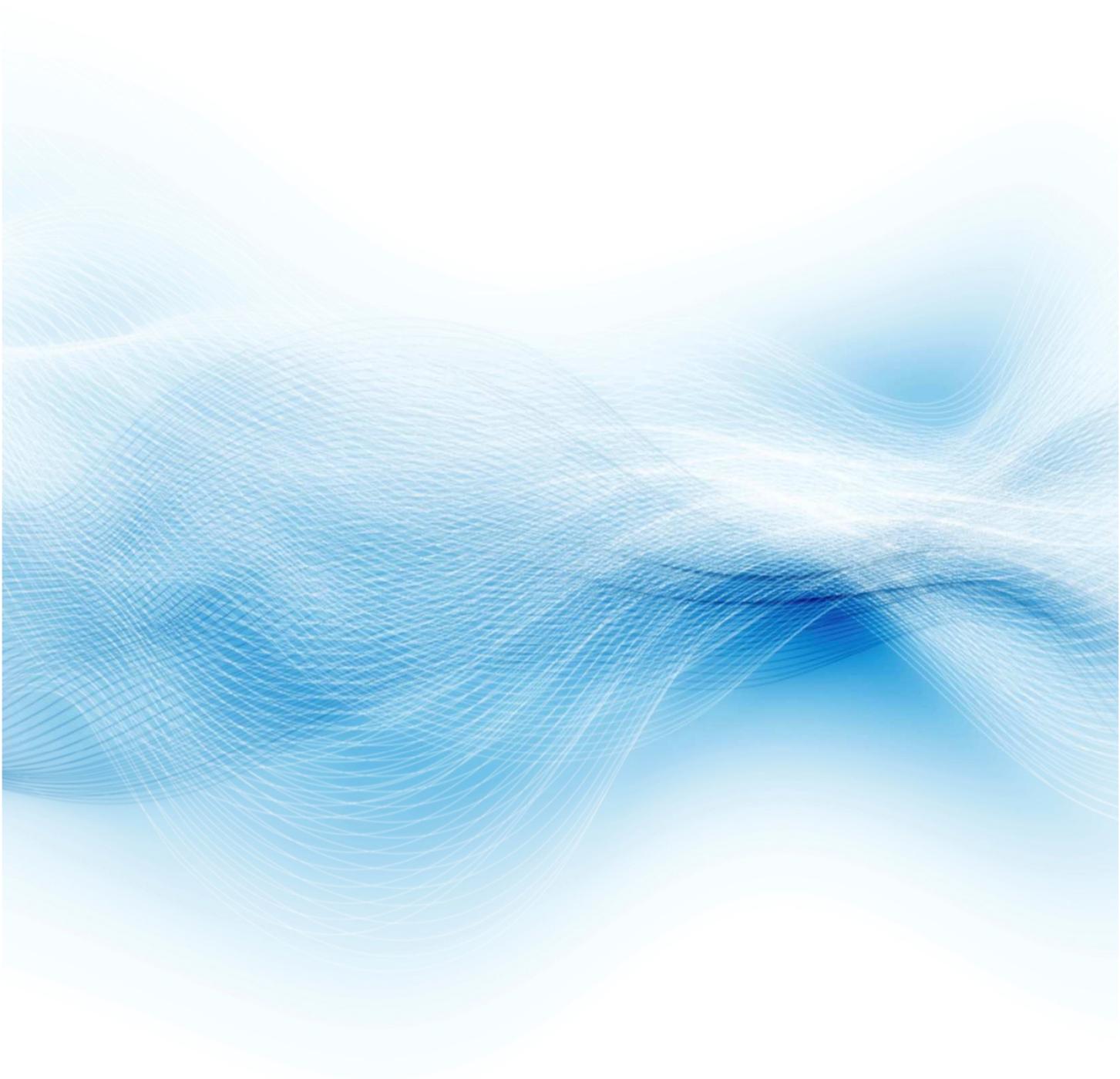
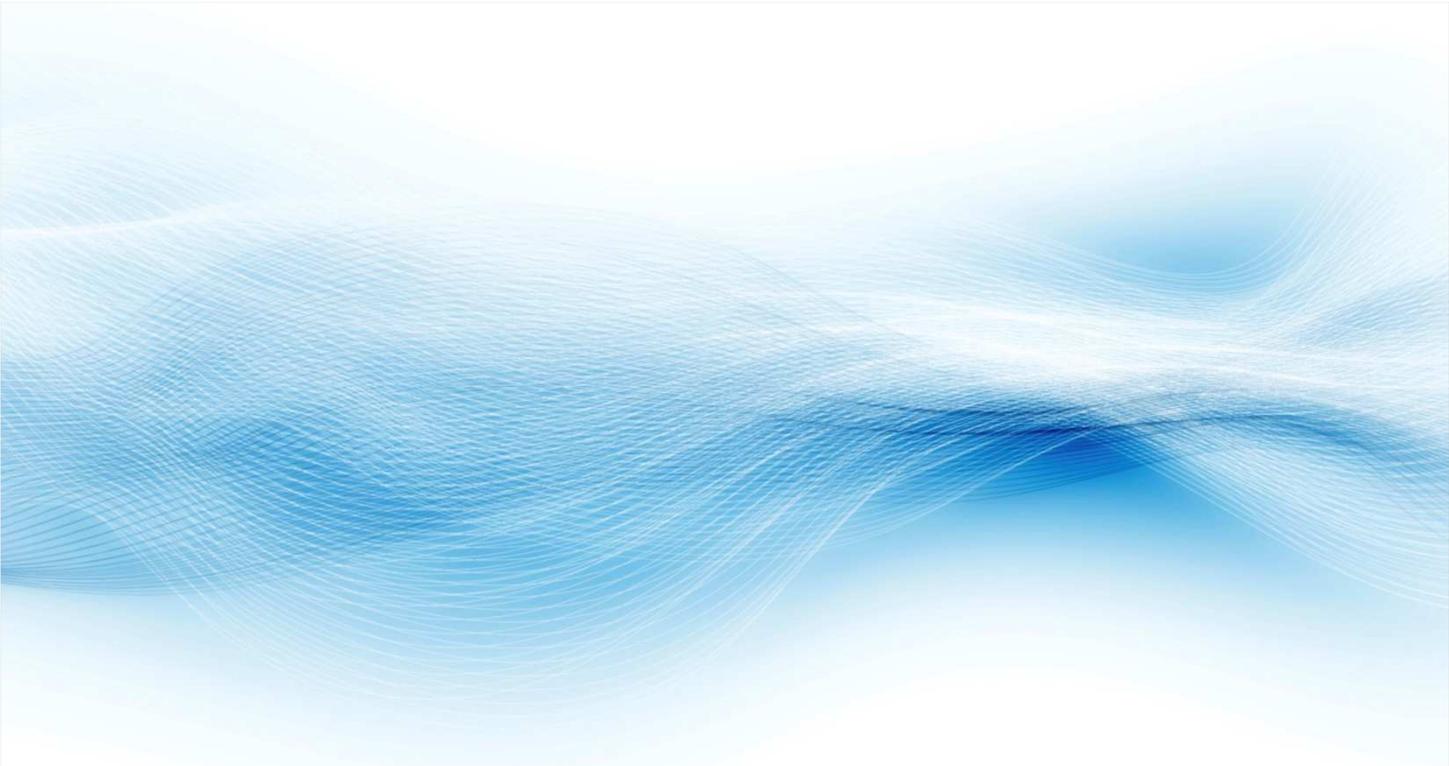




