

# Great Aycliffe Town Council

## Annual Audit Letter 2015/16

September 2016



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September 2016

Mr A Bailey  
Town Clerk  
Great Aycliffe Town Council  
Council Offices  
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Dear Mr Bailey

**Annual Audit Letter 2015/16**

I am pleased to present our Annual Audit Letter for the 2015/16 audit year. The purpose of this document is to summarise the outcome of the external audit of Great Aycliffe Town Council's (the Council) 2015/16 financial statements and our review of your arrangements for securing economy, efficiency and effectiveness (value for money).

We carried out our audit in accordance with the Code of Audit Practice prepared by the Comptroller and Auditor General as required by the Local Audit and Accountability Act 2014 and delivered in line with the agreed timetable.

I would like to express my thanks for the continuing assistance from officers and councillors during our audit.

If you would like to discuss any matters in more detail, please do not hesitate to contact me on 0191 383 6314.

Yours sincerely

**Cameron Waddell**  
Partner  
Mazars LLP

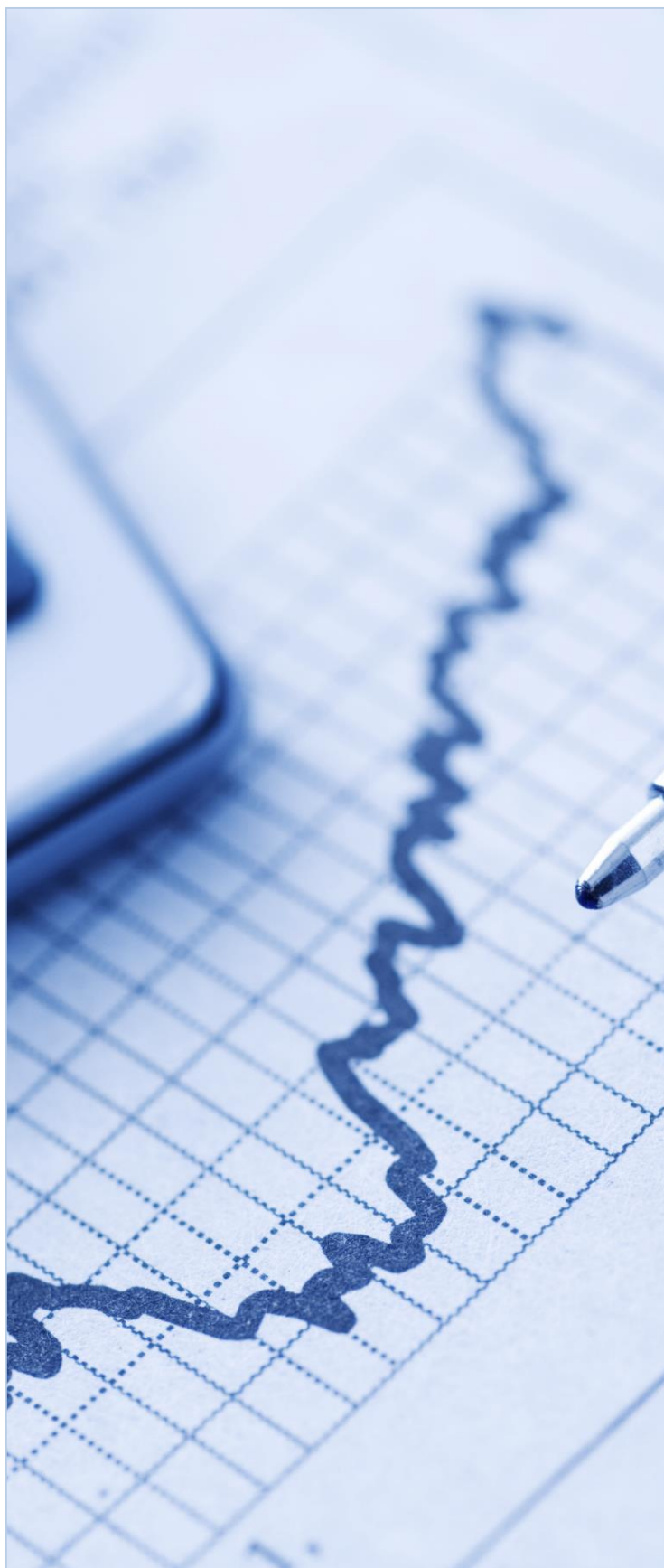
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# 01

## Key messages

This Annual Audit Letter summarises the findings from our 2015/16 audit of Great Aycliffe Town Council.



# 01 Key messages

In 2015/16 our audit of Great Aycliffe Town Council was made up of two elements:

- auditing your financial statements, including a review of the Governance Statement and Annual Report; and
- assessing arrangements for achieving value for money (VfM) in your use of resources.

We reported the detailed findings from our audit work in our Audit Completion Report presented to Council on 13 July 2016

The key conclusions for each element are summarised below.

## **Audit of the financial statements**

We issued an audit report including an unqualified opinion on the Council's financial statements on 18 July 2016. The audit progressed smoothly and we identified only a small number of minor disclosure errors, with no material errors.

We would like to highlight the positive support we received from officers in undertaking our work.

