



ST ALBANS CITY & DISTRICT COUNCIL

Annual Audit Letter

Year ended 31 March 2019

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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 have carried out in respect of the year ended 31 March 2019.

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 report:

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

Audit conclusions

Audit area	Conclusion
Financial statements	Unmodified opinion
Use of resources	Unmodified conclusion

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.

We issued our audit opinion on the financial statements and use of resources conclusion on 31 July 2019, on the national deadline of 31 July 2019.

BDO LLP

27 August 2019

FINANCIAL STATEMENTS

Audit opinion on the financial statements

We issued an unmodified 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 its income and expenditure for the year; and
- Have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting 2018/19.

Final materiality

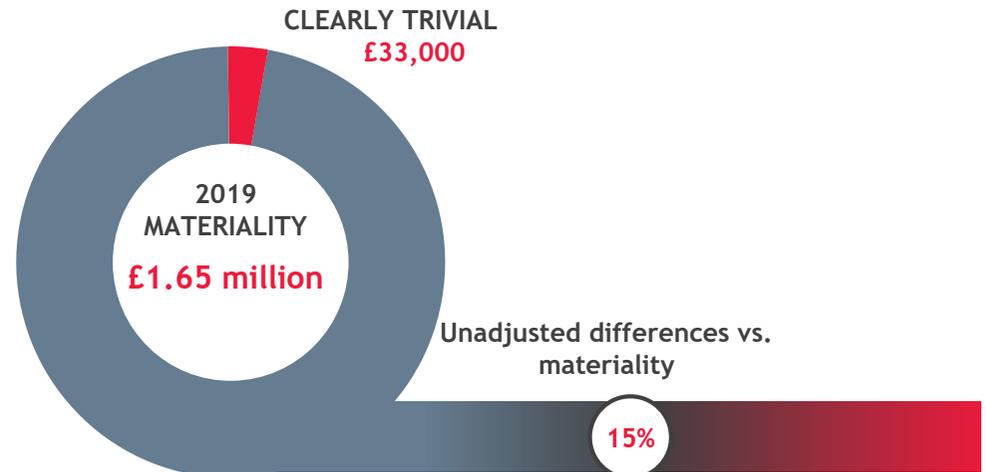
Materiality was calculated at £1.65 million based on a benchmark of 1.75% of gross expenditure.

Material misstatements

We did not identify any material misstatements.

Unadjusted audit differences

We identified three unadjusted audit differences that, if posted, would increase provisions by £244,000 increase net assets by the same amount; property plant and equipment would decrease by £133,000 and capital creditors would increase by £157,000 and revaluation reserve would fall by £290,000. There would be no impact on the general fund balances.



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
Management override of controls	<p>We carried out the following planned audit procedures:</p> <ul style="list-style-type: none">• Reviewed and verified large and unusual journal entries made in the year and agreed the journals to supporting documentation;• Reviewed estimates and judgements applied by management in the financial statements to assess their appropriateness and the existence of any systematic bias; and• Reviewed unadjusted audit differences for indications of bias or deliberate misstatement.	No issues were identified by our audit of journals and accounting estimates for management override of controls or management bias.

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Risk description	How the risk was addressed by our audit	Results
Property, plant and equipment and investment property valuations	<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 can rely on the management expert; Confirmed that the basis of valuation for assets valued in year is appropriate based on their usage; Reviewed the accuracy and completeness of asset information provided to the valuer such as rental agreements and sizes; and Reviewed assumptions used by the valuer and movements against relevant indices for similar classes of assets and follow up valuation movements that appear unusual. 	<p>For HRA properties, the valuer provided the Council with a valuation as at 31 March 2019 on a beacon basis, resulting in an decrease of 2.6% on the vacant possession value and net revaluation losses of £19.102 million. This decrease is in line with regional trends in property prices in St Albans.</p> <p>Within the sample testing of valuations on other land and buildings, we identified the incorrect floor plan used on two properties (£89,000 which was adjusted and £158,000 which was unadjusted) and a further misstatement of £132,000 as the incorrect discount factor was used. All of these errors were overstatements of property values.</p> <p>The Council adjusted for a further £127,000 relating to heritage assets which this revaluation increase was not applied in the draft financial statements.</p> <p>We performed an assessment to identify whether assets not revalued in the year had material movements, using regional indices and assessed the reasonableness of the valuations. Applying these relevant indices to the assets, we recalculated a movement of £812,000 but we have not proposed an adjustment as we are content with management's judgement as they had more relevant information to perform this analysis.</p> <p>No issues were identified within our testing on investment properties.</p>