# Audit Completion Report

Ashfield District Council  
Year ending 31 March 2019





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Our reports are prepared in the context of the ‘Statement of responsibilities of auditors and audited bodies’ and the ‘Appointing Person Terms of Appointment’ issued by Public Sector Audit Appointments Limited.

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22 July 2019

Dear Members

**Audit Completion Report – Year ended 31 March 2019**

We are pleased to present our Audit Completion Report for the year ended 31 March 2019. The purpose of this document is to summarise our audit conclusions.

The scope of our work, including identified significant audit risks and other areas of management judgement, was outlined in our Audit Strategy Memorandum which we presented on 11 March 2019. We have reviewed our Audit Strategy Memorandum and concluded that the original significant audit risks and other areas of management judgement remain appropriate .

We would like to express our thanks for the assistance of your team during our audit.

If you would like to discuss any matters in more detail then please do not hesitate to contact me on 0115 964 4744.

Yours faithfully

**David Hoose**  
Mazars LLP

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VAT number: 839 8356 73

# 1. EXECUTIVE SUMMARY

## Purpose of this report and principal conclusions

The Audit Completion Report sets out the findings from our audit of Ashfield District Council ('the Council') for the year ended 31 March 2019, and forms the basis for discussion at the Audit Committee meeting on 22 July 2019.

The detailed scope of our work as your appointed auditor for 2018/19 is set out in the National Audit Office's (NAO) Code of Audit Practice. Our responsibilities and powers are derived from the Local Audit and Accountability Act 2014 and, as outlined in our Audit Strategy Memorandum, our audit has been conducted in accordance with International Standards of Auditing (UK) and means we focus on audit risks that we have assessed as resulting in a higher risk of material misstatement.

Sections 2 and 5 of this report outline the detailed findings from our work on the financial statements and our conclusion on the Council's arrangements to achieve economy, efficiency and effectiveness in its use of resources. Section 2 also includes our conclusions on the audit risks and areas of management judgement in our Audit Strategy Memorandum, which include:

### Significant Audit Risks:

- Management override of controls
- Valuation of property, plant and equipment, investment properties and assets held for sale
- Valuation of net defined benefit liability

### Key Judgement Areas:

- Debt impairment
- Provision for business rate appeals against the rating list
- Minimum revenue provision (MRP)

## Status of our audit work

We have substantially completed our work on the financial statements and Value for Money conclusion for the year ended 31 March 2019. At the time of preparing this report the following items are outstanding

- Completion of payroll testing;
- Finalisation of PPE reasonableness check
- Finalisation of our work on pensions
- Finalisation of our work on the Value for Money Conclusion
- Addressing any residual audit queries arising from our completion procedures;
- General audit file completion and review procedures;
- Final review of amended accounts; and
- Final audit Partner review.

