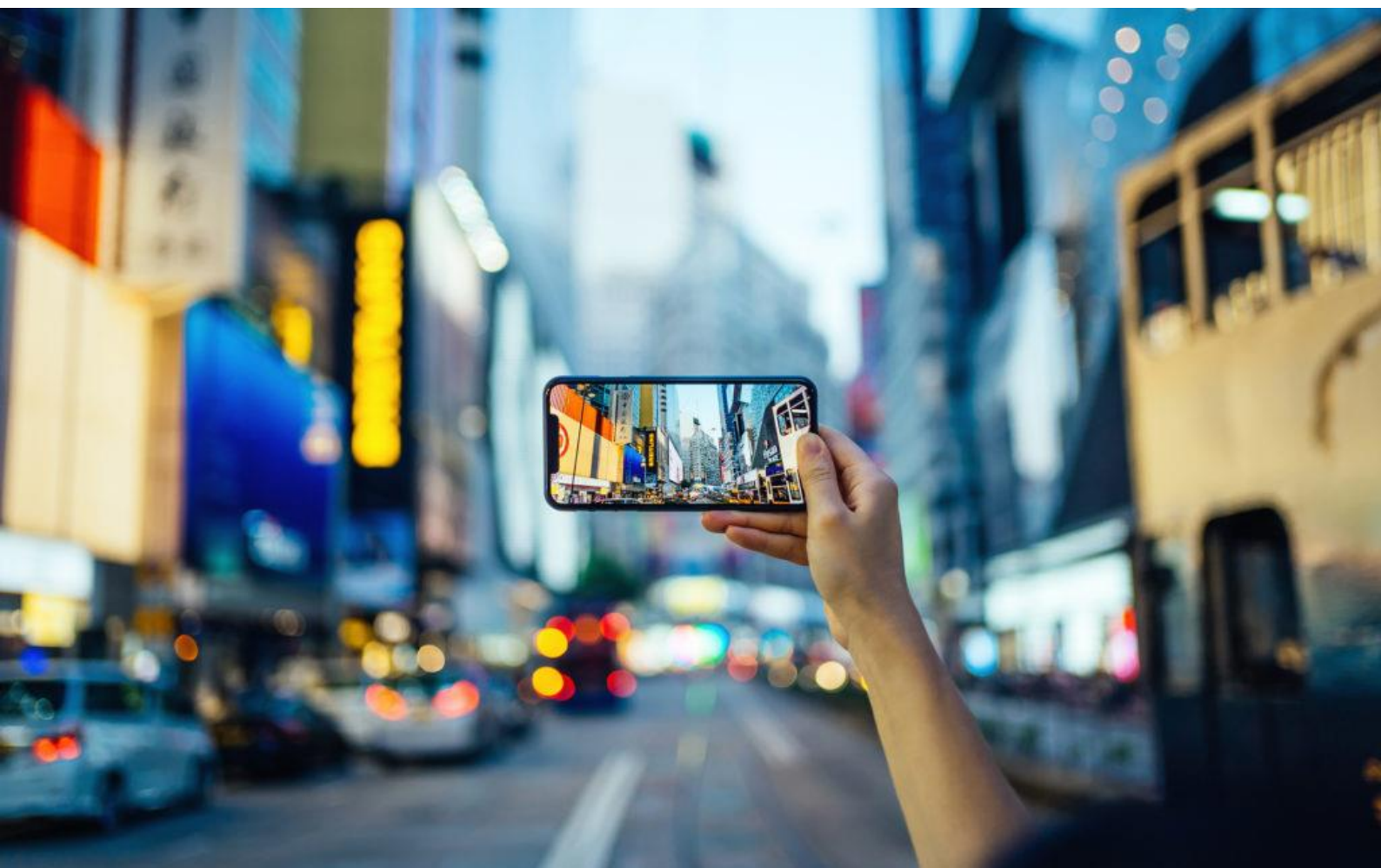


Annual Audit Letter

Bassetlaw District Council

Year ending 31 March 2020





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1. EXECUTIVE SUMMARY

Purpose of the Annual Audit Letter

Our Annual Audit Letter summarises the work we have undertaken as the auditor for Bassetlaw District Council (the Council) for the year ended 31 March 2020. Although this letter is addressed to the Council, it is designed to be read by a wider audience including members of the public and other external stakeholders.

