

St Albans City & District Council

Audit Committee Summary

For the year ended 31 March 2014

Audit Results Report – ISA (UK & Ireland) 260

22 September 2014



Building a better
working world

Mark Hodgson, Director
mhodgson@uk.ey.com

Stephen Bladen, Manager
sbladen@uk.ey.com

Contents

- ▶ Executive summary
- ▶ Extent and progress of our work
- ▶ Addressing audit risk
- ▶ Financial statements audit – issues and findings
- ▶ Arrangements to secure economy, efficiency and effectiveness
- ▶ Independence and audit fees
- ▶ Appendix 1 – Corrected misstatements
- ▶ Appendix 2 – Uncorrected audit misstatements

Executive summary

Key findings

Audit results and other key matters

The Audit Commission's Code of Audit Practice (the Code) requires us to report to those charged with governance – the Audit Committee - on the work we have carried out to discharge our statutory audit responsibilities together with any governance issues identified.

This report summarises the findings from the 2013/14 audit which is substantially complete. It includes the messages arising from our audit of your financial statements and the results of the work we have undertaken to assess your arrangements to secure value for money in your use of resources.

Financial statements

- ▶ As of 22 September 2014, we expect to issue an unqualified opinion on the financial statements.

Value for money

- ▶ We expect to conclude that you have made appropriate arrangements to secure economy, efficiency and effectiveness in your use of resources.

Whole of Government Accounts

- ▶ Alongside our work on the financial statements, we also review and report to the National Audit Office on your Whole of Government Accounts return. We have noted the adjustments to the financial statements in our submission.

Audit certificate

- ▶ The audit certificate is issued to demonstrate that the full requirements of the Audit Commission's Code of Audit Practice have been discharged for the relevant audit year. We expect to issue the audit certificate at the same time as the audit opinion.

Extent and purpose of our work

The Council's responsibilities

The Council is responsible for preparing and publishing its Statement of Accounts, accompanied by the Annual Governance Statement. In the Annual Governance Statement, the Council reports publicly on the extent to which it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in the year, and on any planned changes 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.

Purpose of our work

Our audit was designed to:

- Express an opinion on the 2013/14 financial statements
- Report on any exception on the governance statement or other information included in the foreword
- Consider and report any matters that prevent us being satisfied that the Council had put in place proper arrangements for securing economy, efficiency and effectiveness in the use of resources (the Value for Money conclusion)

In addition, this report contains our findings related to the areas of audit emphasis, our views on the Council's accounting policies and judgments and significant deficiencies in internal control.

As a component auditor, we also follow the group instructions and send to the National Audit Office our group assurance certificate, audit results report and auditor's report on the consolidation schedule.

This report is intended solely for the information and use of the Council. It is not intended to be and should not be used by anyone other than the specified party.

Addressing audit risks

Significant audit risks

We identified the following audit risks during the planning phase of our audit, and reported these to you in our Audit Plan. Here, we set out how we have gained audit assurance over those issues.

Audit risk identified within our Audit Plan	Audit procedures performed	Assurance gained and issues arising
Significant audit risks (including fraud risks)		
<p><u>Fraud and Management Override Risk</u></p> <p>As identified in ISA (UK & Ireland) 240, management is in a unique position to perpetrate fraud because of their ability to directly or indirectly manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.</p> <p>An area we identified as being susceptible to manipulation is the capitalisation of revenue expenditure on Property, Plant and Equipment.</p>	<ul style="list-style-type: none"> • Tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements; • Reviewed accounting estimates for evidence of management bias; • Evaluated the business rationale for any significant unusual transactions; and • Tested additions to the Property Plant and Equipment balance to ensure they are properly classified as capital expenditure. 	<p>All our planned procedures are complete. There are no findings that indicate a risk of misstatement due to fraud or error.</p>

Addressing audit risks

Significant audit risks

We identified the following audit risks during the planning phase of our audit, and reported these to you in our Audit Plan. Here, we set out how we have gained audit assurance over those issues.

Audit risk identified within our Audit Plan	Audit procedures performed	Assurance gained and issues arising
Significant audit risks (including fraud risks)		
<p><u>Localisation of Business Rate Retention</u></p> <p>Significant changes in the arrangements for Non Domestic Rates meant that individual councils now need to provide for rating appeals. This includes not only claims from 1 April 2013, but claims that relate to earlier periods. Our audit plan identified the estimation of this provision as a significant risk.</p>	<ul style="list-style-type: none"> We will review the detailed accounting for business rates to ensure the Council's accounts are materially accurate and compliant with the CIPFA Code of Practice. We will review the Council's provision for business rate appeals to ensure it has been calculated on a reasonable basis in line with IAS 37. As part of this we will ensure the provision is supported by appropriate evidence and that the level of estimation uncertainty is adequately disclosed in the accounts. 	<p>Management identified that provision included in the draft financial statements, certified by the Deputy Chief Executive (Finance) on 30 June 2014, was understated by £0.913 million as it did not reflect an estimate of appeals which could be received at some point in the future. The Collection Fund provision has been adjusted for this amount.</p> <p>The Council's share (40%) of this additional provision was £0.365 million and this has been adjusted within the Balance sheet.</p> <p>All our planned procedures are in relation to this provision are now complete. We have no significant matters to bring to your attention in this regard.</p>

