



# Annual Audit Letter

*Year ending 31 March 2018*

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**Staffordshire Moorlands District Council**

August 2018



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# Executive Summary

### Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Staffordshire Moorlands District Council (the Council) for the year ended 31 March 2018.

This Letter is intended to provide a commentary on the results of our work to the Council and external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this Letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'. We reported the detailed findings from our audit work to the Council's Audit & Accounts Committee as those charged with governance in our Audit Findings Report on 27 July 2018.

### Our work

<b>Materiality</b>	We determined materiality for the audit of both the Council's single entity and group financial statements to be £0.662m, which is 2% of the Council's gross revenue expenditure and also 2% of the Group's gross revenue expenditure.
<b>Financial Statements opinion</b>	We gave an unqualified opinion on the Council's financial statements on 27 July 2018.
<b>Whole of Government Accounts (WGA)</b>	We completed work on the Council's consolidation return following guidance issued by the NAO.
<b>Use of statutory powers</b>	We did not identify any matters which required us to exercise our additional statutory powers.
<b>Value for Money arrangements</b>	We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources. We reflected this in our audit report to the Council on 27 July 2018.
<b>Certification of Grants</b>	We completed work on the Council's 2016-17 Housing Benefit subsidy claim. We also carry out work to certify the Council's 2017-18 Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. Our work on this claim is not yet complete and will be finalised by 30 November 2018. We will report the results of this work to the Audit & Regulatory Committee in our Annual Certification Letter.
<b>Certificate</b>	We certify that we have completed the audit of the accounts of Staffordshire Moorlands District Council in accordance with the requirements of the Code of Audit Practice.

### Respective responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the Council financial statements (section two)
- assess the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the Council financial statements, we comply with International Standards on Auditing (UK) (ISAs) and other guidance issued by the NAO.

# Audit of the Accounts

## Our audit approach

### Working with the authority

We have delivered a number of successful outcomes working alongside you:

- **An efficient audit** – we delivered an efficient audit with you in June and July, delivering the accounts before the deadline, releasing your finance team for other work.
- **Sharing our insight** – we provided regular audit committee updates covering best practice. We also shared our thought leadership reports
- **Understanding your operational health** – through the value for money conclusion we provided you with assurance on your operational effectiveness.

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff.

### Materiality

In our audit of the Council's financial statements, we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for the audit of both the Council's single entity accounts and the group accounts to be £0.622m, which is 2% of the Council's gross revenue expenditure. We used this benchmark as, in our view, users of the Council's financial statements are most interested in where the Council has spent its revenue in the year.

We set a lower threshold of £43,100, above which we reported errors to the Audit & Accounts Committee in our Audit Findings Report.

We also set a lower level of specific materiality (and appropriately adjusted reporting threshold) for senior officer remuneration disclosures due to their sensitive nature and public interest of £14,000.

### The scope of our audit

Our audit involves obtaining sufficient evidence about the amounts and disclosures in the financial statements to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error. This includes assessing whether:

- the accounting policies are appropriate, have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

Our audit approach was based on a thorough understanding of the group business and was risk based, and in particular included an evaluation of the components of the group based on a measure of materiality considering each as a percentage of total group assets and revenues to assess the significance of the component and to determine the planned audit response. From this evaluation we determined that a comprehensive audit response was required for Staffordshire Moorlands District Council component and a targeted approach was required for Ascent Housing LLP component. The same materiality was applied as the consolidation of the group had no impact upon the gross expenditure.

We also read the remainder of the Statement of Accounts and the narrative report including the annual governance statement published alongside the Statement of Accounts to check they are consistent with our understanding of the Council and with the financial statements included in the Statement of Accounts on which we gave our opinion.

We carry out our audit in accordance with ISAs (UK) and the NAO Code of Audit Practice. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach is based on a thorough understanding of the Council's business and is risk based.

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

# Audit of the Accounts

## Significant Audit Risks

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>Improper revenue recognition</b> Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. We have rebutted this risk due to nature of the revenue streams within Nuneaton and Bedworth Borough Council.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we determined that the risk of fraud arising from revenue recognition could be rebutted, because:</p> <ul style="list-style-type: none"> <li>• there is little incentive to manipulate revenue recognition.</li> <li>• opportunities to manipulate revenue recognition are very limited.</li> <li>• the culture and ethical frameworks of local authorities, including Staffordshire Moorlands District Council, mean that all forms of fraud are seen as unacceptable.</li> </ul>	<p>As noted, we did not consider this to be a significant risk for Staffordshire Moorlands District Council. Whilst not a significant risk, as part of our audit work we did undertake work on material revenue items. Our work did not identify any matters that would indicate our rebuttal was incorrect.</p>
<p><b>Management override of controls</b> Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management override of controls is present in all entities. We identified management override of controls as a risk requiring special audit consideration.</p>	<p>As part of our audit work we:</p> <ul style="list-style-type: none"> <li>• gained an understanding of the accounting estimates, judgements applied and decisions made by management and considered their reasonableness.</li> <li>• reviewed the journal entry process and the control environment around journal entries.</li> <li>• obtained a full listing of journal entries, identified and tested unusual journal entries for appropriateness.</li> <li>• evaluated the rationale for any changes in accounting policies or significant unusual transactions.</li> </ul>	<p>Our audit work has not identified any evidence of management over-ride of controls.</p> <p>We made one low level recommendation in respect of putting in place a written policy in respect to journal processing and authorisation which we will follow up upon in 2018/19.</p>