Our responsibilities are defined by the Local Audit and Accountability Act 2014 (the 2014 Act) and the Code of Audit Practice issued by the National Audit Office (the NAO). The detailed sections of this letter provide details on those responsibilities, the work we have done to discharge them, and the key findings arising from our work. These are summarised below.

Area of responsibility	Assessment	Summary
Audit of the financial statements	● [Green]	Our auditor's report issued on 9 December 2020 included our opinion that the financial statements: <ul style="list-style-type: none">• give a true and fair view of the Council's financial position as at 31 March 2020 and of its expenditure and income for the year then ended; and• have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20
Other information published alongside the audited financial statements	● [Green]	Our auditor's report included our opinion that: <ul style="list-style-type: none">• the other information in the Statement of Accounts is consistent with the audited financial statements.
Value for money conclusion	● [Green]	Our auditor's report concluded that we are satisfied that in all significant respects, the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020
Reporting to the group auditor	● [Green]	In line with group audit instructions, issued by the NAO on 4 th November 2020, we reported to the group auditor in line with the requirements applicable to the Council's Whole of Government Accounts return.
Statutory reporting	● [Green]	Our auditor's report confirmed that we did not use our powers under s24 of the 2014 Act to issue a report in the public interest or to make written recommendations to the Council.

2. AUDIT OF THE FINANCIAL STATEMENTS

Opinion on the financial statements

Unqualified

The scope of our audit and the results of our work

The purpose of our audit is to provide reasonable assurance to users that the financial statements are free from material error. We do this by expressing an opinion on whether the statements are prepared, in all material respects, in line with the financial reporting framework applicable to the Council and whether they give a true and fair view of the Council's financial position as at 31 March 2020 and of its financial performance for the year then ended.

Our audit was conducted in accordance with the requirements of the Code of Audit Practice issued by the National Audit Office and International Standards on Auditing. These require us to consider whether:

- the accounting policies are appropriate to the Council's circumstances and have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management in the preparation of the financial statements are reasonable; and
- the overall presentation of the financial statements provides a true and fair view.

Our auditor's report, stated that in our view, the financial statements give a true and fair view of the Council's financial position as at 31 March 2020 and of its financial performance for the year then ended.

Our auditor's report was modified to include an emphasis of matters paragraph, drawing attention to the financial statement disclosure explaining that Covid19 had contributed to 'material valuation uncertainty' in the valuation of the Council's land & buildings and in the Council's share of Nottinghamshire Pension Fund's property assets.



2. AUDIT OF THE FINANCIAL STATEMENTS

Our approach to materiality

We apply the concept of materiality when planning and performing our audit, and when evaluating the effect of misstatements identified as part of our work. We consider the concept of materiality at numerous stages throughout the audit process, in particular when determining the nature, timing and extent of our audit procedures, and when evaluating the effect of uncorrected misstatements. An item is considered material if its misstatement or omission could reasonably be expected to influence the economic decisions of users of the financial statements.

Judgements about materiality are made in the light of surrounding circumstances and are affected by both qualitative and quantitative factors. We set materiality for the financial statements as a whole (financial statement materiality) and set a lower level of materiality for specific items of account (specific materiality) due to the nature of these items or because they attract public interest. We also set a threshold for reporting identified misstatements to the Audit and Risk Scrutiny Committee. We call this our trivial threshold.

