



WEALDEN DISTRICT COUNCIL

ANNUAL AUDIT LETTER

Audit for the year ended 31 March 2018

31 August 2018

EXECUTIVE SUMMARY

PURPOSE OF THE LETTER

This annual audit letter summarises the key issues arising from the work that we have carried out at Wealden District Council for the year ended 31 March 2018.

It is addressed to the Council but is also intended to communicate the key findings we have identified to key external stakeholders and members of the public.

RESPONSIBILITIES OF AUDITORS AND THE COUNCIL

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business and that public money is safeguarded and properly accounted for.

Our responsibility is to plan and carry out an audit that meets the requirements of the National Audit Office's (NAO's) Code of Audit Practice (the Code). Under the Code, we are required to report on:

- Our opinion on the Council's financial statements
- Whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

We recognise the value of your co-operation and support and would like to take this opportunity to express our appreciation for the assistance and co-operation provided during the audit.

BDO LLP

AUDIT CONCLUSIONS

FINANCIAL STATEMENTS

We issued our unmodified opinion on the financial statements on 30 July 2018.

We reported our detailed findings to the Audit and Finance Committee on 30 July 2018.

Our audit did not identify any material misstatements. The financial statements were adjusted to recognise an impairment of £620,000 on a property sold after year end. We reported two further judgemental audit differences totalling £398,000, which were not adjusted as they were not material and related to audit estimations of potential misstatements.

USE OF RESOURCES

We issued our unmodified conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources on 30 July 2018.

The Council's Medium Term Financial Strategy (MTFS) reflects further reductions in Government support and requires savings or increased revenue of £700,000 in 2018/19, £1.1 million in 2019/20, £1.35 million in 2020/21, £1.45 million in 2021/22 and £1.55 million in 2022/23. The Council currently has a number of projects in place to create additional revenue streams, including the development of a crematorium.

We are satisfied that the Council has appropriate arrangements to continue to remain financially sustainable over the period of the MTFS.

FINANCIAL STATEMENTS

OPINION	We issued our unmodified opinion on the Council's financial statements on 30 July 2018.
	This means we consider the financial statements: • Give a true and fair view of the financial position and its income and expenditure for the year • Have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting 2017/18.

SCOPE OF THE AUDIT

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

This includes an assessment of whether the accounting policies are appropriate to the Council's circumstances and have been consistently applied and adequately disclosed the reasonableness of significant accounting estimates, and the overall presentation of the financial statements.

OUR APPLICATION OF MATERIALITY

We apply the concept of materiality both in planning and performing our audit and in evaluating the effect of misstatements.

We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonably knowledgeable users that are taken on the basis of the financial statements.

The materiality for the Council financial statements as a whole was set at £1.5 million. This was determined with reference to a benchmark of gross expenditure (of which it represents 2 per cent) which we consider to be one of the principal considerations for the Council in assessing financial performance.

OUR ASSESSMENT OF RISKS OF MATERIAL MISSTATEMENT

Our audit was scoped by obtaining an understanding of the Council and its environment, including the system of internal control, and assessing the risks of material misstatement in the financial statements.

We set out below the risks that had the greatest effect on our audit strategy, the allocation of resources in the audit, and the direction of the efforts of the audit team.

FINANCIAL STATEMENTS

RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	CONCLUSION
Management override of controls	Under auditing standards, there is a presumed risk of management override of controls as management is in a unique position to manipulate accounting records to prepare fraudulent financial statements. We responded to this risk by: • Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements • Reviewing the accounting estimates for bias and evaluating whether the circumstances producing the bias, if any, represent a risk of material misstatement due to fraud • Obtaining an understanding of the business rationale for any significant transactions that are outside the normal course of business for the Council or that otherwise appear to be unusual.	No issues were identified by our review of the appropriateness of journal entries or other adjustments made to the financial statements. Our work on accounting estimates did not identify any evidence of management bias. We did not identify any significant transactions that were outside the normal course of business or that otherwise appeared unusual.

