

# The Annual Audit Letter for Doncaster Metropolitan Borough Council

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Year ended 31 March 2019

21 August 2019



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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 Doncaster Metropolitan Borough Council (the Council) and its subsidiary (the group) for the year ended 31 March 2019.

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 Committee as those charged with governance in our Audit Findings Report on 24 July 2019.

## Our work

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<b>Materiality</b>	We determined materiality for the audit of the Council's financial statements to be £12,000,000 (Group £12,075,000), which is 1.5% of the Council's (and Group's) gross revenue expenditure.
<b>Financial Statements opinion</b>	We gave an unqualified opinion on the Council and Group's financial statements on 29 July 2019.
<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.

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## 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 and group's 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 and group's financial statements, we comply with International Standards on Auditing (UK) (ISAs) and other guidance issued by the NAO.

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# Executive Summary

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<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 29 July 2019.
<b>Certification of Grants</b>	We also carry out work to certify the Council's 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 2019. We will report the results of this work to the Audit Committee separately.
<b>Certificate</b>	We certified that we have completed the audit of the financial statements of Doncaster Metropolitan Borough Council in accordance with the requirements of the Code of Audit Practice on 19 August 2019.

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## Working with the Council

In our first year of audit at Doncaster Metropolitan Borough Council, we believe we have developed professional working relationships with you and your officers and have delivered a number of positive outcomes, including:

- regular liaison with senior finance managers and members of the Audit Committee to understand the issues facing the Council
- an efficient audit - we delivered an efficient audit with you in June and July ahead of the local government target of 31 July 2019
- understanding your operational health – through the value for money conclusion we provided you with assurance on your operational effectiveness

- sharing our insight – we provided regular Audit Committee updates covering best practice. We also shared our thought leadership reports
- providing training – we provided your teams with training on financial statements and annual reporting
- supporting development – we provided a workshop for members of the Audit Committee on the roles and responsibilities of audit committees including governance issues, accounting developments and value for money arrangements.

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

**Grant Thornton UK LLP**  
August 2019

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# Audit of the Financial Statements

## Our audit approach

### Materiality

In our audit of the Council and Group'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 the group financial statements to be £12,075,000, which is 1.5% of the group's gross revenue expenditure. We determined materiality for the audit of the Council's financial statements to be £12,000,000, which is again 1.5% of the Council's gross revenue expenditure. We used this benchmark as, in our view, users of the group and Council's financial statements are most interested in where the group and Council has spent its revenue in the year.

We also set a lower level of specific materiality for senior officer remuneration.

We set a lower threshold of £600,000 (Group £604,000), above which we reported errors to the Audit Committee in our Audit Findings Report.

### 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
- the overall presentation of the financial statements gives a true and fair view.

We also read the remainder of the financial statements, the narrative report and annual governance statement published alongside the financial statements to check it is consistent with our understanding of the Council and with the financial statements 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 was 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 Financial Statements

## 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>Management over-ride of controls</b></p> <p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Authority faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>We identified management over-ride of controls as a risk requiring special audit consideration.</p>	<p>We have:</p> <ul style="list-style-type: none"><li>• evaluated the design effectiveness of management controls over journals</li><li>• analysed the journals listing and determined the criteria for selecting high risk unusual journals</li><li>• tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration</li><li>• gained an understanding of accounting estimates and critical judgements applied and made by management and considered their reasonableness with regard to corroborative evidence</li><li>• evaluated the rationale for any significant changes in accounting policies, estimates or significant unusual transactions.</li></ul>	<p>There were no issues arising from our work which we needed to bring to your attention.</p>