The table below provides details of the materiality levels applied in the audit of the financial statements for the year ended 31 March 2020:

Financial statement materiality	Our financial statement materiality is based on 2% of Gross Operating Expenditure.	£2.1m
Trivial threshold	Our trivial threshold is based on 3% of financial statement materiality.	£64k
Specific materiality	We have applied a lower level of materiality to the following areas of the accounts: <ul style="list-style-type: none">• Senior Officer Remuneration• Termination payments• Members Allowances• External Audit Fee	£5k £34k £50k £7k

2. AUDIT OF THE FINANCIAL STATEMENTS

Our response to significant audit risks

As part of our continuous planning procedures we considered whether there were risks of material misstatement in the Council's financial statements that required special audit consideration. We reported significant risks identified at the planning stage to the Audit & Risk Scrutiny Committee within our Audit Strategy Memorandum and provided details of how we responded to those risks in our Audit Completion Report. The table below outlines the identified significant risks, the work we carried out on those risks and our conclusions.

Identified significant risk	Our response	Our findings and conclusions
<p>Management override of controls</p> <p>In all entities, management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Because of the unpredictable way in which such override could occur, we consider there to be a risk of material misstatement due to fraud and thus a significant risk on all audits</p>	<p>We addressed this risk through performing audit work over accounting estimates and financial journal entries.</p>	<p>Our audit procedures did not identify any material errors or uncertainties in the financial statements, or other matters that we wish to bring to Members' attention.</p>
<p>Valuation of Property, Plant and Equipment and Investment Properties</p> <p>The Council's accounts contain material balances and disclosures relating to its holding of Property, Plant and Equipment, and Investment Properties with the majority of these assets required to be carried at valuation.</p>	<p>We performed a range of audit tests, including, but not limited to:</p> <ul style="list-style-type: none"> • Reviewing the valuer's qualifications, objectivity and independence to carry out the required programme of revaluations. • Testing a sample of valuations to ensure the correct methodology had been applied and were supported by appropriate evidence. • Considering the impact of assets not revalued in 2019/20 to ensure these remained materially correct at the balance sheet date. 	<p>The Council's valuer declared that the valuation of the Council's property assets were subject to 'material valuation uncertainty' as a result of Covid19 and this was disclosed in Note 4 of the financial statements and referred to in the 'emphasis of matter' paragraph in our audit report.</p> <p>A 'material valuation uncertainty' declaration does not mean that the valuation cannot be relied upon, only that, because of the extraordinary circumstances arising from Covid19, less certainty can be attached to the valuation.</p> <p>The procedures we have undertaken to date have highlighted certain material errors or uncertainties in the financial statements.</p>

2. AUDIT OF THE FINANCIAL STATEMENTS

Our response to significant audit risks

Identified significant risk	Our response	Our findings and conclusions
<p>Valuation of the Net Pension Liability</p> <p>The financial statements contain material pension entries in respect of retirement benefits. The calculation of these pension figures, both assets and liabilities, can be subject to significant volatility and includes estimates based upon a complex interaction of actuarial assumptions. This results in an increased risk of material misstatement.</p>	<p>We performed a range of audit tests, including, but not limited to:</p> <ul style="list-style-type: none"> • Liaising with the auditor of the Nottinghamshire Pension Fund to obtain direct assurance over the controls surrounding membership, contributions and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements. • 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. • critically assessed the competency, objectivity and independence of the Nottinghamshire Pension Fund's Actuary, Barnet Waddingham. 	<p>'Material valuation uncertainty' was disclosed on the Pension Fund's property assets. As the Council's share of those assets in its own balance sheet is material, the Council has disclosed this in Note 4 of the financial statements and we have reflected this in the 'emphasis of matters' paragraph in our Audit Report.</p>



2. AUDIT OF THE FINANCIAL STATEMENTS

Internal control recommendations

As part of our audit we considered the internal controls in place that are relevant to the preparation of the financial statements. We did this to design audit procedures that allow us to express our opinion on the financial statements, but this did not extend to us expressing an opinion on the effectiveness of internal controls. We identified the following deficiencies in internal control as part of our audit.