## **Value for money**

We carried out our work in line with updated National Audit Office guidance, so that we could conclude on whether you had proper arrangements in place to secure economy, efficiency and effectiveness in your use of resources (value for money review). We concluded that there were no matters we were required to report on an exception basis.

# 02

## Financial statements

Once again the Council produced good quality accounts, supporting and efficient audit. We issued an unqualified opinion on 18 July 2016.



# 02 Financial statements

## Audit of the financial statements

We audited the Council's financial statements in accordance with auditing standards and we reported our detailed findings in our Audit Completion Report to Council on 13 July. Following this meeting we issued an audit report including an unqualified opinion on the financial statements on 18 July 2016.

Our work on the Council's accounts is designed to provide reasonable assurance that they are free from material misstatement. The assessment of materiality is a key part of our work and we specify an overall materiality threshold, based upon 2 per cent of the Council's gross revenue expenditure, together with lower materiality values for accounting entries we consider to be more sensitive, such as senior manager's remuneration and member's allowances. We consider materiality when planning and performing our work and in assessing audit results. At the planning stage, we made a judgement about the size of misstatements which we would consider to be material and which gave a basis for determining the nature, timing and extent of risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature, timing and extent of further audit procedures. We updated our materiality calculation when we received the draft accounts and set the overall level at £56,600. Appendix A provides more information on our approach.

Having considered the risks of material misstatement, we identified one area of significant risk, which is present in all audits. Our findings in this area are summarised below:

Risk	Description of the risk	How we addressed the risk	Our conclusion
Management override of controls	International Standards on Auditing (ISA) 240 – The auditor's responsibility to consider fraud in an audit of financial statements requires us to consider the potential for management override because controls that may be sufficient to detect error may not be effective in detecting fraud. In all entities, management at various levels is in a unique position to perpetrate fraud because of the ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur, we consider there to be a risk of material misstatement due to fraud and thus a significant risk on all audits.	Auditing standards mandate an element of substantive testing on all audits regardless of the effectiveness of the system of internal control. As a result we tested the appropriateness of journals and other adjustments. We also reviewed areas of management judgement, estimation techniques and significant transactions that seemed outside of the Council's usual business.	Our work provided the assurance we sought and did not highlight any material reporting issues.
Operational	The Council has undertaken a	We reviewed the detailed	Our audit work provided the

fixed asset – accounting for revaluations and impairments	revaluation of its land and buildings during 2015/16. The accounting entries to reflect these revaluations are potentially complex, increasing the risk of error in the financial statements.	revaluation entries included in the financial statements.	assurance that we sought. Whilst preparing the initial entries, management identified an error in respect of a previous accounting period. This error was initially thought to be material and hence the first draft of the financial statements included a prior period adjustment. It has subsequently been established that the error was not material and hence no prior period adjustment should be made. The financial statements have been amended accordingly.
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## Preparation of the financial statements

As in previous years, the draft financial statement and supporting working papers were of a high quality. The Council presented us with draft financial statements on 05 May 2016, well before the 30 June 2016 national deadline.

## Issues arising from the audit of the financial statements

We issued our audit report including an unqualified opinion on the Council’s financial statements on 18 July 2016. The audit progressed smoothly and we only identified a small number of minor misstatements and presentational errors, with no material errors.

## Annual report

We reviewed the Annual Report to see whether it was misleading or inconsistent with the financial statements and our knowledge of the Council.

## Annual Governance Statement

The aim of the Governance Statement is to give an overview of the governance arrangements in place during the year as well as any potential significant governance issues arising.

We reviewed the Governance Statement to see whether it complied with relevant guidance and whether it was misleading or inconsistent with what we know about the council. We found no areas of concern to report in this context.

Both the Governance Statement and the Annual Report were consistent with our overall understanding of the Council.

## Weaknesses in internal control

Our work on the Council’s financial systems identified no deficiencies in internal control.



# 03

## Securing economy, efficiency and effectiveness

Our work shows that the Council continued to maintain proper arrangements for securing value for money in its use of resources during 2015/16.



# 03 Economy, efficiency and effectiveness

We are required to conclude whether the Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We undertook our work in this area in accordance with the guidance set out by the National Audit Office (NAO) by considering one overall criterion which is made up of three sub-criteria as set out in the table below.

As part of our work we also:

- reviewed your annual governance statement;
- considered the work of other relevant regulatory bodies or inspectorates, to the extent that the results of the work had an impact on our responsibilities; and
- carried out further risk based work we determined appropriate.

The overall criterion set out by the NAO is:

*'In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.'*

Sub-criteria
Informed decision making
Sustainable resource deployment
Working with partners and other third parties

## Informed decision-making

The council has strong governance arrangements in place including appropriate policies, financial regulations and codes of conduct.

Strategic aims and targets are set out in the annual Service Delivery Plan which is supported by Service Plans for each individual service area.

The Service Delivery Plan is monitored and reviewed throughout the year by senior officers and the Review Sub Committee,

The Council has strong budget monitoring and reporting arrangements in place, supported by robust policies and practices.

