

# St. Albans City District Council

Annual Audit Letter for the year ended 31 March 2017

28<sup>th</sup> February 2018

Ernst & Young LLP

## Contents

Executive Summary .....	2
Purpose.....	5
Responsibilities.....	7
Financial Statement Audit .....	10
Value for Money .....	15
Other Reporting Issues.....	19
Focused on your future.....	22
Appendix A    Audit Fees .....	24

Public Sector Audit Appointments Ltd (PSAA) have issued a “Statement of responsibilities of auditors and audited bodies”. It is available from the Chief Executive of each audited body and via the PSAA website ([www.psaa.co.uk](http://www.psaa.co.uk))

The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The “Terms of Appointment (updated 23 February 2017)” issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Annual Audit Letter is prepared in the context of the Statement of responsibilities. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure - If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

A close-up photograph of a hand holding a blue pen and writing on a document. The hand is positioned on the right side of the frame. In the background, a laptop is open, and a calculator is visible on the desk. To the left, a white mug is partially visible. The scene is brightly lit, suggesting an office environment. A yellow rectangular box is overlaid on the left side of the image, containing the text "Executive Summary".

## Executive Summary

## Executive Summary

We are required to issue an annual audit letter to St. Albans City & District Council following completion of our audit procedures for the year ended 31 March 2017.

Below are the results and conclusions on the significant areas of the audit process.

Area of Work	Conclusion
Opinion on the Council's: ▶ Financial statements	Unqualified – the financial statements give a true and fair view of the financial position of the Council as at 31 March 2017 and of its expenditure and income for the year then ended
▶ Consistency of other information published with the financial statements	Other information published with the financial statements was consistent with the Annual Accounts
Concluding on the Council's arrangements for securing economy, efficiency and effectiveness	We concluded that you have put in place proper arrangements to secure value for money in your use of resources

Area of Work	Conclusion
Reports by exception: ▶ Consistency of Governance Statement	The Governance Statement was consistent with our understanding of the Council
▶ Public interest report	We had no matters to report in the public interest.
▶ Written recommendations to the Council, which should be copied to the Secretary of State	We had no matters to report.
▶ Other actions taken in relation to our responsibilities under the Local Audit and Accountability Act 2014	We had no matters to report.

Area of Work	Conclusion
Reporting to the National Audit Office (NAO) on our review of the Council's Whole of Government Accounts return (WGA).	We had no matters to report

As a result of the above we have also:

Area of Work	Conclusion
Issued a report to those charged with governance of the Council communicating significant findings resulting from our audit.	Our Audit Results Report was issued on 18 September 2017.
Issued a certificate that we have completed the audit in accordance with the requirements of the Local Audit and Accountability Act 2014 and the National Audit Office's 2015 Code of Audit Practice.	We issued our certificate on 28th February 2018. We delayed our audit certificate as we considered a valid objection lodged to the 2016-2017 accounts on 11 <sup>th</sup> August 2017. We concluded our review of the objection and issued our decision and statement of reasons on 23rd February 2018.

On 29<sup>th</sup> March 2018, we will also issue a report to those charged with governance of the Council summarising the certification work we have undertaken.

We would like to take this opportunity to thank the Council's staff for their assistance during the course of our work.

Neil Harris

Associate Partner  
For and on behalf of Ernst & Young LLP

Purpose



## Purpose

### The Purpose of this Letter

The purpose of this annual audit letter is to communicate to Members and external stakeholders, including members of the public, the key issues arising from our work, which we consider should be brought to the attention of the Council.

We have already reported the detailed findings from our audit work in our 2016/17 Audit Results Report to the Audit Committee, representing those charged with governance. We do not repeat those detailed findings in this letter. The matters reported here are the most significant for the Council.



Responsibilities



## Responsibilities

### Responsibilities of the Appointed Auditor

Our 2016/17 audit work has been undertaken in accordance with the Audit Plan that we issued on 10<sup>th</sup> January 2017 and is conducted in accordance with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office.