Addressing audit risks (Continued)

Significant audit risks

Audit risk identified within our Audit Plan	Audit procedures performed	Assurance gained and issues arising
Significant audit risks (including fraud risks)		
<p><u>Property, Plant & Equipment</u></p> <p>The valuation of property assets represents a significant accounting estimate that has a material impact on the financial statements.</p>	<p>Our approach focussed on:</p> <ul style="list-style-type: none"> • Procedures designed to confirm we can place reliance on management's expert. • Consideration of the accounting treatment and basis of valuation • Reconciliation of valuation report with data recorded in the Council's Fixed Asset Register / General Ledger. • Transaction testing as required. 	<p>We identified that the Council had applied a single compound percentage increase to the value of Council Dwellings, calculated on the basis of those dwellings subject to revaluation in 2013/14.</p> <p>We considered that the use of a single compound percentage increase had the potential to under state the value of Council Dwellings. The Council should have applied the revaluation percentage uplifts per class of asset type. The Council undertook an analysis of the impact of this and found that the carrying value of Council Dwellings was overstated by £14.399 million. We are comfortable with the revised methodology applied by the Council. The Council has amended the financial statements for this error.</p> <p>All our planned procedures are now complete. We have no further matters to bring to your attention in this regard.</p>

Financial statements audit

Issues and misstatements arising from the audit

Progress of our audit

- The following areas of our work programme remain to be completed:
 - ▶ Complete our testing of income and expenditure recorded in the comprehensive Income and Expenditure Account.
 - ▶ Complete our testing of the collection fund.
 - ▶ Complete our internal review procedures on completion of audit fieldwork,

We will provide an update of progress at the Audit Committee meeting

Subject to the satisfactory resolution of the above items, we propose to issue an unqualified audit report on the financial statements.

Corrected Misstatements

- Our audit identified a small number of errors which we have highlighted to management. A number of these have been adjusted during the course of our work. Details of the significant corrected misstatements are set out at Appendix 1.
- Our audit also identified a limited number of disclosure errors which our team have highlighted to management for amendment. All of these have been adjusted during the course of our work.

- The most significant of these was in relation to the disclosures made in relation to the pension fund, where the prior period comparatives within the net cost of services on the Comprehensive Income and Expenditure Statement were not fully restated to reflect the impact of changes in IAS19 Employee Benefits.

Uncorrected Errors

- On the basis of the work completed to date, we have identified one misstatement within the draft financial statements, which management has chosen not to adjust.
- While management has adjusted the financial statements to correct the value at which council dwellings are disclosed as referred to earlier in this report (Page 7), management has not adjusted for the additional depreciation charge that would arise from the increase in value. We estimate this additional charge to be £0.357 million. Details of the uncorrected misstatements are set out at Appendix 2.

Financial statements audit (continued)

Internal Control, Written Representations & Whole of Government Accounts

Other Matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we are required to communicate to you significant findings from the audit and other matters that are significant to your oversight of the Council's financial reporting process including the following:

- Qualitative aspects of your accounting practices; estimates and disclosures;
- Matters specifically required by other auditing standards to be communicated to those charged with governance. For example, issues about fraud, compliance with laws and regulations, external confirmations and related party transactions; and,
- Any significant difficulties encountered during the audit; and
- Other audit matters of governance interest.

We have no matters we wish to report.

Internal Control

It is the responsibility of the Council to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility as your auditor is to consider whether the Council has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

We have tested the controls of the Council only to the extent necessary for us to complete our audit. We are not expressing an opinion on the overall effectiveness of internal control.

We have reviewed the Annual Governance Statement and can confirm that:

- ▶ It complies with the requirements of CIPFA/SOLACE Delivering Good Governance in Local Government Framework; and
- ▶ It is consistent with other information that we are aware of from our audit of the financial statements.

We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements of which you are not aware.

Financial statements audit (continued)

Internal Control, Written Representations & Whole of Government Accounts

Request for written representations

We have requested a management representation letter to gain management's confirmation in relation to a number of matters. We have not requested any specific representations

Whole of Government Accounts

Alongside our work on the financial statements, we also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of our review and the nature of my report are specified by the National Audit Office.

The Council's WGA return fell below the threshold for a full audit. We therefore only undertook the limited procedures required in such circumstances.

We have no matters to report.

Arrangements to secure economy, efficiency and effectiveness

The Code of Audit Practice (2010) sets out our responsibility to satisfy ourselves that St Albans City & District Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. In examining the Council's corporate performance management and financial management arrangements, we have regard to the following criteria and focus specified by the Audit Commission.

Criteria 1 - Arrangements for securing financial resilience

▶ *“Whether the Council has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future”*

We did not identify any significant risks in relation to this criteria, although we did consider how the Council was managing the risks arising from the financial pressures facing local government following the recent economic downturn, the localisation of business rates, and the Council's approach to the development and implementation of Council Tax Support.

