



ST ALBANS CITY & DISTRICT COUNCIL

Annual Audit Letter

Year ended 31 March 2020

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EXECUTIVE SUMMARY

Purpose of the Annual Audit Letter

This Annual Audit Letter summarises the key issues arising from the work that we carried out in respect of the year ended 31 March 2020.

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

Responsibilities of auditors and the Council

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

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

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

Rachel Brittain

BDO LLP

6 April 2021

Audit conclusions

Audit area	Conclusion
Financial statements	Unqualified opinion, with an emphasis of matter in respect of the valuation of land and buildings and the valuation of pooled property assets within the pension fund, due to a material uncertainty included in the final valuation report for these assets. Issued on 30 November 2020.
Use of resources	Unmodified conclusion issued on 30 November 2020.

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

FINANCIAL STATEMENTS

Audit conclusion

We issued our audit report on 30 November 2020.

We issued an unqualified audit opinion on the financial statements. This means that we consider that the financial statements:

- Give a true and fair view of the financial position and income and expenditure for the year
- Have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Council Accounting 2019/20.

Final materiality

Final materiality was calculated at £1,900,000 based on a benchmark of 2% of gross expenditure.

Material misstatements

We did not identify any material misstatements in the Council's draft accounts. Management corrected for four individually immaterial misstatements.

Unadjusted audit differences

We identified three audit differences, the net impact of which if corrected, would decrease the net deficit on provision of services for the year by £35,000.

We reported these audit differences to the Audit Committee and accepted management's decision not to amend the Statement of Accounts for these differences because the impact was not material.

FINANCIAL STATEMENTS

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

Risk description	How the risk was addressed by our audit	Results
<p>Management override of controls</p> <p>Auditing standards presume that management is in a unique position to perpetrate fraud by overriding controls</p>	<p>We carried out the following planned audit procedures:</p> <ul style="list-style-type: none"> Reviewed and verified journal entries made in the year, agreeing the journals to supporting documentation; we determined key risk characteristics to filter the population of journals. We used our IT team to assist with the journal extraction Reviewed estimates and judgements applied by management in the financial statements to assess their appropriateness and the existence of any systematic bias Reviewed unadjusted audit differences for indications of bias or deliberate misstatement Considered the operation of the control environment to ensure that in light of remote working and response to Covid-19 there has been no lapse in the operation of the control environment Considered whether the Council had considered the non-collection of receivables provision in light of the current circumstances. 	<p>Our audit work on journals included the review of duplicate journals, large value journals, journals created by specific individuals and an analysis of journal trends.</p> <p>We assessed and corroborated significant management estimates and judgements in the following key areas:</p> <ul style="list-style-type: none"> Valuation of land and buildings Pension liability Non-domestic rates appeals provision Non-collection of receivables Accruals Depreciation/Amortisation. <p>We did not find any evidence of management override or bias for these estimates.</p> <p>Our review of unadjusted audit differences did not identify any indications of bias or deliberate misstatement.</p> <p>Our review of the control environment did not identify any lapse in the operation of the control environment in light of remote working.</p>

FINANCIAL STATEMENTS

Risk description	How the risk was addressed by our audit	Results
<p>Expenditure cut off</p> <p>For public sector bodies the risk of fraud related to expenditure is also relevant.</p> <p>For the Council, we consider the risk of fraud to be in respect of the cut-off of expenditure at year-end.</p>	<p>We carried out the following planned audit procedures:</p> <ul style="list-style-type: none">• Checked that expenditure was recognised in the correct accounting period by substantively testing expenditure around year-end• Considered whether any specific procedures were required in light of additional expenditure and funding that may have occurred around year end as a result of Covid-19.	<p>Our sample testing of expenditure identified one transaction which was not included in the correct period. Once extrapolated, the difference was above our trivial level for reporting but was not material. The amount remained as an uncorrected audit difference.</p> <p>Our audit work did not identify any other issues.</p>

FINANCIAL STATEMENTS

Risk description	How the risk was addressed by our audit	Results
<p>Valuation of non-current assets</p> <p>The valuation of non-current assets is a significant risk as it involves a high degree of estimation uncertainty.</p>	<p>We carried out the following planned audit procedures:</p> <ul style="list-style-type: none"> • Reviewed the instructions provided to the valuer and reviewed the valuer’s skills and expertise in order to determine if we could rely on the management expert • Confirmed that the basis of valuation for assets valued in year was appropriate • Reviewed accuracy and completeness of asset information provided to the valuer such as rental agreements and sizes • Reviewed assumptions used by the valuer and movements against relevant indices for similar classes of assets and followed up valuation movements that appeared unusual • Confirmed that assets not specifically valued in the year had been assessed to ensure their reported values remained materially correct. 	<p>From our review of the instructions provided to the valuer and our assessment of the expertise of the valuer, we satisfied ourselves that we could rely on their work.</p> <p>We confirmed the basis of the valuation for the assets that were valued for the year. This identified two assets undervalued in the draft financial statements, which were corrected by management.</p> <p>Our review of the completeness and accuracy of the information provided to the valuer did not identify any issues.</p> <p>The assumptions used by the valuer, including potential movements against relevant indices for similar assets, did not identify any issues or unusual trends.</p> <p>We reviewed assets which had not been specifically valued in the year and confirmed that they remained materially correct.</p> <p>Finally, we noted that the valuer included a material uncertainty statement in their final year-end valuation reports, in light of circumstances surrounding coronavirus. We considered this to be fundamental to the reader of the accounts and included an Emphasis of Matter in our audit report to highlight this uncertainty.</p>