As auditors we are responsible for:

- ▶ Expressing an opinion:
  - ▶ On the 2016/17 financial statements; and
  - ▶ On the consistency of other information published with the financial statements.
- ▶ Forming a conclusion on the arrangements the Council has to secure economy, efficiency and effectiveness in its use of resources.
- ▶ Reporting by exception:
  - ▶ If the annual governance statement is misleading or not consistent with our understanding of the Council;
  - ▶ Any significant matters that are in the public interest;
  - ▶ Any written recommendations to the Council, which should be copied to the Secretary of State; and
  - ▶ If we have discharged our duties and responsibilities as established by thy Local Audit and Accountability Act 2014 and Code of Audit Practice.

Alongside our work on the financial statements, we also review and report to the National Audit Office (NAO) on you Whole of Government Accounts return. The Council is below the specified audit threshold of £350 million. Therefore, we did not perform any audit procedures on the return.

## Responsibilities of the Council

The Council is responsible for preparing and publishing its statement of accounts accompanied by an Annual Governance Statement (AGS). In the AGS, the Council reports publicly each year on how far it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in year, and any changes planned in the coming period.

The Council is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

A blurred office desk with a laptop, glasses of water, and financial documents. The scene is brightly lit, likely from a window with blinds in the background. A yellow rectangular box is overlaid on the left side of the image, containing the text 'Financial Statement Audit'.

# Financial Statement Audit

## Financial Statement Audit

### Key Issues

The Council's Statement of Accounts is an important tool for the Council to show how it has used public money and how it can demonstrate its financial management and financial health.

We audited the Council's Statement of Accounts in line with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office and issued an unqualified audit report on 28 September 2017.

Our detailed findings were reported to the 28 September 2017 Audit Committee

The key issues identified as part of our audit were as follows:

Significant Risk	Conclusion
<p>Risk of fraud in revenue recognition</p> <p>Under ISA240 there is a presumed risk that revenue may be misstated due to improper recognition of revenue. In the public sector this requirement is modified by Practice Note 10, issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by manipulating expenditure recognition. For local authorities, the potential for the incorrect classification of revenue spend as capital is a particular area where there is a risk of fraud in revenue recognition</p>	<p>Our audit approach focused on:</p> <p>Reviewing and testing revenue and expenditure recognition policies;</p> <p>Reviewing and discussing with management any accounting estimates on revenue or expenditure recognition for evidence of bias;</p> <p>Reviewing and testing revenue cut-off at the period end date; and</p> <p>Reviewing capital expenditure on property, plant and equipment to ensure it meets the relevant accounting requirements to be capitalised.</p> <p>Our testing has not identified any material misstatements from revenue and expenditure recognition.</p> <p>Overall our audit work did not identify any material issues or unusual transactions to indicate any misreporting of the Council's financial position.</p>

---

### Management override of controls

In the public sector this requirement is modified by Practice Note 10, issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by manipulating expenditure recognition. For local authorities, the potential for the incorrect classification of revenue spend as capital is a particular area where there is a risk of fraud in revenue recognition.

As identified in ISA 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and to prepare fraudulent financial statements by overriding controls that otherwise seem to be operating effectively. We identify and respond to this fraud risk on every audit engagement.

We have assessed journal amendments, accounting estimates and unusual transactions as the area's most open to manipulation.

We have also considered the risk of inappropriate capitalisation of revenue expenditure on Property, Plant and Equipment as an area of potential management override.

In order to address this risk we carried out a range of procedures including:

Gaining an understanding of the oversight given by those charged with governance of management's processes and controls in respect of fraud;

Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements. We obtained a full list of journals posted to the general ledger during the year and using our data analytics tool confirmed the completeness of the population and analysed these journals using criteria we set to identify any unusual journal types or amounts. We then tested a sample of journals that met our criteria and tested these to supporting documentation;

Reviewing accounting estimates (e.g. IAS 19 liability, valuation of PPE and provisions) for evidence of management bias, as outlined in more detail on the following page;

Evaluating the business rationale for any significant unusual transactions; and

Testing a sample of in year additions to property, plant and equipment to ensure they meet the definition of capital expenditure.