# Audit of the Accounts

## Significant Audit Risks (Continued)

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>Valuation of property, plant and equipment</b> The Council revalues its land and buildings on a 5 year rolling basis to ensure that carrying value is not materially different from fair value. This represents a significant estimate by management in the financial statements.</p> <p>We identified the valuation of land and buildings revaluations and impairments as a risk requiring special audit consideration.</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• Reviewed management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work.</li> <li>• Consideration of the competence, expertise and objectivity of any management experts used.</li> <li>• Discussions with the valuer about the basis on which the valuation is carried out and challenge of the key assumptions.</li> <li>• Review and challenge of the information used by the valuer to ensure it is robust and consistent with our understanding.</li> <li>• Testing of revaluations made during the year to ensure they are input correctly into the Council's asset register.</li> <li>• Evaluation of the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value.</li> <li>• Carried out procedures to ensure that the difference between fair value and carrying value of assets not valued in year are not materially different.</li> </ul>	<p>From the audit procedures carried out we gained sufficient assurance to conclude that the valuation of property, plant and equipment was free from material misstatement.</p>
<p><b>Valuation of pension fund net liability</b> The Council's pension fund asset and liability as reflected in its balance sheet represents a significant estimate in the financial statements.</p> <p>We identified the valuation of the pension fund net liability as a risk requiring special audit consideration.</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• Identified the controls put in place by management to ensure that the pension fund liability is not materially misstated. We also assessed whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement.</li> <li>• Evaluated the competence, expertise and objectivity of the actuary who carried out your pension fund valuation. We gained an understanding of the basis on which the valuation was carried out.</li> <li>• Undertook procedures to confirm the reasonableness of the actuarial assumptions made.</li> <li>• Tested accuracy of data provided to the actuary.</li> <li>• Checked the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary.</li> </ul>	<p>From the audit procedures carried out we have gained sufficient assurance to conclude that the valuation of the pension fund net liability is free from material misstatement.</p>

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# Audit of the Accounts

## **Audit opinion**

We gave an unqualified opinion on the Council's financial statements on 27 July 2018, in advance of the national deadline.

## **Preparation of the accounts**

The Council presented us with draft accounts in accordance with the national deadline, and provided a good set of working papers to support them. The finance team responded promptly and efficiently to our queries during the course of the audit.

## **Issues arising from the audit of the accounts**

We reported the key issues from our audit to the Council's Audit & Accounts Committee on 27 July 2018.

In addition to the significant risks identified on pages 5 and 6 one other matter we discussed with management during 2017.18 was that the Council migrated payroll information to a new IT system. We did not identify any material errors but it was noted there were some issues in migration of data causing some errors in calculations. We therefore made a low level recommendation that when transferring data to new IT systems the Council should carry out data migration testing to ensure such information has transferred over to the new system correctly and is complete which we will follow up in 2018/19.

## **Annual Governance Statement and Narrative Report**

We are required to review the Council's Annual Governance Statement and Narrative Report. It published them on its website in the Statement of Accounts in line with the national deadlines.

Both documents were prepared in line with the CIPFA Code and relevant supporting guidance. We confirmed that both documents were consistent with the financial statements prepared by the Council and with our knowledge of the Council.

## **Whole of Government Accounts (WGA)**

We carried out work on the Council's Data Collection Tool in line with instructions provided by the NAO. We issued an assurance statement which confirmed the Council was below the audit threshold for undertaking detailed testing.

## **Other statutory powers**

We also have additional powers and duties under the Act, including powers to issue a public interest report, make written recommendations, apply to the Court for a declaration that an item of account is contrary to law, and to give electors the opportunity to raise questions about the Council's accounts and to raise objections received in relation to the accounts.

We have not had to exercise any of powers in respect of the 2017-18 financial statements.

## **Certificate of closure of the audit**

We are also required to certify that we have completed the audit of the accounts of Staffordshire Moorlands District Council in accordance with the requirements of the Code of Audit Practice. We issued our certificate on 27 July 2018.

## **Certification of grants**

Since our last Annual Audit letter we have certified the Council's 2016-17 Housing Benefit subsidy claim and 2016-17.