## Our audit approach

We provided details of our intended audit approach in our Audit Strategy Memorandum in March 2019. We have not made any changes to our audit approach since we presented our Audit Strategy Memorandum.

## Materiality

We set materiality at the planning stage of the audit at £1.792 million using a benchmark of 2% of the Council's 2017/18 Gross Operating Expenditure. Our final assessment of materiality, based on the final financial statements and qualitative factors was £1.714 million. We set our trivial threshold (the level under which individual errors are not communicated to the Audit Committee), at the planning stage of the audit at £54k, and our final assessment was £51k..

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# 1. EXECUTIVE SUMMARY

## Key findings of our work

As we outline below, our work is substantially complete. Subject to the satisfactory completion of the outstanding work, at the time of issuing this report we have the following conclusions:

### Opinion on the financial statements

We anticipate issuing an unqualified opinion, without modification, on the financial statements. Our proposed audit opinion is included in the draft auditor's report in Appendix B.

### Value for Money conclusion

We anticipate concluding that the Council had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources. Our draft auditor's report, including proposed conclusion, is provided in Appendix B.

### Whole of Government Accounts (WGA)

We anticipate completing our work on your WGA submission, in line with the group instructions issued by the NAO, which has a deadline of 13 September 2019. The Authority is below the threshold requiring a detailed review of your WGA submission, and we expect to be able to provide the information required by NAO at the conclusion of our audit work, well ahead of the formal deadline.

### Wider powers

The 2014 Act requires us to give an elector, or any representative of the elector, the opportunity to question us about the accounting records of the Council and to consider any objection made to the accounts. We have received no such objections or questions from local electors.

## Misstatements and internal control recommendations

Section 3 sets out any internal control recommendations that we make.

Section 4 outlines the misstatements noted as part of our audit as at the time of issuing this report. There were a small number of audit adjustments to the accounts and no uncorrected misstatements above our trivial threshold.

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## 2. SIGNIFICANT FINDINGS

Set out below are the significant findings from our audit that include:

- our audit conclusions regarding significant risks and key areas of management judgement outlined in the Audit Strategy Memorandum;
- our comments in respect of the accounting policies and disclosures that you have adopted in the financial statements. On page 10 we have concluded that the financial statements have been prepared in accordance with the financial reporting framework and provide commentary on any significant accounting policy changes that have been made during the year; and
- any significant difficulties we experienced during the audit.

### Significant risks and key areas of management judgement

As part of our planning procedures we considered the risks of material misstatement in the Council's financial statements that required special audit consideration and reported these to you in our Audit Strategy Memorandum. Our risk assessment is a continuous process and we regularly consider whether new significant risks have arisen and how we intend to respond to these risks. No new risks have been identified since we issued our Audit Strategy Memorandum.

Significant risk	Description of the risk
Management override of controls	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.

#### How we addressed this risk

We addressed this risk by:

- Documenting our understanding of the processes and controls in place to mitigate the risks identified, and walking through those processes and controls to confirm our understanding;
- Testing the appropriateness of journal entries recorded in the general ledger and other material adjustments made in the preparation of the financial statements;
- Evaluating the business rationale for any significant transactions outside the normal course of the business;
- Understanding the oversight given by those charged with governance of management processes over fraud; and
- Considering whether the Council's accounting policies are consistent with industry standards;

#### Clarification from the Audit Strategy Memorandum

In our Audit Strategy Memorandum we also said we would:

- Review the calculation of management's material accruals, estimates and provisions for evidence of management bias;
- Sample test accruals and provisions based on established testing thresholds; and
- Review material aspects of capital expenditure on property plant and equipment to ensure it meets the relevant accounting requirements to be capitalised.

This work has been performed, with no issues arising. However, we wish to clarify that this testing was not to address this Significant Risk, they formed part of our standard audit procedures.

#### Audit conclusion

Our audit procedures have not identified any material errors or uncertainties in the financial statements, or other matters that we wish to bring to Members' attention in relation to management override of controls.

## 2. SIGNIFICANT FINDINGS (CONTINUED)

### Significant risk

Valuation of property, plant and equipment, investment properties and assets held for sale

### Description of the risk

The Council's accounts contain material balances and disclosures 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 high degree of estimation uncertainty associated with those held at valuation, we have determined there is a significant risk in this area.

### Relevant account balances

- Property, plant and equipment
- Investment properties
- Assets held for sale

### How we addressed this risk

We addressed this risk through performing the following audit work:

- Critically assessing the Council's valuers' scope of work, qualifications, objectivity and independence to carry out the required programme of revaluations;
- Considering whether the overall revaluation methodologies used by the Council's valuers are in line with industry practice, the CIPFA Code of Practice and the Council's accounting policies;
- Assessing whether valuation movements are in line with market expectations by using our own valuation expert to provide information on regional valuation trends;
- Critically assessing the treatment of the upward and downward revaluations in the Council's financial statements with regards to the requirements of the CIPFA Code of Practice;
- Critically assessing the approach that the Council adopts to ensure that assets not subject to revaluation in 2018/19 are materially correct, including considering the robustness of that approach in light of the valuation information reported by the Council's valuers; and
- Testing a sample of items of capital expenditure in 2018/19 to confirm that the additions are appropriately valued in the financial statements.