We have no issues to report in relation to this criteria.

Criteria 2 - Arrangements for securing economy, efficiency and effectiveness

▶ *“Whether the Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.”*

We did not identify any significant risks in relation to this criteria.

We have no issues to report in relation to this criteria.

Independence and audit fees

Independence

- ▶ We confirm there are no changes in our assessment of independence since our confirmation in our Audit Plan dated 17 March 2014.
- ▶ We complied with the Auditing Practices Board's Ethical Standards for Auditors and the requirements of the Audit Commission's Code of Audit Practice and Standing Guidance. 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 of regulatory and professional requirements.
- ▶ We confirm that we are not aware of any relationships that may affect the independence and objectivity of the firm that we are required by auditing and ethical standards to report to you.
- ▶ We consider that our independence in this context is a matter that should be reviewed by both you and ourselves. It is therefore important that you consider the facts of which you are aware and come to a view.

If you wish to discuss any matters concerning our independence, we will be pleased to do so at the forthcoming meeting of the Audit Committee on 24 September 2014.

- ▶ We confirm that we have met the reporting requirements to the Audit Committee, as 'those charged with governance' under International Standards on Auditing (UK&I) 260. Our communication plan to meet these requirements was set out in our Audit Plan of 17 March 2014.

Audit fees

The table below sets out the scale fee and our final proposed audit fees.

	Proposed final fee 2013-14	Scale fee 2013-14	Variation comments
	£s	£s	
Total audit fee - Code work	81,049	79,145	See Note 1 below

- ▶ Note 1 - Our proposed final fee for 2013/14 includes a variation to the scale fee of £1,904. The variation arises from additional work we have performed in relation to a number of items of correspondence we received from members of the public. This work falls outside the requirements upon which the original scale fee was based and the variation has now been approved by the Audit Commission.
- ▶ We confirm that we have not undertaken any non-audit work outside of the Audit Commission's Audit Code requirements.

Appendix 1 - Corrected audit misstatements

Balance Sheet and Statement of Comprehensive Income and Expenditure

Item of Account	Nature	Type	Balance Sheet	Statement of Comprehensive Income & Expenditure
	Description	F, P, J	Debit/(Credit)	Debit/(Credit)
1. Balance Sheet - Property, Plant & Equipment	The Council applied a single compound percentage valuation uplift to Council Dwellings, when the relevant percentage per asset type should have been applied across those asset types.		£000	£000
2. Balance Sheet - Revaluation Reserve			(14,399)	
3. CIES - Housing Revenue Account		F	11,223	3,176
4. Balance Sheet - Capital Adjustment Account			3,176	
5. CIES - Capital Adjustment Account transfer (MIRS)				(3,176)
Cumulative effect of uncorrected misstatement			Nil	Nil

Key

- ▶ F – Factual misstatement / P – Projected misstatement based on audit sample error and population extrapolation / J – Judgemental misstatement

Appendix 1 - Corrected audit misstatements

Disclosures

Disclosure	Collection Fund
1. Collection Fund Statement	<p>The Business Rate provision for appeals (Non Domestic Rates) did not include an estimate of the impact of future claims not yet received. A further analysis by officers estimated this to be £0.913 million.</p> <p>The Council's share of this is £0.365 million with adjustments made within the Balance sheet and the Comprehensive Income and Expenditure Statement.</p> <p>There are consequential adjustments for how the 'Surplus on the Collection Fund' is distributed amongst precepting bodies.</p>

Key

- ▶ F – Factual misstatement
- ▶ P – Projected misstatement based on audit sample error and population extrapolation
- ▶ J – Judgemental misstatement

Appendix 2 - Uncorrected audit misstatements

The following misstatement, which is greater than £105,000 have been identified during the course of our audit. This mis-statement has not been corrected by management.

Balance Sheet and Statement of Comprehensive Income and Expenditure

Item of Account	Nature	Type	Balance Sheet	Statement of Comprehensive Income & Expenditure
	Description	F, P, J	Debit/(Credit) £000	Debit/(Credit) £000
1. Balance Sheet - Property, Plant & Equipment (Council Dwellings)	Reduction in depreciation charge arising from the amendment for the overstatement of the Property Plant & Equipment (Council Dwellings) balance (Appendix 1).	F	357	
2. CIES - Depreciation charge				(357)
Cumulative effect of uncorrected misstatement			357	(357)

Key

- ▶ F – Factual misstatement
- ▶ P – Projected misstatement based on audit sample error and population extrapolation
- ▶ J – Judgemental misstatement

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

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

In March 2010 the Audit Commission issued a revised version of the 'Statement of responsibilities of auditors and audited bodies' (Statement of responsibilities). It is available from the Chief Executive of each audited body and via the [Audit Commission's website](#).

The Statement of responsibilities serves as the formal terms of engagement between the Audit Commission's 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 Standing Guidance serves as our terms of appointment as auditors appointed by the Audit Commission. The Standing Guidance sets out additional requirements that auditors must comply with, over and above those set out in the Code of Audit Practice 2010 (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Audit Results Report 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.