We have not identified any material weaknesses in controls or evidence of material management override of controls.

We have not identified any instances of inappropriate judgements being applied.

We did not identify any other transactions during our audit which appeared unusual or outside the Authority's normal course of business.

We have not identified any inappropriate capitalisation of revenue spend.

Other Key Findings	Conclusion
Valuations – Lambert Smith Hampton	We have assessed and are satisfied with the overall competency and objectivity of the Council's valuers. We have completed our procedures to verify and critically challenge the basis of valuation adopted by the valuer in relation to the Authority's property, focusing in particular on specialist assets which are valued on a depreciated replacement costs basis.

The Council's Statement of Accounts is an important tool for the Council to show how it has used public money and how it can demonstrate its financial management and financial health.

## Our application of materiality

When establishing our overall audit strategy, we determined a magnitude of uncorrected misstatements that we judged would be material for the financial statements as a whole.

Item	Thresholds applied
Planning materiality	We planned our procedures using a materiality of £1,886,880. We reassessed this using the actual year-end figures, which has increased this amount to £2,224,460.
Reporting threshold	The threshold for reporting audit differences has increased from £94,344 to £111,223. The basis of our assessment of materiality has remained consistent with prior years at 2% of gross expenditure.

We also identified areas where misstatement at a lower level than materiality might influence the reader and developed a specific audit strategy for them. They include:

- Remuneration disclosures including any severance payments, exit packages and termination benefits. [strategy applied: agree values to payslips and termination letters, review of Payroll tool to confirm completeness of disclosures and minute review]
- Related party transactions. [Strategy applied: review of signed declaration forms, minute review and confirmation of amounts disclosed]
- Members' allowances. [Strategy applied: testing of sampled line items to payslips to agree allowances and expenses]

A close-up, shallow depth-of-field photograph of a stack of coins. The coins are stacked vertically, with the edges of several coins visible. The lighting is warm, highlighting the metallic texture and the embossed details on the coins. A bright yellow rectangular box is overlaid on the left side of the image, containing the text "Value for Money".