Description of deficiency	<p>Controls in place in regard to the completeness of valuation information</p> <p>During our testing we experienced difficulty in obtaining supporting information relating to a number of the asset valuations undertaken. These were resolved through discussion with the Council's internal valuer, however our expectation is that supporting information relating to asset values will be readily available and this was not the case.</p>
Potential effects	Delays in completing the audit work and issuing our audit opinion
Recommendation	Information supporting all asset valuations should be held by the Council and readily available.
Management response	Accepted - The majority of the valuer's documents are paper based and have been difficult to obtain due to remote

Description of deficiency	<p>Indexation of revalued and non-revalued assets</p> <p>It was noted throughout the testing of revalued and non-revalued assets that the council had not undertaken work on indexation to estimate the movement in value from the last revaluation date of the asset to 31/03/2020.</p>
Potential effects	There was potential for a financial error. It is however recognised that the indexation information required to make the required adjustment is not available until after the end of the financial year.
Recommendation	We recommend that valuations which are not conducted at the year end are appropriately indexed up to the relevant year end value.
Management response	Accepted - A review of all asset valuations will be undertaken by the valuer as at 31 March each year to ensure there are no significant variations.



2. AUDIT OF THE FINANCIAL STATEMENTS

Internal control recommendations (continued)

Description of deficiency	<p>Controls in place in regard to the calculation of depreciation</p> <p>During our testing we concluded that the depreciation charge in year on assets was calculated based on the net book value (NBV) brought forward and remaining economic life rather than the straight line using the revised cost and revised UEL provided by the valuer.</p> <p>Furthermore, the depreciation had been calculated using a different method to that stated within the accounting policies. The Council's Real Asset Management system calculated depreciation on a reducing balance basis based on the remaining useful life, whereas the Council's policy is straight line depreciation over the useful economic life (UEL).</p> <p>This has highlighted that the Council's Real Asset Management system (RAM) was not being updated to reflect the current UEL and is incorrectly set up to calculate the depreciation on assets in line with the accounting policy. After further investigation by the Council, it was identified that this fault had occurred over the past three financial periods.</p> <p>It was also noted that the 2019/20 depreciation charge was written-off as part of the revaluation adjustments for the valuation on 1 April 2019. This means that, even though the valuation was on the first day of the financial year, that these assets had not been accurately depreciated for the 12 months in 2019/20.</p>
Potential effects	Risk of error in relation to the calculations and disclosures made.
Recommendation	Management should review and strengthen its controls relating to the calculation of depreciation.
Management response	Accepted - all the points above have been noted and a full review of the depreciation process is being undertaken. All assets will have re-lives updated annually and this will then correctly calculate depreciation on a straight line basis, in accordance with our policy.



2. AUDIT OF THE FINANCIAL STATEMENTS

Internal control recommendations (continued)

Description of deficiency	<p>Controls in place in regard to the accuracy of remuneration information</p> <p>During our testing we identified that the pay banding for remuneration bands £65,000 - £69,999 and £70,000 - £74,999 were incorrectly disclosed.</p>
Potential effects	Risk of error in relation to the disclosure made.
Recommendation	Management should review and strengthen its controls relating to the preparation of the remuneration note.
Management response	Accepted - Additional control checks will be put in place for future years.
Description of deficiency	<p>Controls in place in regard to the preparation of the leases note</p> <p>During our testing we concluded there were classification issues relating to the preparation of the leases note. Commitments for cancellable leases/contracts had been incorrectly included. Some of the lease contracts had ended and the tenants are now on rolling contracts with 1 or 3 month notice periods, therefore it is incorrect to include this income within the note as it is not committed.</p>
Potential effects	Risk of error in relation to the disclosure made.
Recommendation	Management should review and strengthen its controls relating to the preparation of the leases note.
Management response	Accepted - Additional control checks will be put in place for future years.
Description of deficiency	<p>Controls in place in regard to the preparation of the provisions note</p> <p>The Business Rate provision was not accurately presented within the unaudited financial statements as it incorrectly reflected 100% of the appeals value rather than the Council's proportion.</p>
Potential effects	Risk of error in relation to the disclosure made.
Recommendation	Management should review and strengthen its controls relating to the preparation of the provisions note.
Management response	Accepted - Accepted - Additional control checks will be put in place for future years.