### Audit conclusion

The procedures we have undertaken have not identified any material errors or uncertainties in the financial statements, or other matters that we wish to bring to Members' attention.

## 2. SIGNIFICANT FINDINGS (CONTINUED)

### Significant risk

Valuation of net defined pension liability

### Description of the risk

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 have determined there is a significant risk in this area.

### How we addressed this risk

There has been no change in our planned audit strategy. We do however, wish to clarify our approach, which results in minor changes of how the tests performed are described versus our Audit Strategy Memorandum. We addressed this risk through performing the following audit work:

- 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
- 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.

In addition, we

- Critically assessed the competency, objectivity and independence of the Nottinghamshire Pension Fund's Actuary, Barnett Waddingham;
- Liaised 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;
- Performed 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 (note, our Audit Strategy Memorandum implied we would perform detailed tests, which was an incorrect transposition from our Audit file);

### Audit conclusion

Whilst the majority of our work on the Council's defined benefit pension liability has not identified any issues, we do wish to bring the following to Members' attention.

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.

The Council has updated the financial statements for the changes and we have yet to agree the final figures.

## 2. SIGNIFICANT FINDINGS (CONTINUED)

**Key area of management judgment**

Debt impairment

**Description of the judgment**

Uncertainty exists that, in the current economic climate, the Council's provision for the impairment of doubtful debts would be sufficient.

**How we addressed this management judgement**

We addressed this judgment through performing the following audit work:

- Reviewing the level of reported debt as at the 31 March and considering the implications for any material change;
- Ensuring that managements methodology for calculating the provision has been consistently applied and is in line with the requirements of the Code;
- Testing the collectability of both significant and a sample of other non-significant debtor balances; and
- Re-performing the basis of the calculation for the impairment of debtors.

**Audit conclusion**

Our audit procedures relating to the Council's provision for the impairment of doubtful debts have not identified any material errors or uncertainties in the financial statements, or other matters that we wish to bring to Members' attention.

**Key area of management judgment**

Provision for business rate appeals against the rating list

**Description of the judgment**

The issue of a new rating list and a change in the appeals process has created delays in appeals being notified to the Council. Consequently management need to make an assumption over the likely level of appeals that will be successful based on their rating knowledge.

**How we addressed this management judgement**

We addressed this judgment through performing the following audit work:

- Reviewing the basis of the Council's calculation of its provision by recalculating the provision, evaluating the key assumptions of the provision, vouching movements in the provision and confirming completeness of entries;
- Assessing whether the provision has been calculated and recorded in accordance with the Council's accounting policy;
- Assessing whether the amount provided at the period end is appropriate, taking into account the Council's anticipated actual liability; and
- Assessing whether the reconciliation of movements during the period and description of the nature of the provision have been adequately disclosed in the financial statements.

**Audit conclusion**

Our audit procedures relating to the Council's provision for business rate appeals have not identified any material errors or uncertainties in the financial statements, or other matters that we wish to bring to Members' attention.

## 2. SIGNIFICANT FINDINGS (CONTINUED)

### Key area of management judgment

Minimum Revenue Provision (MRP)

### Description of the judgment

Local authorities are normally required each year to set aside some of their revenues as provision for debt in respect of capital expenditure financed by borrowing or long term credit arrangements, by reference to the prior year's closing Capital Financing Requirement. The amount to be set aside each year is not prescribed although an overarching principle of prudence is expected to be adopted. This is supported by statutory guidance as to how this could be achieved and the Council is required to have regard to this in setting its MRP policy. Management judgement is therefore exercised in determining the level of its prudent provision.

### How we addressed this management judgement

We addressed this judgment through performing the following audit work:

- Reviewing the Council's MRP policy to ensure that it has been developed with regard to the statutory guidance;
- Assessing whether the provision has been calculated and recorded in accordance with the Council's policy;
- Assessing whether the amount provided for the period is appropriate, taking into account the Council's Capital Financing Requirement; and
- Confirming that any charge has been accounted for in accordance with the Code.

### Audit conclusion

Our audit procedures have not identified any material errors or uncertainties in the financial statements in relation to the Council's MRP. The only matter to bring to Members' attention is the adjustment in MRP of £1.2 million due to an error in the calculation of the policy in previous years. This has been calculated by management advisers. We have agreed to basis of the adjustment with our technical team. In year MRP is in line with the Council's policy.

## 2. SIGNIFICANT FINDINGS (CONTINUED)

### Opening balances

We have performed relevant audit procedures on the Council's opening balances. We have no observations or matters to report relating to the opening financial position as at 1 April 2018.