FINANCIAL STATEMENTS

RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	CONCLUSION
Revenue and expenditure recognition	Under auditing standards there is a presumption that income recognition presents a fraud risk. We also considered the risk of misstatement through the manipulation of expenditure recognition. We responded to this risk by: • Testing an increased sample of fees and charges income to underlying documentation and confirming the existence and accuracy of transactions throughout the year • Testing a sample of fees and charges receipts either side of year end, to confirm that income had been recorded in the correct period and that all income that should have been recorded at year end had been • Testing a sample of expenditure either side of year end, to confirm that expenditure had been recorded in the correct period.	We did not identify any issues in our testing of revenue from fees and charges. Our testing of expenditure either side of year end identified two omitted creditor accruals at year end, totalling £42,000, in respect of invoices received after year end for goods or services received in 2017/18. We extrapolated the misstatement over the untested population to arrive at an estimate of £85,000 for the potential value of understated creditor accruals across the population.

FINANCIAL STATEMENTS

RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	CONCLUSION
Valuation of land, buildings and investment property	Due to the significant value of the Council's property assets, and the high degree of estimation uncertainty, there is a significant risk over the valuation of land, buildings and investment properties where valuations are based on assumptions or where updated valuations have not been provided for a class of assets at the year end. We responded to this risk by: • Reviewing the instructions provided to the valuer and the valuer's skills and expertise in order to determine if we could rely on the management expert • Checking that the basis of valuation for assets valued in year was appropriate • Checking the accuracy and completeness of the source data used by the valuer • Reviewing the reasonableness of assumptions used in the valuations against indices and price movements for classes of assets, and following up on valuation movements that appeared unusual against indices • Estimating the potential movement on classes of assets that were not revalued in year.	The Council engaged an external valuer to value a sample of property assets as at 1 January 2018 and carry out a further desktop review of movements on these assets to 31 March 2018. This included valuations on £184.4 million of council dwellings valued on open market value less a social housing discount, £7 million of other land and buildings held as existing use valuations and £4.1 million of investment properties valued by reference to highest and best use market value. From our review of the instructions provided to the valuer and the valuer's reports, we were satisfied that we could rely on the management expert. We confirmed that the basis of valuation for assets valued in year was appropriate, based on the nature and use of the assets. No issues were identified from our review of the source data provided to the valuer. From our review we were satisfied that property values, including properties not revalued in the year, were not materially misstated at year end, although our comparison to benchmarking indices indicated that other land and buildings were stated at a value that was £313,000 below what we estimated as a reasonable range for the value.

FINANCIAL STATEMENTS

RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	CONCLUSION
Valuation of pension liability	There is a risk the membership data and cash flows provided to the actuary at 31 March may not be correct, or the valuation uses inappropriate assumptions to value the liability. This is a significant risk due to the higher estimation uncertainty arising from the range of assumptions available to value the pension liability. We responded to this risk by: • Agreeing the disclosures to information provided by the actuary • Reviewing the reasonableness of the assumptions used in the calculation against other local government actuaries and other observable data • Obtaining assurance from the auditor of the pension fund over the controls for providing accurate membership data to the actuary • Checking whether any significant changes in membership data had been communicated to the actuary.	The net pension liability decreased by £443,000 compared to the previous year. The majority of assumptions remained consistent between the years, other than an increase in the discount rate that reduced the liability. Our review of assumptions used to estimate the value of the pension liability concluded that they were reasonable. We used the PwC consulting actuary report for reviewing the methodology of the actuary and assessing the reasonableness of the assumptions. We obtained assurance from the pension fund auditor over the controls at the administering authority for providing accurate information on scheme members for the 2016 triennial review and information for 2017/18. There were no significant changes to staff numbers that would require additional communication with the actuary and potential amendment to the roll-forward data from the 2016 triennial valuation.