FINANCIAL STATEMENTS

Risk description	How the risk was addressed by our audit	Results
Pension liability valuations	<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 reasonableness of the assumptions used in the calculation against other local government actuaries and other observable data; • Reviewed the controls for providing accurate membership data to the actuary; and • Checked whether any significant changes in membership data have been communicated to the actuary. 	<p>We consider that the assumptions and methodology used by the Council’s actuary are appropriate, and will result in an estimate of the net pension liability which falls within a reasonable range. We note that the consulting actuary has stated that the assumptions used by Hymans Robertson do tend to produce slightly higher liabilities calculations than the other actuaries, and the relative liability compared to assumptions used by others could result in a liability being at 103.1% using an average of all the actuaries.</p> <p>Management obtained an updated valuation in July 2019 to account for changes in asset values since the initial IAS 19 report was issued in May 2019. This resulted in a decrease in pension scheme assets of £532,000. This updated valuation also takes into consideration an approximate allowance for the impact of GMP equalisation changes of 0.33% of total liabilities of £534,000, and the impact of McCloud judgement of 0.04% of total liabilities of £60,000.</p> <p>The total impact on the net liability arising from the defined benefit obligation is an increase of £1.134 million. These changes were made to the revised financial statements.</p> <p>We received a letter of assurance from the auditor of Hertfordshire Pension Fund over controls to maintain accurate pension records and information provided to the actuary. No exceptions have been brought to our attention.</p>

USE OF RESOURCES

Audit conclusion on use of resources

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 risks that had the greatest effect on our audit strategy.

Risk description	How the risk was addressed by our audit	Results
Sustainable finances	<p>We carried out the following planned audit procedures:</p> <ul style="list-style-type: none">• Reviewed the assumptions used in the Medium Term Financial Strategy and assessed the reasonableness of cost pressures;• Monitored the delivery of the budgeted savings in 2018/19 and the plans to reduce service costs and increase income from 2018/19; and• Reviewed the strategies to close the budget gap in the medium term.	<p>The Council budgeted to spend £15.085 million on General Fund services in 2018/19 (incorporating a savings target of £1.8 million). The actual cost of services in 2018/19 was £15.218 million, an overspend of £133,000. Overall, the general fund balance decreased to £3.648 million which remains above the minimum level of £2.5 million recommended by the Section 151 Officer.</p> <p>The Council achieved its savings target for the year. The planned savings for 2019/20 of £1.8 million have all been identified. Revised budget gaps of £800,000 have been identified per annum for the three years from 2020/21. This is a reduction on the budget gap compared to the previous MTFS update.</p> <p>Overall, the Council needs to continue to monitor and address the costs incurred in the demand-led services, the delivery of the savings necessary to meet the MTFS and the impact of the changes being implemented on the delivery of services, to ensure that there are no unanticipated detrimental outcomes. Although the challenges are significant, the Council is well aware of this and is working to address them. We are therefore content there is no impact on our use of resources conclusion.</p>

REPORTS ISSUED AND FEES

Fees summary

	2018/19 Final £	2018/19 Planned £
Audit fee - PSAA scale fee	46,226	46,226
Non-audit assurance services:		
Fees for reporting on government grants:		
• Housing benefits subsidy claim	*	7,000
• Pooling of housing capital receipts return	**	2,200
Fees for other non-audit services	TBC	9,200
Total fees	TBC	55,426

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

**Work has not commenced and so we are unable to conclude on the final fee until the work is complete.

Communication

Reports	Date	To whom
Audit plan	March 2019	Audit Committee
Audit completion report (draft)	23 July 2019	Audit Committee
Audit completion report (final)	31 July 2019	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 organisation and may not be quoted nor copied without our prior written consent. No responsibility to any third party is accepted.

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