Value for Money

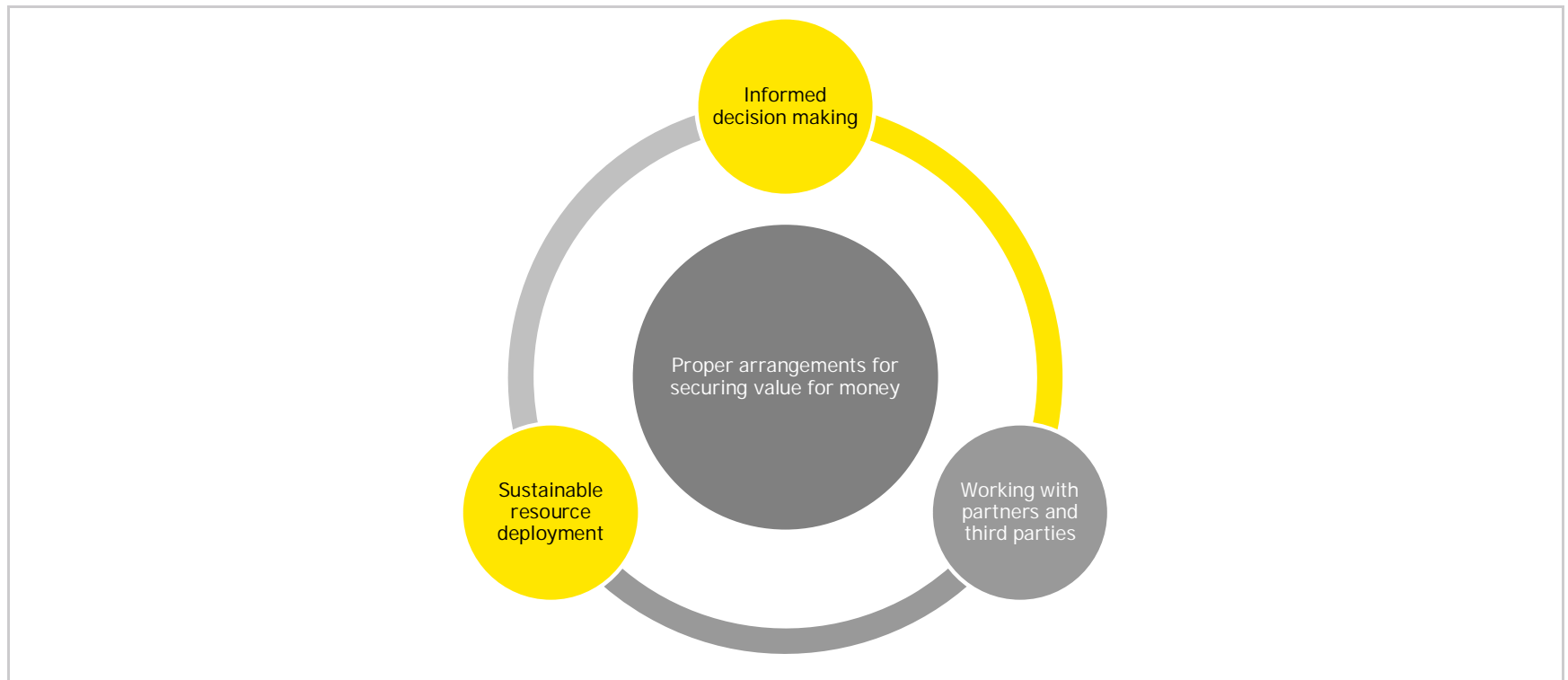


## Value for Money

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. This is known as our value for money conclusion.

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- Take informed decisions;
- Deploy resources in a sustainable manner; and
- Work with partners and other third parties.



We identified one significant risks in relation to these arrangements. The tables below present the findings of our work in response to the risk identified.

We have performed the procedures outlined in our audit plan. We did not identify any significant weaknesses in the Council's arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

We therefore issued an unqualified value for money conclusion on 28 September 2017.

Significant Risk	Conclusion
<p>Sustainable resource deployment:</p> <p>The Council has continued to respond well to the financial pressures on local government arising from the economic downturn and reductions in the level of central government funding. We commented positively on the Council's arrangements in our 2015-2016 Annual Audit Letter and Audit Results Report. The Council are also forecasting a balanced budget for the current financial year.</p> <p>There remains, however, significant financial pressure on the Council's medium to longer term financial plans. To secure its medium to longer term sustainability, the Council will need to balance its budget, not just by exploring and achieving more challenging savings and efficiency targets, but by also becoming more self-sufficient in generating income. This will see the Council increasingly look to partnerships, collaboration and commercial development activities to achieve its future financial targets</p>	<p>To date the Council has responded well to the financial pressure facing public sector bodies, but continues to face significant financial challenges over the next three years, with uncertainty in the levels of future funding it will receive. The Council has a good track record of financial management and achieved a surplus at year end for 2016/17, despite the previously identified budget gap, thus demonstrating its ability to close such gaps.</p> <p>The Council's Medium Term Financial Strategy (MTFS) identifies budget gaps of just over £1 million at the end of 2019/20. The MTFS previously indicated that the Council planned to use general fund reserves and New Homes Bonus to bridge these gaps. The Council recognises that using reserves in this way is not a sustainable strategy and is developing alternative plans to address these gaps. The update to the MTFS and the Council's 10 year plan includes details of savings, income generation and other efficiencies which have been identified to bridge the £1m gap. As part of its plans to address the future financial challenges, the Council is also putting in place a number of initiatives including the commercial and development activities, digitisation and other spend reductions.</p>

## Response to an objection to the Council's 2016-2017 financial statements lodged on 11<sup>th</sup> August 2017

We received a valid notice of objection on the 11<sup>th</sup> August 2017 which asked us to consider issuing a public interest report under Section 24 and Paragraph 1 of Schedule 7 of the Local Audit and Accountability Act 2014. We were asked to issue a public interest report on the grounds that a local government elector had significant concerns that the Council had not followed proper arrangements for its governance, decision making and procurement associated with its Digital Transformation Programme.