# Audit of the Financial Statements

## Significant Audit Risks continued

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>Valuation of land and buildings (rolling revaluation) including the Council's 3 PFI schemes in the first year of audit</b></p> <p>The Authority revalues its land and buildings on a rolling five-yearly basis. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (over £1 billion) and the sensitivity of this estimate to changes in key assumptions. Additionally, management will need to ensure the carrying value in the Authority financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date.</p> <p>We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.</p>	<p>We have:</p> <ul style="list-style-type: none"> <li>evaluated 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>evaluated the competence, capabilities and objectivity of the valuation experts</li> <li>discussed with the valuers the basis on which the valuation was carried out</li> <li>challenged the information and assumptions used by the valuers to assess completeness and consistency with our understanding</li> <li>tested revaluations made during the year to see if they had been input correctly into the Authority's asset register</li> <li>considered how management has confirmed assets valued at 1 April 2018 have not significantly changed in value by the year end, 31 March 2019</li> <li>evaluated 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 at year end</li> <li>reviewed the Authority's 3 PFI schemes to consider the appropriateness of the accounting entries.</li> </ul>	<p>Our audit work did not identify any issues except for:</p> <ul style="list-style-type: none"> <li>Schools and Children's Centres had been valued as at 1st April 2018 and then again as at 31 March 2019. No depreciation had been charged on these assets for 2018/19 and the net cost of services was consequently understated and the revaluation reserve overstated by £5.7m. Management amended the accounts for this error</li> <li>The valuation of the CAST Theatre was previously undertaken in 2013 and prior to a 23 year lease being granted at a peppercorn rent. The current year valuation recognised the Theatre is subject to a lease at a peppercorn rent and has resulted in a downward revaluation of £17.5m reflecting the leasehold nature of the facility. The Theatre should properly have been valued on a leasehold basis in 2013, at which time, the impairment resulting in the downward revaluation should have been recorded in the 2013/14 financial statements. To correctly account for this impairment, a Prior Period Adjustment was required impacting on the Authority's opening balances. Management amended the accounts for this error</li> <li>Council Dwellings were revalued as at 1st April 2018 using the Beacon methodology. The District Valuer Services (DVS) confirmed there was no impairment in Beacon values to 31 March 2019. DVS initially did not provide an indication of whether Beacon values had increased in value. Further correspondence with DVS indicated Beacon Values had increased between 0% and 2%. The Council considered the midpoint, 1%, as an appropriate increase which equated to £6.4m. Management has adjusted the accounts for this error and also included a disclosure note in the financial statements to explain the increase</li> <li>Capital additions to Council housing totalled £22m for 2018/19 of which the Council had impaired £6m as adding no value. Following audit work, management undertook a further review of capital additions which confirmed an additional impairment to the CIES was required of £14.5m. Management amended the accounts for this error.</li> </ul>

# Audit of the Financial Statements

## Significant Audit Risks continued

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>Valuation of the pension fund net liability</b></p> <p>The pension fund net liability, as reflected in the Authority balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements. The pension fund net liability is considered a significant estimate due to the size of the numbers involved and the sensitivity of the estimate to changes in key assumptions.</p> <p>We therefore identified valuation of the Authority's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.</p>	<p>We have:</p> <ul style="list-style-type: none"> <li>• updated our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated and evaluated the design of the associated controls</li> <li>• evaluated the instructions issued by management to their management expert for this estimate and the scope of the actuary's work</li> <li>• assessed the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation</li> <li>• assessed the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability</li> <li>• tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary</li> <li>• undertaken procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary PwC (as auditor's expert) and performing additional procedures including:             <ul style="list-style-type: none"> <li>○ review of the scope of the actuary's work</li> <li>○ review of the source data provided to the actuary to confirm its validity / completeness</li> <li>○ performed checks on accounting policy disclosures in relation to IAS 19.</li> </ul> </li> </ul>	<p>Our audit work identified that the Council used the figures for its pension fund net liability of £457.1m, issued by its actuary in April 2019. The figures provided by the actuary were based on asset valuations as at 28 February 2019 and projected to 31 March 2019.</p> <p>Following audit work, we asked the Council to obtain an updated asset valuation as at 31 March 2019 to identify any material difference in pension fund asset values between the projected figures used by the actuary for the last month of the year and the actual position at the year end. The Council's actuary confirmed the difference between the estimate of asset values at 31 March 2019 based on a projection for the final month of the year, and the actual outturn was not material.</p> <p>The Council requested updated reports from its actuary to take into account the impact on the Council's pension numbers as a result of the McCloud judgement. The revised reports resulted in an increase in the Authority's pension fund liability of £14.5m, which was adjusted in the final accounts approved on 24 July 2019.</p> <p>Our audit work did not identify any other issues.</p>



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# Audit of the Financial Statements

## **Audit opinion**

We gave an unqualified opinion on the Council and Group's financial statements on 29 July 2019.