### Qualitative aspects of the Council's accounting practices

We have reviewed the Council's accounting policies and disclosures and concluded they comply with the requirements of the Code of Practice on Local Authority Accounting (the Code), appropriately tailored to the Council's circumstances.

Draft accounts were received from the Council in advance of the 31 May deadline and were of a good quality. This represents a significant achievement by the finance team. We received positive cooperation from the finance team throughout the course of the audit.

### Significant difficulties during the audit

During the course of the audit we did not encounter any significant difficulties and we have had the full co-operation of management and staff.

### Wider responsibilities

Our powers and responsibilities under the 2014 Act are broad and include the ability 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 powers as part of our 2018/19 audit.

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 have not received any questions or objections.

### 3. INTERNAL CONTROL RECOMMENDATIONS

The purpose of our audit is to express an opinion on the financial statements. As part of our audit we have considered the internal controls in place relevant to the preparation of the financial statements. We do this in order to design audit procedures to allow us to express an opinion on the financial statement and not for the purpose of expressing an opinion on the effectiveness of internal control, nor to identify any significant deficiencies in their design or operation.

The matters reported 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. If we had performed more extensive procedures on internal control we might have identified more deficiencies to be reported or concluded that some of the reported deficiencies need not in fact have been reported. Our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.

Our findings and recommendations are set out below. We have assigned priority rankings to each of them to reflect the importance that we consider each poses to your organisation and, hence, our recommendation in terms of the urgency of required action. In summary, the matters arising fall into the following categories:

Priority ranking	Description	Number of issues
1 (high)	In our view, there is potential for financial loss, damage to reputation or loss of information. This may have implications for the achievement of business strategic objectives. The recommendation should be taken into consideration by management immediately.	0
2 (medium)	In our view, there is a need to strengthen internal control or enhance business efficiency. The recommendations should be actioned in the near future.	1
3 (low)	In our view, internal control should be strengthened in these additional areas when practicable.	2

#### Description of deficiency

##### Bank reconciliations

Through our bank testing it was identified that the working paper to support the reconciliation of the cash figures could not be immediately reconciled. This resulted in a difference at year-end between bank accounts and ledger on the supporting working paper by £84. The Council has since identified the reconciling item but the exercise should have been completed at the year end.

##### Potential effects

Working papers which don't reconcile can cause delays.

##### Recommendation

The Council should ensure that supporting working papers agree to the bank and ledger and that reconciling items are investigated promptly.

##### Management response

Agreed.

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### 3. INTERNAL CONTROL RECOMMENDATIONS (CONT'D)

#### **Description of deficiency**

##### Related parties

Due to the local elections in May, five former Members failed to return their related party declarations.

#### **Potential effects**

Related party declarations could be incomplete.

#### **Recommendation**

Whilst there are extenuating circumstances in an election year, the Council should ensure that it has all related party returns in future years.

#### **Management response**

Agreed

### 3. INTERNAL CONTROL RECOMMENDATIONS (CONT'D)

#### Description of deficiency

##### Land registry

During our property, plant and equipment testing, we identified some land that the Council owns but that was not formally registered with the land registry.

#### Potential effects

The Council is open to disputes over unregistered land.

#### Recommendation

The Council is undertaking an exercise to register all its land with the land registry and should conclude this as soon as possible.

#### Management response

Agreed.

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## 4. SUMMARY OF MISSTATEMENTS

We set out below the misstatements identified for adjustment during the course of the audit, above the level of trivial threshold of £55k.

The first section outlines the misstatements that were identified during the course of our audit which management has assessed as not being material, either individually or in aggregate, to the financial statements and does not currently plan to adjust.

The second section outlines the misstatements that have been adjusted by management during the course of the audit.

### Unadjusted misstatements 2018/19

There are no unadjusted misstatements.

### Adjusted misstatements 2018/19

We identified the following misstatement, which exceeds our audit materiality, that management has amended. For completeness we report this in the table below:

		Before £'000	After £'000
1	Balance Sheet - Net Pension Liability	91,976	94,738
	Comprehensive Income and Expenditure Statement – Cost of Services: Service Costs	5,253	6,507
	Total re-measurements recognised in Other Comprehensive Income and Expenditure	10,041	8,539
Updated figures as a result of a revised actuarial valuation, taking into account assumptions for the McCloud judgement and actual performance of the pension fund to 31 March 2019. There are also additional consequential changes to the Pension Fund note as well as connected notes, but none of these items impact the Council's General Fund.			

### Disclosure amendments

In addition to the above numerical errors that relate directly to the primary statements or the related notes, our audit also identified a small number of errors in relation to other disclosures. These have been discussed with management who have agreed to the amendments and includes:

- Narrative Report – some minor grammatical and presentational adjustments were suggested which management agreed to adjust.
- Income from investment properties of £1,379k was shown in the cost of services in error and should be shown 'below the line' under Financing and Investment Income and Expenditure on the Comprehensive Income and Expenditure Statement
- The leases note was overstated by £227k due to the wrong number of years being used in the calculation – management have agreed to adjust this disclosure note.