We considered the objection in the context of the concerns raised with us on the Council awarding a contract to Arcus Global Limited, totalling £498,000 excluding VAT, in the financial year ended 31 March 2017. We have carefully considered the notice of objection as well as oral and written explanations from the Council. The oral and written explanations from the Council includes responses to observations and questions we raised on the written documentation provided to us at and following the Council's Audit Committee on 28<sup>th</sup> September 2017. We carefully considered the report of the Council's Internal Auditor's which was presented to the 28<sup>th</sup> September 2017 Audit Committee. We have also considered the elector's four observations, and the Council's responses to these points, on the provisional views and key information we shared with the elector on the 13<sup>th</sup> December 2017. We have also drawn on advice and expert support as appropriate.

We issued our decision and statement of reasons to the elector and the Council on the 23<sup>rd</sup> February 2018, which has been made available to the Audit Committee. We did not uphold the objection and did not issue a public interest report. Whilst we were not asked to do so by the elector, we also considered whether to make a declaration that an item of account (in this case the £498,000 excluding VAT on the Digital Transformation Programme) was unlawful in accordance with section 28 (1) of the Local Audit and Accountability Act 2014. We did not make a declaration to the courts.

We did conclude from our review of the Council's oral and written documentation that there were some weaknesses in the Council's decision making, governance and procurement arrangements for its Digital Transformation Programme in the financial year ended 31<sup>st</sup> March 2017. These weaknesses do call in to question whether the Council has achieved all of its value for money objectives for its Digital Transformation Programme in the medium to longer term. In addition, there is scope for the Council to clarify and strengthen its governance arrangements for making decisions associated with this and similar programmes in the future. In accordance with section 27(6) of the Local Audit and Accountability Act 2014, we have made recommendations to the Council in response to the objection and these were set out in our statement of reasons reported to the Audit Committee.

Our response to the objection on the Council's 2016-2017 accounts has led to additional audit procedures outside of the scope and assumptions underpinning the scale fee set by Public Sector Audit Appointments Limited (PSAA Ltd). We will be seeking to recover the costs of our audit procedures in response to the objection and will seek to agree with the Council and notify PSAA Ltd of our proposed fee variation. Any fee variation is subject to PSAA approval. We anticipate that our fee variation will be no more than £20,000.



Other Reporting  
Issues

## Other Reporting Issues

### Whole of Government Accounts

We performed the procedures required by the National Audit Office on the accuracy of the consolidation pack prepared by the Council for Whole of Government Accounts purposes. We had no issues to report.

### Annual Governance Statement

We are required to consider the completeness of disclosures in the Council's Annual Governance Statement, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it is misleading.

We completed this work and did not identify any areas of concern

### Report in the Public Interest

We have a duty under the Local Audit and Accountability Act 2014 to consider whether, in the public interest, to report on any matter that comes to our attention in the course of the audit in order for it to be considered by the Council or brought to the attention of the public.

We did not identify any issues which required us to issue a report in the public interest.

### Written Recommendations

We have a duty under the Local Audit and Accountability Act 2014 to designate any audit recommendation as one that requires the Council to consider it at a public meeting and to decide what action to take in response.

We did not identify any issues which required us to issue a written recommendation.

### Objections Received

We received one objection to the 2016/17 financial statements from a local government elector which we have determined on 23rd February 2018. Please refer to page 17 for further details.

### Other Powers and Duties

We identified no issues during our audit that required us to use our additional powers under the Local Audit and Accountability Act 2014.