USE OF RESOURCES

CONCLUSION	We issued our unmodified conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources on 30 July 2018. This means we consider that the Council has proper arrangements to: • Ensure it took properly informed decisions • Deploy resources to achieve planned and sustainable outcomes for taxpayers and local people.
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SCOPE OF THE AUDIT

We are required to be satisfied that proper arrangements have been made to secure economy, efficiency and effectiveness in the use of resources.

As part of reaching our overall conclusion we consider the following sub criteria in our work: informed decision making, sustainable resource deployment, and working with partners and other third parties.

OUR ASSESSMENT OF SIGNIFICANT RISKS

Our audit was scoped by our cumulative knowledge brought forward from previous audits, relevant findings from work undertaken in support of our opinion on the financial statements, reports from the Council including internal audit, information disclosed or available to support the annual governance statement, and information available from the risk registers and supporting arrangements.

We set out below the risks that had the greatest effect on our audit strategy, the allocation of resources in the audit, and the direction of the efforts of the audit team.

USE OF RESOURCES

RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	CONCLUSION
Financial sustainability	The update to the MTFS to 2022/23 forecast further reductions in Government core grant funding, falling New Homes Bonus funding from 2017/18 and annual inflationary and pay award pressures. To balance the MTFS, contributions from new revenue streams are required in 2018/19 (£700,000), 2019/20 (£1.1 million), 2020/21 (£1.350 million), 2021/22 (£1.45 million) and 2022/23 (£1.55 million). The Council currently has a number of projects in place to facilitate savings and create the additional revenue required in the medium term. We identified a risk that the MTFS does not adequately take account of the investment costs and savings associated with these projects, the revenue projections are not met or that the Council does not have appropriate arrangements to monitor progress in delivering benefits from these projects against the MTFS. We responded to this risk by: - Assessing the effectiveness of the Council's arrangements for ensuring sustainable finances by reviewing current year outcomes and the Council's reserves position - Reviewing the assumptions used in the MTFS and assessing the reasonableness of the cost pressures and future income levels which have been forecast - Reviewing current and budgeted savings plans.	A deficit of £745,000 was originally budgeted for the General Fund for 2017/18. However, additional income received by directorates from grants and fees, and transfers from earmarked reserves of £2.1 million to cover additional capital expenditure, allowed the Council to report a surplus of £35,000 for the year. The Council has a healthy level of reserves, with a general fund balance of £6.5 million, an HRA balance of £5.3 million and earmarked reserves of £20.9 million at 31 March 2018. This provides headroom to act as a potential buffer against future risks and create further opportunities for one off investments. Projects to facilitate savings or create additional revenue in the medium term include development of a crematorium, income streams from the purchase of Vicarage Fields and residential property sales by Sussex Weald Homes Ltd. We are satisfied that the Council has appropriate arrangements to monitor progress in delivering these projects and the MTFS takes account of the associated investment costs. When the crematorium and Sussex Weald homes are further established, and the master planning exercise has been completed for Vicarage Fields, management will be in a better place to forecast updated revenue contributions.

APPENDIX

REPORTS ISSUED

We issued the following reports since our previous annual audit letter.

REPORT	DATE
2016/17 grant claims and certification report	January 2018
2017/18 audit plan	March 2018
2017/18 audit completion report	July 2018

FEES

We have not had to amend our planned fees.

AUDIT AREA	FINAL FEES £	PLANNED FEES £
Audit - PSAA scale fee	46,191	46,191
Housing benefits subsidy certification fee	7,923	7,923
Total audit and certification fees	54,114	54,114
Fees for audit related services:		
Pooling of housing capital receipts return	800	800
Total fees	54,914	54,914

We have not provided any other non-audit services.

FOR MORE INFORMATION:

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The matters raised in our report prepared in connection with the audit are those we believe should be brought to the attention of the organisation. They do not purport to be a complete record of all matters arising. No responsibility to any third party is accepted.

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