2. AUDIT OF THE FINANCIAL STATEMENTS

Internal control recommendations – outstanding prior year deficiencies

Description of deficiency	<p>Council Dwelling Valuation and Indexation</p> <p>The Council Dwellings valuation was undertaken as at 31 December 2018, however the indexation from December to March 2019 was not recognised in the unaudited statement of accounts, resulting in a £12.9m adjustment.</p>
Potential effects	<p>There was potential for a financial error. It is however recognised that the indexation information required to make the required adjustment is not available until after the end of the financial year.</p>
Recommendation	<p>We recommend that valuations which are not conducted at the year end are appropriately indexed up to the relevant year end value.</p>
Management response 2018/29	<p>In future years we are looking to carry out valuations without using indexation, which should address the issue.</p>
Position and recommendation for 2019/20	<p>It was noted throughout the testing of council dwelling valuations that the council had not undertaken work on indexation to estimate the value as at 31/03/2020. Therefore the value shown within the unaudited accounts reflected the value as at 01/04/2019 (date of valuation). The council dwellings value appeared materially wrong and a £15.3m adjustment has been proposed and agreed by the Council. We are reiterating our recommendation that valuations which are not conducted at the year end are appropriately indexed up to the relevant year end value.</p>
Management response for 2019/20	<p>Accepted - The valuation process will be reviewed thoroughly, and the valuations at 31 March will be reviewed and any significant variations will be adjusted in the accounts.</p>



3. VALUE FOR MONEY CONCLUSION

Value for money conclusion

Unqualified

Our audit approach

We are required to consider whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The NAO issues guidance to auditors that underpins the work we are required to carry out in order to form our conclusion, and sets out the criterion and sub-criteria that we are required to consider.

The overall criterion is that, 'in all significant respects, the Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.' To assist auditors in reaching a conclusion on this overall criterion, the following sub-criteria are set out by the NAO:

- informed decision making;
- sustainable resource deployment; and
- working with partners and other third parties.

Significant audit risks

The NAO's guidance requires us to carry out work to identify whether or not a risk to our conclusion exists. Risk, in the context of our 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.

When we perform our work, we consider whether there are any areas requiring additional audit attention as a "Significant Audit Risk", which we report to the Audit Committee prior to finalising our conclusion. For 2019/20, we did not identify any significant audit risks.

Overall Conclusion

Our auditor's report stated that that, in all significant respects, the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31st March 2020.



4. OTHER REPORTING RESPONSIBILITIES

Exercise of statutory reporting powers	No matters to report
Other information published alongside the audited financial statements	Consistent

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

Matters on which we report by exception

The 2014 Act provides us with specific powers where matters come to our attention that, in our judgement, require reporting action to be taken. We have the power to:

- issue a report in the public interest;
- make statutory recommendations that must be considered and responded to publicly;
- apply to the court for a declaration that an item of account is contrary to law; and
- issue an advisory notice under schedule 8 of the 2014 Act.

We have not exercised any of these statutory reporting powers.

The 2014 Act also gives rights to local electors and other parties, such as the right to ask questions of the auditor and the right to make an objection to an item of account. We did not receive any such objections or questions.

Reporting to the NAO in respect of Whole of Government Accounts consolidation data

The National Audit Office, as group auditor, requires us to complete a Whole of Government Accounts Assurance Statement in respect of financial consolidation data produced by the Council. We submitted this information to the NAO on 09 December 2020.

Other information published alongside the financial statements

The Code of Audit Practice requires us to consider whether information published alongside the financial statements is consistent with those statements and our knowledge and understanding of the Council. In our opinion, the other information in the Statement of Accounts is consistent with the audited financial statements.



5. OUR FEES

Fees for work as the Council's auditor

We reported our proposed fees for the delivery of our work in the Audit Strategy Memorandum.