We also carry out work to certify the Council's 2017-18 Housing Benefit subsidy claim on behalf of the Department for Work and Pensions (DWP). Our work on this claim is not yet complete and will be finalised by 30 November 2018. We will report the results of this work to the Audit & Accounts Committee in our Annual Certification Letter.

## **2016-17 Housing benefit subsidy claim**

We certified the Council's Housing Benefit subsidy claim for the financial year 2016-17 relating to subsidy claimed of £15.74 million. We reported the detailed findings from our audit work to the Council in our Certification Letter dated 10 January 2018.

This was not subject to a qualification letter and there were no amendments to the claim. We reported our findings to the DWP in our Auditor's Certificate in line with the 30 November deadline.

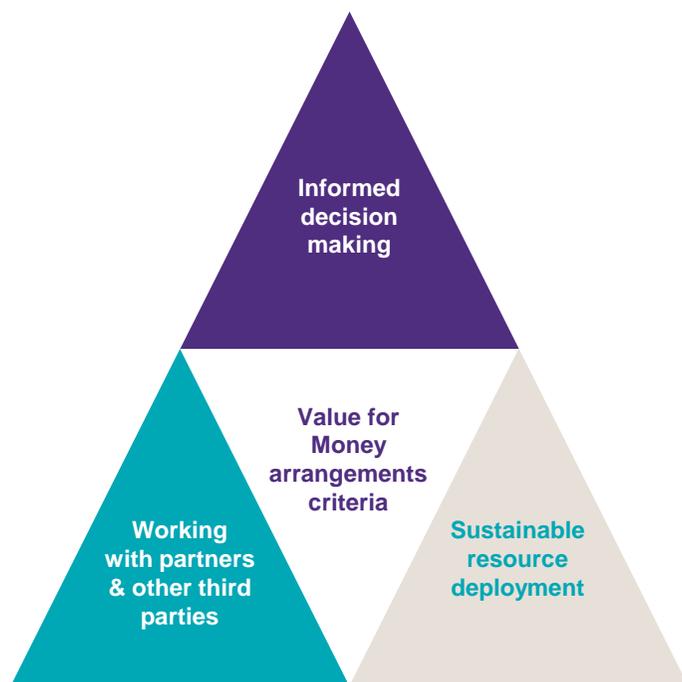
# Value for Money conclusion

## Background to our VFM approach

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in November 2017 which specified the criterion for auditors to evaluate:

*"In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people."*

This is supported by three sub-criteria, as set out below:



## Risk assessment

Our first step in carrying out our work was to perform a risk assessment and identify the key risks where we concentrated our work. Our initial risk assessment did not identify any significant risks in respect of specific areas of proper arrangements using the NAO's guidance.

We to review relevant documents and held on-going discussions with management up to the date of giving our report, and did not identify any new significant risks where we needed to perform further work.

In summary, for 2017/18 the Council set an original net Revenue budget of £10.2m, financed from £9.7m of in year revenue leaving funding of £0.5m from general reserves. The actual performance resulted in £1.4m operating surplus and therefore reserves £0.5m were not required to be drawn from.

This was the first year of the Council's 4 year Efficiency and Rationalisation programme which targets to save £3.1m by 31/3/2021 to offset the 4 year shortfall in the medium term financial plan. The in year efficiency target of £0.66m has been achieved following the implementation of various measures by the council.

## Significant difficulties in undertaking our work

We did not identify any significant difficulties in undertaking our work on your arrangements which we wish to draw to your attention.

## Significant matters discussed with management

There were no matters where no other evidence was available or matters of such significance to our conclusion or that we required written representation from management or those charged with governance.

## Overall 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 the Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.**

# A. Reports issued and fees

We confirm below our final reports issued and fees charged for the audit.

## Reports issued

Report	Date issued
Audit Plan	9 February 2018
Audit Findings Report	20 July 2018
Annual Audit Letter	August 2018

## Fees

	Planned £	Actual fees £	2016/17 fees £
Statutory Council audit	44,994	44,994	44,994
Housing Benefit Grant Certification	7,288	TBC	10,815
<b>Total fees</b>	<b>52,282</b>	<b>TBC</b>	<b>55,809</b>

The planned fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA)

## Fees for non-audit services

Service	Fees £
<b>Non-Audit related services</b>	
CFO Insights (subscription)	£5,625
PLACE Analytics (subscription)	£5,625
<b>Total fees</b>	<b>£11,250</b>

## Non-audit services

- For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The table above summarises all non-audit services which were identified.
- We have considered whether non-audit services might be perceived as a threat to our independence as the Council's auditor and have ensured that appropriate safeguards are put in place.

The above non-audit services are consistent with the Council's policy on the allotment of non-audit work to your auditor.



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