## 5. VALUE FOR MONEY CONCLUSION

### Introduction

We are required to form a conclusion as to 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 Approach

Our overall approach is set out in our Audit Strategy Memorandum and involves a detailed risk assessment at the planning stage to identify whether or not a Value for Money (VFM) exists. Risk, in the context of our VFM 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. As set out in our Audit Strategy Memorandum, for the 2018/19 financial year, we have identified two significant risks to our VFM conclusion around financial resilience, and commercial investments as shown in the table below.

Our detailed findings are set out on the following page. Based on the work performed, we are satisfied that the Council's arrangements are adequate.

### Matters kept under review

Before drawing our conclusion, we have:

- Updated our risk assessment for any new or emerging issues through discussions with management and updating our review of committee reports
- Reviewed the Council's Annual Governance Statement for any significant issues
- Considered the Council's financial outturn position as presented in the financial statements.

From the work performed, no new significant VFM risks were identified and we have no matters to report.

### Our overall Value for Money conclusion

We have completed our procedures and, as set out in our draft auditor's report included at Appendix B, we intend to issue an unqualified Value for Money conclusion for the 2018/19 financial year.

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## 5. VALUE FOR MONEY CONCLUSION (CONTINUED)

### 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 Strategy Memorandum, we reported that we had identified two significant Value for Money risks. The work we carried out in relation to these significant risks is outlined below.

Risk	Work undertaken	Conclusion
<b>Financial resilience</b>		
<p>The continual pressures on local government finances are well documented and the Council has experienced a significant decrease in government grant funding since 2010/11. In response to the projected future budget deficits caused by these falling central government funding levels and increases in service demands, the Council has established a Transformation Plan focusing on modernising services, innovation and better use of technology. The Council has set a balanced budget for 2018/19, anticipating utilising reserves and achieving transformation savings. The current forecast is a small surplus for the year on the General Fund and a larger surplus on the Housing Revenue Account. The medium term financial plan (MTFP), covering the period from 2019/20 to 2023/24, forecasts a deficit of around £2 million per year, before the delivery of savings. The budget is based on a number of assumptions around inflation, business rates income and pay increases. There is a risk that the Council will not generate sufficient new income streams and deliver projected savings from transformation which are crucial in bridging the budget gap whilst meeting its strategic priorities.</p>	<p>We have critically reviewed whether the Council has:</p> <ul style="list-style-type: none"> <li>• funding reductions;</li> <li>• business rate reform;</li> <li>• fair funding;</li> <li>• salary and general inflation;</li> <li>• demand pressures;</li> <li>• restructuring costs; and</li> <li>• sensitivity analysis given the degree of variability in the above factors.</li> </ul> <p>We will review the delivery of savings in 2018/19 and progress to identify savings for 2019/20 – 2023/24 and evaluate the impact on the Council's revenue reserves.</p>	<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, modelling a potential cumulative gap of up to £4 million by 2021/22. Specifically, the MTFP details the assumptions which have been made in developing the Plan and these are reasonable. They include:</p> <ul style="list-style-type: none"> <li>• Salary and inflationary increases, including separate assumptions for utility and non utility inflation</li> <li>• Council tax</li> <li>• Business rates and levels of provision for appeals</li> <li>• Levels of Government funding including Revenue Support Grant, Business Rates Retention and New Homes Bonus</li> </ul> <p>The MTFP also highlights areas where outcomes are still unknown such as changes in national and local policy and the results of the Fair Funding review</p> <p>The projected level of reserves to 2023/24 remain to be steady with minimal deviation. The Council's aim is to not tap into reserves and use income for funding. The General Fund minimum balance is maintained at its current level and is not called upon for other purposes. The Council has delivered the target level of savings for 2018/19.</p>

## 5. VALUE FOR MONEY CONCLUSION (CONTINUED)

Risk

Work undertaken

Conclusion

The 2018/19 year end position was a £1.148 million surplus against budgets, and the Council was able to increase general fund reserves by £3.637m in year. This further strengthened the Council's already robust position with regard to reserves, taking usable reserves to £52 million overall with general fund reserves of £6 million and earmarked reserves of almost £8 million within this balance. The Council is therefore in a good position but will need to keep the emphasis on its investment decisions and income generation in order to bridge the gap in funding for future years.

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## 5. VALUE FOR MONEY CONCLUSION (CONTINUED)