A Risk Management Strategy is in place, with key risks being included in the Council's Corporate Risk Register which is reviewed and updated on a quarterly basis.

## Sustainable resource deployment

The Council has a five year Medium Term Financial Plan (MTFP) which is reviewed and updated on an annual basis as part of the detailed annual budget setting process. The MTFP is closely aligned with the Council's strategic and service aims and targets, including the Parish Performance Plan.

There is an Asset Management Plan in place, which is updated every year. This sets out the estimated capital investment required over the next ten years.

Detailed staffing structures and budgets are in place, and future staffing requirements are a key consideration of the MTFP.

### **Working with partners and other third parties**

There is a clear willingness to collaborate with local partners, principally working with other local authorities.

### **Overall assessment ('reality check')**

Having gathered evidence in each area we conducted a final 'reality check', which included consideration of our cumulative knowledge of the Council and, in particular:

- reports by statutory inspectorates, other regulators and external advisors;
- achievement of performance and other targets; and
- performance against budgets and other financial targets.

We do this to identify anything that would make us reconsider our conclusion.

### **Conclusion**

Having completed our overall assessment, including our 'reality check', we did not identify any matters that we needed to report on an exception basis.

# 04

## Future challenges

There are significant financial challenges facing the Council, as a result of continued funding pressures.



# 04 Future challenges

The main challenge facing the Council in the next few years arises from the impact of potential reductions in income in both direct government grants and funding from other local government bodies.

The MTFP recognises these risks and uncertainties, and whilst there are clear financial challenges, reserves are sufficient to meet current plans in the short term. The Council is working to address future budget gaps through:

- its on-going programme of service reviews; and
- assessing Council and community priorities to identify possible areas for future savings.

# 05

## Fees and closing remarks

The 2015/16 audit was delivered within the scale fee set by Public Sector Audit Appointments Limited.



# 05 Fees and closing remarks

We can confirm the final audit fee for 2015/16 was £7,650 plus VAT.

We have discussed and agreed this letter with the Town Clerk and Finance Manager, and will provide copies to all councillors.

Further detailed findings, conclusions and recommendations in the areas covered by the audit are included in the reports issued to the Council during the year.

Report	Date issued
2015/16 Audit Fee Letter	April 2015
Audit Strategy Memorandum	April 2016
Audit Completion report	July 2016
Auditor's Report (opinion) on the Financial Statements	July 2016
Annual Audit Letter	September 2016

The Council has continued to take a positive and constructive approach to our audit and I wish to thank councillors and officers for their support and co-operation throughout the year.

Should you require any further information, please do not hesitate to contact:

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September 2016

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# Appendix A - materiality

Materiality is an expression of the relative significance or importance of a particular matter in the context of financial statements as a whole.

Misstatements in financial statements are considered to be material if they, individually or in aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Judgements on materiality are made in light of surrounding circumstances and are affected by the size and nature of a misstatement, or a combination of both. Judgements about materiality are based on consideration of the common financial information needs of users as a group and not on specific individual users.

The assessment of what is material is a matter of professional judgement and is affected by our perception of the financial information needs of the users of the financial statements. In making our assessment we assumed that users:

- have a reasonable knowledge of business, economic activities and accounts;
- have a willingness to study the information in the financial statements with reasonable diligence;
- understand that financial statements are prepared, presented and audited to levels of materiality;
- recognise the uncertainties inherent in the measurement of amounts based on the use of estimates, judgement and the consideration of future events; and
- will make reasonable economic decisions on the basis of the information in the financial statements.

We considered materiality whilst planning and performing our audit.

Whilst planning the audit, we made judgements about the size of misstatements which we considered to be material and which provided a basis for determining the nature, timing and extent of risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature, timing and extent of further audit procedures.

In 2015/16 we set materiality at the planning stage at £53,500 (approximately 2 per cent of turnover) with a clearly trivial threshold of £1,600 below which identified errors will not usually be reported. We set lower materiality levels for the disclosure of senior managers' remuneration as we considered this item to be of specific interest to users of the accounts sufficient to warrant audit procedures which would not otherwise be applied based on the materiality level for the audit as a whole. The materiality determined at the planning stage did not necessarily establish an amount below which uncorrected misstatements, either individually or in aggregate, would be considered as immaterial.

We revised materiality for the financial statements as our audit progressed. Our closing assessment of materiality in 2015/16, based upon the final version of the financial statements, was £56,600 with a clearly trivial threshold of £1,700 below which identified errors were not reported.

We discussed with management any significant misstatements or anomalies that we identified during the course of the audit and we reported in our Audit Completion Report all unadjusted misstatements we identified other than those which were clearly trivial, and obtained written representation that explained why these remain unadjusted.



This Annual Audit Letter is prepared in the context of the 'Statement of responsibilities of auditors and audited bodies 2015-16' issued by Public Sector Audit Appointments Ltd. It is addressed to the Governing Body as those charged with governance of the CCG. We, as appointed auditor, take no responsibility to any third party.

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We are registered to carry on audit work in the UK by the Institute of Chartered Accountants in England and Wales. Details about our audit registration can be viewed at [www.auditregister.org.uk](http://www.auditregister.org.uk) under reference number C001139861.