Having completed our work for the 2019/20 financial year, we can confirm that our final fees are as follows:

Area of work	2019/20 proposed fee	2019/20 final fee
Delivery of audit work under the NAO Code of Audit Practice	£44,063	
Fee Variations*:		
• Additional Testing on Property, Plant & Equipment and Defined Benefit Pensions Schemes		£7,067
• Additional costs associated with 2019/20, including, but not limited to:		£5,032
• Impact of 'Material Valuation Uncertainty' in Council's Assets and its share of Pension Fund Assets		
• Updating audit risk assessments, including the value for money conclusion		
• Additional considerations of estimation uncertainty in going concern,		
• Changes impacting pension liabilities through McCloud & Goodwin		
Final audit fee		£56,162
Assurance**:		
• Pooling of Housing Capital Receipts Return	£3,000	
Other non-Code work	Nil	Nil

*Fee variations subject to confirmation from PSAA.

**Work is ongoing

Fees for other work

We confirm that we have not undertaken any other non-audit services for the Council in the year.



6. FORWARD LOOK: AUDIT CHANGES 2020/21

Changes to the Code of Audit Practice

The Code of Audit Practice (the Audit Code), issued by the Comptroller and Auditor General, prescribes the way we carry out our responsibilities as your auditors. On 1st April 2020 a new Code came in to force and will apply to our work from 2020/21 onwards.

The new Audit Code continues to apply the requirements of International Standards on Auditing (ISAs) to our audit of the financial statements. While there are changes to the ISAs that are effective from 2020/21 the Audit Code has not introduced any changes to the scope of our audit of the financial statements. We will continue to give our opinion on the financial statements in our independent auditor's report.

There are however significant changes to the work on value for money arrangements, and the way we report the outcomes of our work to you.

The auditor's work on value for money arrangements

From 2020/21 we are still required to satisfy ourselves that you have made proper arrangements for securing the economy, efficiency and effectiveness in your use of resources, however unlike under the 2015 Audit Code, we will no longer report in the form of a conclusion on arrangements. Instead, where our work identifies significant weaknesses in arrangements, we are required to report those weaknesses to you, along with the actions that need to be taken to address those weaknesses.

Our work will focus on three criteria specified in the revised Audit Code:

- Financial sustainability: how the body plans and manages its resources to ensure it can continue to deliver its services;
- Governance: how the body ensures that it makes informed decisions and properly manages its risks; and
- Improving economy, efficiency and effectiveness: how the body uses information about its costs and performance to improve the way it manages and delivers its services.

Under the new Audit Code, we will be expected to report and make recommendations as soon as we identify a significant weakness in arrangements, as opposed to reporting our conclusion on arrangements at the end of the audit cycle as has previously been the case.

Reporting the results of the auditor's work

We currently issue you with an Annual Audit Letter which provides a summary of our work across all aspects of our audit. From 2020/21 the Annual Audit Letter will be replaced by the Auditor's Annual Report. This will continue to provide a summary of our work over the year of audit but will also include a detailed commentary on your arrangements in place to achieve economy, efficiency and effectiveness. This commentary replaces the conclusion on arrangements that was previously provided and will include details of any significant weakness identified and reported to you, follow up of any previous recommendations made, and the our view as to whether recommendations have been implemented satisfactorily.

The new Audit Code will result in additional officer time and auditor time and fees.



6. FORWARD LOOK: AUDIT CHANGES 2020/21

Redmond Review

In September 2020, Sir Tony Redmond published the findings of his independent review into the oversight of local audit and the transparency of local authority financial reporting. The report makes several recommendations that, if implemented, could affect both the financial statements that local authorities are required to prepare and the work that we as auditors are required to do.

The report and recommendations are wide-ranging, and includes:

- the creation of the Office of Local Audit and Regulation (OLAR), be created to manage, oversee and regulate local audit;
- reviewing reporting deadlines;
- reviewing governance arrangements in local authorities, including the membership of the Audit Committee; and
- increasing transparency and reducing the complexity of local authority financial statements.

The recommendations and findings will now be considered by the Ministry of Housing, Communities and Local Government and we look forward to working with all stakeholders to implement changes to ensure the development and sustainability of local audit.

The full report is available here: <https://www.gov.uk/government/publications/local-authority-financial-reporting-and-external-audit-independent-review>



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