## **Preparation of the financial statements**

The Council presented us with draft financial statements 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 financial statements**

We reported the key issues from our audit to the Council's Audit Committee on 24 July 2019.

## **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 alongside 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 did not identify any issues for the group auditor to consider.

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

We certified that we have completed the audit of the financial statements of Doncaster Metropolitan Borough Council in accordance with the requirements of the Code of Audit Practice on 19 August 2019.

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# Value for Money conclusion

## **Background**

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.*

## **Key findings**

Our first step in carrying out our work was to perform a risk assessment and identify the risks where we concentrated our work.

The risks we identified and the work we performed are set out overleaf.

## **Overall Value for Money conclusion**

We are satisfied 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 ending 31 March 2019.

# Value for Money conclusion

## Value for Money Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>Financial standing</b></p> <ul style="list-style-type: none"> <li>Doncaster Metropolitan Borough Council as other authorities, continues to operate under significant financial pressures. For 2018/19, the Council planned to deliver a balanced outturn position but to achieve this, needed to deliver savings of some £7.8m whilst managing cost pressures within Children's Services and Adult Social Care at a time of reduced funding</li> <li>The Chief Financial Officer planned a balanced budget in 2019/20, however, he had concerns about on-going budget pressures and the impact on the medium-term financial strategy for 2019/20.</li> </ul>	<p>As part of our work we:</p> <ul style="list-style-type: none"> <li>reviewed key financial and operational documents</li> <li>discussed key relevant matters with senior management.</li> </ul>	<ul style="list-style-type: none"> <li>The Council delivered an outturn General Fund underspend for 2018/19 of £2.1m compared to a budgeted balanced position for the year. Whilst there were some overspends in directorates, the main areas of underspend were in Corporate Resources (£1.4m) and Regeneration and Environment (£1.5m)</li> <li>Actual savings delivered by directorates totalled some £9.9m compared to a savings target of £7.8m for 2018/19. The Council contributed £2.1m to the General Fund Reserve at the year end increasing the General Fund Reserve to £14.4m at 31 March 2019. The increase supports the Council's strategy to increase reserves to strengthen its financial resilience</li> <li>The Housing Revenue Account also delivered an outturn underspend of £1.4m for 2018/19 mainly due to lower management fees, lower bad debts and general underspends in other areas with a marginal increase in income of £0.2m</li> <li>Capital spend during the year totalled £87.1m (General Fund) compared to a budget of £100.2m, the variance arose as a result of a number of high values sales expected in 2018/19 slipping into 2019/20 and delaying capital spending. Key developments during 2018/19 included the new central library and museum and the Herten Triangle development</li> <li>The Council approved the 2019/20 budget in March 2019, Council Tax for 2019/20 increased by 1.99% plus an additional 2% for the Adult Social Care precept, a total increase of 3.99%. The budget gap for 2019/20 is £21.4m, the Council has proposed to use £3.2m of one-off reserves in year reducing the savings required to £18.2m for the year.</li> </ul> <p><b>Conclusion</b></p> <p>The Council continues to operate under significant financial pressures, however, it has effective arrangements in place to routinely monitor its budget and take appropriate action to mitigate against any significant variances or additional calls on resources. This has helped deliver an underspend of £2.1m for 2018/19.</p> <p>Whilst the Council has a challenging savings target for 2019/20 of £18.2m, it has a good record of delivering the savings required and considers the savings achievable.</p> <p>Overall, we concluded that the Council has proper arrangements in place to ensure sustainable resource deployment.</p>