## Independence

We communicated our assessment of independence in our Audit Results Report to the Audit Committee on 28 September 2017. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning regulatory and professional requirements.

## Control Themes and Observations

As part of our work, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of internal control, we are required to communicate to you significant deficiencies in internal control identified during our audit.

We have adopted a fully substantive approach and have therefore not tested the operation of controls. Our audit did not identify any controls issues to bring to the attention of the Audit Committee.

A close-up photograph of a person's face as they look through a pair of black binoculars. The person's eyes are focused on the lenses, and their hands are visible holding the device. The background is a soft, out-of-focus white. A bright yellow rectangular box is overlaid on the left side of the image, containing the text "Focused on your future".

Focused on your  
future

## Focused on your future

Area	Issue	Impact
<p><i>Earlier deadline for production and audit of the financial statements from 2017/18</i></p>	<p>The Accounts and Audit Regulations 2015 introduced a significant change in statutory deadlines from the 2017/18 financial year. From that year the timetable for the preparation and approval of accounts will be brought forward with draft accounts needing to be prepared by 31 May and the publication of the audited accounts by 31 July.</p>	<p>These changes provide challenges for both the preparers and the auditors of the financial statements. Through working together, and reflecting on this year, there are areas where the closedown and audit processes can be further improved going forward. We do not expect the formal earlier deadline to pose a significant issue for the Council. As auditors, nationally we have:</p> <ul style="list-style-type: none"> <li>• Issued a thought piece on early closedown</li> <li>• As part of the strategic Alliance with Chartered Institute of Public Finance and Accountancy (CIPFA) jointly presented accounts closedown workshops across England, Scotland and Wales</li> <li>• Presented at CIPFA early closedown events and on the subject at the Local Government Accounting Conferences in July 2017</li> <li>• Held a faster closure workshop for practitioners and auditors in our EY Luton office as well as nationally. We have shared the insights from our workshops in a checklist to enable practitioners and auditors to assess their preparedness for faster closure.</li> </ul> <p>We have agreed with the Council to engage early, following the completion of the 2016/17 audit, to facilitate early substantive testing for 2017/18 and also to consider steps the Council can take, for example:</p> <ul style="list-style-type: none"> <li>• Streamlining the Statement of Accounts removing all non-material disclosure notes</li> <li>• Bringing forward the commissioning and production of key externally provided information such as IAS 19 pension information, asset valuations</li> <li>• Providing training to departmental finance staff regarding the requirements and implications of earlier closedown</li> <li>• Re-ordering tasks from year-end to monthly/quarterly timing, reducing year-end pressure.</li> </ul>



Appendix A

## Audit Fees



## Appendix A Audit Fees

Our fee for 2016/17 is in line with the scale fee set by the PSAA and reported in our 13 March 2017 Audit Plan.

Description	Final Fee 2016/17 £	Planned Fee 2016/17 £	Scale Fee 2016/17 £	Final Fee 2015/16 £
Total Audit Fee – Code work	*80,034	60,034	60,034	63,009
Total Audit Fee – Certification of claims and returns	21,617	21,617	21,617	13,583

\*2016/17 Our response to the objection on the Council's 2016-2017 accounts has led to additional audit procedures outside of the scope and assumptions underpinning the scale fee set by Public Sector Audit Appointments Limited (PSAA Ltd). We will be seeking to recover the costs of our audit procedures in response to the objection and will seek to agree with the Council and notify PSAA Ltd of our proposed fee variation.

We confirm we have not undertaken any non-audit work outside of the PSAA's requirements.

EY | Assurance | Tax | Transactions | Advisory

Ernst & Young LLP

© Ernst & Young LLP. Published in the UK.  
All Rights Reserved.

ED None

The UK firm Ernst & Young LLP is a limited liability partnership registered in England and Wales with registered number OC300001 and is a member firm of Ernst & Young Global Limited.

Ernst & Young LLP, 1 More London Place, London, SE1 2AF.

[ey.com](https://www.ey.com)