p>Our work provided the assurance sought and we were satisfied the local government pensions liability was not materially misstated.</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 did not identify any significant deficiencies in internal control as part of our audit.

### 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

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 risk 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 31<sup>st</sup> March 2019.



# VALUE FOR MONEY: SIGNIFICANT AUDIT RISK

## Delivery of Budgets and Financial Resilience

The continual pressures on Local Government finances are well documented and led to another challenging budget setting process for 2018/19. A total funding gap of £3.027m was initially identified when the budget was set. After identifying additional savings the Council reduced the withdrawal from the General Fund reserves to £1.172m. On this basis in March 2018, the Council approved a balanced 2018/19 budget. 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 the funding from 2020 is unclear at this stage, the need for savings (or income generation) will continue to have a significant impact on the Council's financial resilience and reduce the burden on the need to utilise reserves to balance any deficits in the budget.

**Value for Money Arrangements Affected:** Deploying resources in a sustainable manner.

### Our Response

We reviewed whether the Council has arrangements in place to ensure financial resilience, specifically whether the Medium Term Financial Plan (MTFP) duly took into consideration the latest available information on factors such as: funding reductions; business rate reform; fair funding; salary and general inflation; demand pressures; restructuring costs; and sensitivity analysis given the degree of variability in the above factors. We also reviewed the Council's progress against planned savings in 2018/19; progress to identify savings for 2019/20 - 2021/22; and plans to address budget pressures in the future and as part of this evaluate the impact on the Council's revenue reserves.

### Our findings

#### Outturn

The outturn presented to the Council's Finance & Resources Committee on 11 July 2019 reports a net revenue budget under-spend of £0.4m on services. There were no material variances between budget and outturn, the main difference being additional income from business rates, and this demonstrates the Council's ability to deliver financial performance within planned control measures, including the delivery of savings and services in line with plan.

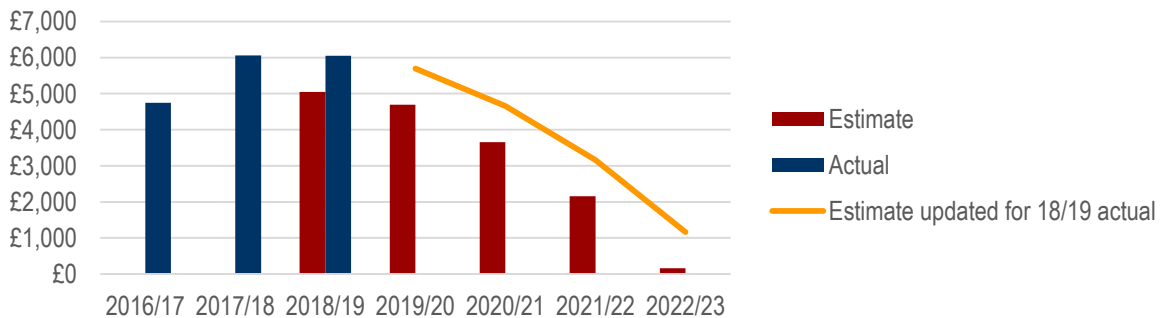
#### Medium Term Financial Plan (MTFP)

The Council's MTFP was approved by Finance and Resources Committee on 14 February 2019 providing indicative financial projections through to 2022/23. The MTFP performs a risk assessment over each key assumption, ranking areas as high, medium or low. The high risk areas being capital financing and Government grant. The projections incorporate the Council's Business strategy 2019/20 to 2020/21, approved in October 2018 by the Finance & Resources Committee, that set out a maximum £360k income growth and £300k expenditure reductions to be incorporated into the 2019/20 budget and MTFP. Further work is required to firm up specific saving plans for 2020/21 and beyond and the outcome of the Fair Funding review will help inform the Council's plans.

#### General Reserves

The Council's planned use of general reserves ensures the MTFP remains in balance. 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. Without further action, the Council's reserves will deteriorate. Over the three years to 2021/22, the level of general reserves remains above the Council's minimum level of £1.5million and it is over this period, we judge it most relevant to base our Value for Money Conclusion on. However, as shown in the following diagram, as the Council moves into 2022/23, the level, after adjusting for the actual position for 2018/19 falls to £1.1million.

Broxtowe Council - General Fund Reserves



## 4. OTHER REPORTING RESPONSIBILITIES

<b>Exercise of statutory reporting powers</b>	<b>No matters to report</b>
<b>Completion of group audit reporting requirements</b>	<b>Consistent</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 Governance Audit and Standards Committee in March 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 Deputy Chief Executive and S151 Officer 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	£35,807 plus VAT	£40,057 plus VAT

\*\*\* Please note that at the time of producing this report, the additional audit fees are subject to PSAA approval. The proposed final fee is higher than the original plan due to the additional audit work required for:

- Additional audit work as a result of changes in pension estimates as explained on page 5: £750 plus VAT
- Additional testing to cover the transactions and disclosures of the Group Accounts, where Liberty Leisure Limited was unaudited in 2018/19: £3,500 plus VAT



## 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.

## 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 Governance Audit and Standards 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.

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