Risk	Work undertaken	Conclusion
<b>Investments in commercial property</b>		
<p>The Council has identified the use of its capital and treasury activities as one way of generating new income streams. The Council spent £14.98 million on investment properties in 2017//18 with the expectation that they will generate annual rental income of over £1 million rental income. In 2018/19, the Council has purchased a further investment property for £4.33 million which is expected to generate annual rental income of £0.29 million, with plans for further expenditure of £6 million approved for the year.</p> <p>Whilst the investment decisions are projected to deliver optimised financial returns with both revenue and capital growth, the strategy presents a significant value for money risk in considering whether the Council has exposed itself to risks that it has not anticipated, including:</p> <ul style="list-style-type: none"> <li>• Poor financial forecasting;</li> <li>• Insufficient commercial expertise; and</li> <li>• Poor investment decisions due to insufficient legal and due diligence work.</li> </ul>	<p>We have critically reviewed whether the Council has:</p> <ul style="list-style-type: none"> <li>• Exposed itself to too much financial risk through its borrowing and investment decisions;</li> <li>• Ensured that it has been mindful of changes in the accounting and regulatory environment when undertaking any sensitivity analysis as part of its investment decision making process;</li> <li>• Ensured that an appropriate level of legal and due diligence work has been undertaken prior to making specific investment decisions;</li> <li>• Responded appropriately to the revised Statutory Guidance on Local Government Investments, to ensure that there is appropriate transparency to understand the exposure that the Council has as a result of its borrowing and investment decisions; and</li> <li>• Ensured that Members have sufficient expertise to understand the complex transactions that they have ultimate responsibility for approving.</li> </ul>	<p>The Capital Strategy has been presented to Council as a Policy Framework document with links to the Treasury Management Strategy, Medium Term Financial Strategy (MTFS) and the Corporate Asset Management Plan. The Capital Strategy (and specifically the Commercial Investment Strategy element of the Capital Strategy) are key drivers to secure the future financial sustainability of the Council. The Council is committed to further acquisitions of commercial properties in future years and, following two reviews by Internal Audit, it has strengthened its governance processes, specifically:</p> <ul style="list-style-type: none"> <li>• Including the risk around commercial property acquisitions in the corporate risk register</li> <li>• Committing to a performance monitoring dashboard for commercial property investments</li> <li>• Reporting to Members on an annual basis</li> <li>• Developing a training programme for Members on commercial property acquisitions, some of which has already been delivered, with plans to train new Members in the coming months.</li> <li>• Taking a cautious approach at the identification and due diligence stage to property acquisition.</li> </ul>

## 5. VALUE FOR MONEY CONCLUSION (CONTINUED)

### **Our overall Value for Money conclusion**

Our draft auditor's report included in Appendix B states that we intend to issue an unqualified Value for Money conclusion for the 2018/19 financial year.

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# APPENDIX A

## DRAFT MANAGEMENT REPRESENTATION LETTER

Mazars LLP  
Park View House  
58 The Ropewalk  
Nottingham  
NG1 5DW

22<sup>th</sup> July 2019

Dear Sirs

### **Ashfield District Council - audit for year ended 31 March 2019**

This representation letter is provided in connection with your audit of the financial statements of Ashfield District Council for the year ended 31 March 2019 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 (the Code) and applicable law.

I confirm that the following representations are made on the basis of enquiries of management and staff with relevant knowledge and experience (and, where appropriate, inspection of supporting documentation) sufficient to satisfy ourselves that I can properly make each of the following representations to you.

#### **My responsibility for the financial statements and accounting information**

I believe that I have fulfilled my responsibilities for the true and fair presentation and preparation of the financial statements in accordance with the Code and applicable law.

#### **My responsibility to provide and disclose relevant information**

I have provided you with:

- access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other material;
- additional information that you have requested from us for the purpose of the audit; and
- unrestricted access to individuals within the Council you determined it was necessary to contact in order to obtain audit evidence.

I confirm as Chief Finance Officer that I have taken all the necessary steps to make me aware of any relevant audit information and to establish that you, as auditors, are aware of this information.

As far as I am aware there is no relevant audit information of which you, as auditors, are unaware.

#### **Accounting records**

I confirm that all transactions that have a material effect on the financial statements have been recorded in the accounting records and are reflected in the financial statements. All other records and related information, including minutes of all Council and committee meetings, have been made available to you.

#### **Accounting policies**

I confirm that I have reviewed the accounting policies applied during the year in accordance with Code and International Accounting Standard 8 and consider these policies to faithfully represent the effects of transactions, other events or conditions on the Council's financial position, financial performance and cash flows.

#### **Accounting estimates, including those measured at fair value**

I confirm that any significant assumptions used by the Council (and Group) in making accounting estimates, including those measured at current or fair value, are reasonable.

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## DRAFT MANAGEMENT REPRESENTATION LETTER (CONTINUED)

### Contingencies

There are no material contingent losses including pending or potential litigation that should be accrued where:

- information presently available indicates that it is probable that an asset has been impaired or a liability had been incurred at the balance sheet date; and
- the amount of the loss can be reasonably estimated.

There are no material contingent losses that should be disclosed where, although either or both the conditions specified above are not met, there is a reasonable possibility that a loss, or a loss greater than that accrued, may have been incurred at the balance sheet date.

There are no contingent gains which should be disclosed.

All material matters, including unasserted claims, that may result in litigation against the Council have been brought to your attention. All known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to you and accounted for and disclosed in accordance with the Code and applicable law.

### Laws and regulations

I confirm that I have disclosed to you all those events of which I am aware which involve known or suspected non-compliance with laws and regulations, together with the actual or contingent consequences which may arise therefrom.

The Council (and Group) has complied with all aspects of contractual agreements that would have a material effect on the accounts in the event of non-compliance.