# Value for Money conclusion

## Value for Money Risks continued

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>Brexit</b></p> <p>The UK was due to leave the European Union on 29 March 2019 (now 31 October 2019). There are national and local implications resulting from Brexit that will impact on the Authority, which the Authority will need to plan for</p> <p>We considered the Authority's arrangements and plans to mitigate any risks on Brexit. We also considered areas such as workforce planning, supply chain analysis, regulatory risk and the impact on finances including investment and borrowing as well as any potential impact on the valuation of the Council's assets.</p>	<p>As part of our work we:</p> <ul style="list-style-type: none"> <li>• reviewed key financial and operational documents</li> <li>• discussed key relevant matters with senior management.</li> </ul>	<ul style="list-style-type: none"> <li>• The UK was initially expected to leave the European Union on 29 March 2019, this was extended to 12 April, after which EU leaders agreed a further extension to 31 October 2019</li> <li>• Following the result of the June 2016 referendum, Doncaster MBC continued to monitor developments. The first report on Brexit was presented to the Scrutiny and Overview Management Committee on 27 February 2018. This report recognised the possibility of a no deal Brexit and highlighted that planning was underway for a range of possible scenarios. It also confirmed a multi-agency approach, and the preparation of contingency plans</li> <li>• The majority of the Council's work to prepare for Brexit has been undertaken as part of normal business arrangements at the Council. However, co-ordination of activity has been undertaken by existing teams based within the Corporate Services and Regeneration Directorates. There is also recognition that should an emergency situation arise, Council officers may need to be temporarily redeployed as part of response and recovery arrangements.</li> <li>• A report to Cabinet on 7 May 2019 provided an update on the Council's preparations for Brexit and set out to provide dedicated support to businesses and established a flexible Contingency Fund to allow Doncaster to address the challenges created by Brexit as they emerge.</li> </ul> <p><b>Conclusion</b></p> <p>The Council has continued to monitor Brexit developments following the referendum in June 2016 and has continued to liaise with neighbouring authorities and other agencies to ensure a co-ordinated approach to an EU exit</p> <p>Given the date of Brexit has now been extended to 31 October 2019, the Council continues to monitor developments and liaise with its partners to ensure it remains prepared for Brexit</p> <p>The Council recognises Brexit may impact on local businesses and has set up a fund to support the challenges faced as they arise and has also secured matched support from the private sector through Doncaster Chamber of Commerce.</p> <p>Overall, we concluded the Council has proper arrangements in place to plan for Brexit and can demonstrate appropriate working with partners.</p>

# A. Reports issued and fees

We confirm below our final reports issued and fees charged for the audit. There were no fees for the provision of non audit services.

## Reports issued

Report	Date issued
Audit Plan	January 2019
Audit Findings Report	July 2019
Annual Audit Letter	August 2019

## Fees

	Planned £	Actual fees £	2017/18 fees £
Statutory audit	126,930	**133,430	164,844
Housing Benefit Grant Certification	*15,500	*15,500	17,603
<b>Total fees</b>	<b>142,430</b>	<b>148,930</b>	<b>182,447</b>

\* Estimate

\*\* Additional fee of £6,500 subject to PSAA approval

### Audit fee variation

As outlined in our audit plan, the 2018-19 scale fee published by PSAA of £126,930 assumes that the scope of the audit does not significantly change. There are a number of areas where the scope of the audit has changed, which has led to additional work. These are set out in the following table.

Area	Reason	Fee proposed £
<b>Assessing the impact of the McCloud ruling</b>	The Government's transitional arrangements for pensions were ruled discriminatory by the Court of Appeal last December. The Supreme Court refused the Government's application for permission to appeal this ruling. As part of our audit we have reviewed the revised actuarial assessment of the impact on the financial statements along with any audit reporting requirements.	1,500
<b>Pensions – IAS 19</b>	The Financial Reporting Council has highlighted that the quality of work by audit firms in respect of IAS 19 needs to improve across local government audits. Accordingly, we have increased the level of scope and coverage in respect of IAS 19 this year to reflect this.	500
<b>PPE Valuation – work of experts</b>	As above, the Financial Reporting Council has highlighted that auditors need to improve the quality of work on PPE valuations across the sector. We have increased the volume and scope of our audit work to reflect this.	500
<b>Resolution of additional issues relating to PPE</b>	Our audit work on PPE identified a number of issues requiring further work to resolve relating to valuations, capital additions and depreciation.	4,000
<b>Total</b>		<b>6,500</b>

Fee variations are subject to PSAA approval.



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