FINANCIAL STATEMENTS

Risk description	How the risk was addressed by our audit	Results
<p>Valuation of Pension Liability</p> <p>The valuation of the pension liability is a significant risk as it involves a high degree of estimation uncertainty.</p>	<p>We carried out the following planned audit procedures:</p> <ul style="list-style-type: none"> • Agreed the disclosures to the information provided by the pension fund actuary • Reviewed the competence of the actuary as a management expert • Reviewed the reasonableness of the assumptions used in the calculation against other local government actuaries and other observable data • Reviewed the controls in place for providing accurate membership data to the actuary • Contacted the pension fund auditor and requested confirmation of the controls in place for providing accurate membership data to the actuary and testing of that data • Checked that any significant changes in membership data were communicated to the actuary. 	<p>No issues were found in assessing the competency of the actuary or in agreeing disclosures to the information provided by the actuary.</p> <p>We compared the key financial and demographic assumptions used by the actuary to acceptable ranges provided by a consulting actuary commissioned for local public auditors by the NAO. We considered that the assumptions and methodology used by the Pension Fund actuary were appropriate.</p> <p>We obtained assurance from the auditors of the Hertfordshire Pension fund over the controls in place for providing accurate membership data to the actuary and the testing of that data.</p> <p>The pension fund auditor confirmed in their assurance letter that the valuation of property assets was reported on the basis of 'material valuation uncertainty' in light of circumstances surrounding coronavirus. We included an Emphasis of Matter in our audit report to highlight this uncertainty.</p> <p>We identified three non material misstatements, of which the Council corrected one.</p> <p>We also identified one prior year disclosure point, which the Council corrected in the final financial statements.</p>

USE OF RESOURCES

Audit conclusion

We issued an unmodified conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. This means that we consider 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.

We set out below the risk that had the greatest effect on our audit strategy.

Risk description	How the risk was addressed by our audit	Results
<p>The Council will need to deliver significant savings as part of its Medium Term Financial strategy. There is a risk that the Council will not deliver all these savings.</p>	<p>We carried out the following planned audit procedures:</p> <ul style="list-style-type: none"> Reviewed the assumptions used in the MTFs and assessed the reasonableness of cost pressures Monitored the delivery of the budgeted savings in 2019/20 and the plans that were in place to reduce service cost and increase income from 2020/21 Reviewed the strategies to close the budget gap in the medium term. 	<p>The Council budgeted to spend £15.08 million on General Fund services in 2019/20. The actual cost of services (before technical accounting adjustments) in 2019/20 was £15.40 million, an overspend of £313,000.</p> <p>Overall, the General Fund balance decreased by £260,000 to £3.39 million. The closing General Fund balance remains above the minimum level of £2.5 million recommended by the Section 151 Officer.</p> <p>The total Earmarked General Fund reserves balance increased by £2.29 million to £7.50 million at 31 March 2020. The increase largely related to an increase in the Collection Fund Equalisation Account.</p> <p>A net surplus of £4.60 million was incurred on the Housing Revenue Account, which was a significant difference compared to the budgeted deficit of £255,000. HRA reserves (HRA balance and major repairs reserve) totalled £13.47 million, a decrease of £1.60 million from the prior year.</p> <p>The Council's share of the council tax balance in the Collection Fund remained in surplus by £248,000 at 31 March 2020. The non domestic rate balance in the Collection Fund is a deficit of £10.92 million, of which the Council's share was £4.28 million. This was largely due to changes for appeals against valuations. We were satisfied that the Collection Fund is being adequately monitored and managed.</p> <p>The Council achieved its savings target for the year, with some savings in the budget which were not achieved being offset by savings elsewhere. An updated medium term financial strategy to 2028/29 was approved by full Council in January 2020.</p>

USE OF RESOURCES

Risk description	How the risk was addressed by our audit	Results
<p>The Council has developed its operating strategy to include the development of residential sites as well as an intention to invest in significant capital projects.</p>	<p>We carried out the following planned audit procedures:</p> <ul style="list-style-type: none"> • Reviewed the governance arrangements in place for these capital projects • Reviewed how these projects support the financial resilience of the Council • Reviewed the governance and monitoring arrangements and support for decision making • Reviewed the due diligence and governance arrangements considered in setting up a separate entity to manage these capital projects. 	<p>In March 2020 the Council established a wholly owned private limited company called the St Albans City and District Estates Limited. The company was established to manage residential properties outside of the Housing Revenue Account. The company had no financial transactions during 2019/20.</p> <p>This was specifically to be the landlord for some residential rented properties that the Council was due to buy as part of the purchase of Harpenden Estate, which is a parade of shops with flats above. At the time the opinion was issued the purchase had not proceeded.</p> <p>Due to Covid-19, the Council re-reviewed its approach to ensure it still fits into the longer term strategy and continues to support the financial resilience of the Council. This has led to changes such as revaluation of potential purchases and reviewing the impact of loss of income for commercial properties.</p> <p>Our work did not identify any issues in relation to commercialisation at the date the opinion was provided.</p>

REPORTING AND FEES

Fees summary

	2019/20	2018/19
	£	£
Audit fee	46,226	46,226
Non-audit assurance services (Fees for reporting on Government grants)	9,500 ¹	10,800
Housing benefit subsidy claim	7,000 ¹	8,600
Pooling of Housing capital receipts return	2,500	2,200
Total fees	55,726	57,026

¹ Work is ongoing and so we are unable to conclude on the final fee until the work is complete.

Communication

Communication	Date communicated	To whom
Audit Planning Report	29 April 2020	Audit Committee
Audit Completion report	26 November 2020	Audit Committee
Annual Audit Letter	22 April 2021	Audit Committee



FOR MORE INFORMATION:

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The matters raised in our report prepared in connection with the audit are those we believe should be brought to your attention. They do not purport to be a complete record of all matters arising. This report is prepared solely for the use of the company and may not be quoted nor copied without our prior written consent. No responsibility to any third party is accepted.

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