### Fraud and error

I acknowledge my responsibility as Chief Finance Officer for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

I have disclosed to you:

- all the results of my assessment of the risk that the financial statements may be materially misstated as a result of fraud;
- all knowledge of fraud or suspected fraud affecting the Council involving:
  - management and those charged with governance;
  - employees who have significant roles in internal control; and
  - others where fraud could have a material effect on the financial statements.

I have disclosed to you all information in relation to any allegations of fraud, or suspected fraud, affecting the Council's financial statements communicated by employees, former employees, analysts, regulators or others.

### Related party transactions

I confirm that all related party relationships, transactions and balances, have been appropriately accounted for and disclosed in accordance with the to you the requirements of the Code and applicable law.

I have disclosed identity of the Council's related parties and all related party relationships and transactions of which I am aware.

### Future commitments

I am not aware of any plans, intentions or commitments that may materially affect the carrying value or classification of assets and liabilities or give rise to additional liabilities.

### Subsequent events

I confirm all events subsequent to the date of the financial statements and for which the Code and applicable law, require adjustment or disclosure have been adjusted or disclosed.

Should further material events occur after the date of this letter which may necessitate revision of the figures included in the financial statements or inclusion of a note thereto, I will advise you accordingly.

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## DRAFT MANAGEMENT REPRESENTATION LETTER (CONTINUED)

### Going concern

To the best of my knowledge there is nothing to indicate that the Council will not continue as a going concern in the foreseeable future. The period to which I have paid particular attention in assessing the appropriateness of the going concern basis is not less than twelve months from the date of approval of the accounts.

### Unadjusted misstatements

I confirm that the effects of the uncorrected misstatements are immaterial, both individually and in aggregate, to the financial statements as a whole.

Yours faithfully

Chief Finance Officer

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# APPENDIX B

## DRAFT AUDITOR'S REPORT

### Independent auditor's report to the members of Ashfield District Council

#### Report on the financial statements

##### Opinion

We have audited the financial statements of Ashfield District Council ('the Council') for the year ended 31 March 2019, which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statements and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

In our opinion, the financial statements:

- give a true and fair view of the financial position of Ashfield District Council as at 31<sup>st</sup> March 2019 and of its expenditure and income for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

##### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities section of our report. We are independent of the Council in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applicable to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

##### Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Chief Finance Officer's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Chief Finance Officer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Council's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

##### Other information

The Chief Finance Officer is responsible for the other information. The other information comprises the Annual Governance Statement and information included in the Statement of Accounts, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

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## DRAFT AUDITOR'S REPORT (CONTINUED)

### Responsibilities of the Chief Finance Officer for the financial statements

As explained more fully in the Statement of the Chief Finance Officer's Responsibilities, the Chief Finance Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19, and for being satisfied that they give a true and fair view. The Chief Finance Officer is also responsible for such internal control as the Chief Finance Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Chief Finance Officer is required to comply with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 and prepare the financial statements on a going concern basis, unless the Council is informed of the intention for dissolution without transfer of services or function to another entity. The Chief Finance Officer is responsible for assessing each year whether or not it is appropriate for the Council to prepare its accounts on the going concern basis and disclosing, as applicable, matters related to going concern.

### Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

### Matters on which we are required to report by exception under the Code of Audit Practice

We are required by the Code of Audit Practice to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make a recommendation under section 24 of the Local Audit and Accountability Act 2014; or
- we exercise any other special powers of the auditor under sections 28, 29 or 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

### Conclusion on Ashfield District Council's arrangements for securing economy, efficiency and effectiveness in the use of resources

#### Conclusion

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, we are satisfied that, in all significant respects, Ashfield District 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.

#### Basis for conclusion

We have undertaken our review in accordance with the Code of Audit Practice issued by the Comptroller and Auditor General, having regard to the guidance on the specified criterion issued in November 2017, as to whether 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. The Comptroller and Auditor General determined this criterion as that necessary for us to consider in satisfying ourselves whether the Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

#### Responsibilities of the Council

The Council is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

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## DRAFT AUDITOR'S REPORT (CONTINUED)

### **Auditor's responsibilities for the review of arrangements for securing economy, efficiency and effectiveness in the use of resources**

We are required under section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice requires us to report to you our conclusion relating to proper arrangements. We are not required to consider, nor have we considered, whether all aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

### **Use of the audit report**

This report is made solely to the members of Ashfield District Council, as a body, in accordance with part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 44 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the members of the Council those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the members of the Council, as a body, for our audit work, for this report, or for the opinions we have formed.

### **Certificate**

We certify that we have completed the audit of Ashfield District Council in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

**David Hoose** For and on behalf of Mazars LLP

Mazars LLP  
Park View House  
58 The Ropewalk  
Nottingham  
NG1 5DW  
22 July 2019

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# APPENDIX C INDEPENDENCE

As part of our ongoing risk assessment we monitor our relationships with you to identify any new actual or perceived threats to our independence within the regulatory or professional requirements governing us as your auditors.

We can confirm that no new threats to independence have been identified since issuing the Audit Strategy Memorandum and therefore we remain independent.

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