

St Albans City & District Council

Audit results report for the year ended 31 March 2015

28 September 2015

Ernst & Young LLP



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working world

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Members of the Audit Committee
St Albans City & District Council
Civic Centre
St Albans AL1 3JE

28 September 2015

Dear Members

Audit results report

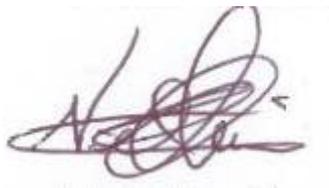
We are pleased to attach our audit results report for the Audit Committee. This report summarises the results of audit work in relation to St Albans City & District Council for the year ended 31 March 2015.

The audit is designed to express an opinion on the Council's 2014/2015 financial statements, to reach a conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in the use of resources, and to address current statutory and regulatory requirements. This report contains our findings on the areas of audit emphasis, our views on the Council's accounting policies and judgments, and any significant deficiencies in internal control.

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

We welcome the opportunity to discuss the contents of the report with you at the forthcoming Audit Committee meeting.

Yours faithfully
For and on behalf of Ernst & Young LLP



Neil Harris
Ernst & Young LLP
United Kingdom
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Relevant parts of the Audit Commission Act 1998 are transitionally saved by the Local Audit and Accountability Act 2014 (Commencement No. 7, Transitional Provisions and Savings) Order 2015 for 2014/15 audits.

The Audit Commission's '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](#). This document 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.

1. Executive Summary

The Council is responsible for preparing and publishing its Statement of Accounts, accompanied by an Annual Governance Statement (AGS). In this 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 any planned changes in the coming period.

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

As auditors we are responsible for:

- ▶ Expressing an opinion on:
 - ▶ the 2014/15 financial statements; and
 - ▶ the consistency of other information published with the financial statements.
- ▶ Reporting by exception where the Annual Governance Statement (AGS) does not comply with relevant guidance.
- ▶ Reviewing and reporting on the Council's Whole of Government Accounts (WGA) return.
- ▶ Forming a conclusion on the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources.
- ▶ Discharging the powers and duties set out in the Audit Commission Act 1998 and the Code of Audit Practice.

This report also contains our findings on the areas of audit emphasis and any significant deficiencies in internal control or views on the Council's accounting policies and judgements.

Summarised below are the conclusions from all elements of our work:

Financial statements

We have performed the procedures outlined in our Audit Plan. On the 29 September 2015, we anticipate issuing an unqualified opinion on the Council's financial statements.

Our main audit findings are set out below.

Significant risks:

Significant risk1: Risk of management override

To address the risk identified in our Audit Plan, we have:

- ▶ 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 and the business rationale for unusual transactions.
- ▶ Undertook sample testing on capital expenditure, ensuring it meets the definition of capital expenditure as set out in the Code.

We have no matters to report to you in this regard.

Significant risk 2: Property asset valuation and accounting

To address the risk identified in our Audit Plan, we have:

- ▶ Tested the reliability of the expert valuers employed by management, (placing reliance on experts commissioned by the Audit Commission in respect of land and property values, and our own valuation specialists);
 - ▶ Sample tested the accounting entries applied to a sample of assets subject to valuation in 2014/15, confirming that these entries were correctly stated in the Council's general ledger and financial statements, and that the entries were consistent with the underlying valuation provided by the Council's valuer.
-

Significant risks:

We have no matters to report to you in this respect.

During 2014/15 that Council revised the basis on which it calculates depreciation charges on council dwellings. Revisions include the recognition of a greater number of components, and a revision to the life of those components to reflect the expected pattern of consumption of those assets. In relation to the change in estimation technique we:

- ▶ Consulted with the firms technical network to confirm that the Council's approach was compliant with underlying guidance, including the Code.
- ▶ Consulted with EY's valuation team to confirm that the components recognised by the Council were significant in relation to the total cost of the item, and should therefore be depreciated separately.
- ▶ Sample tested the depreciation calculation for a sample of assets, confirming that depreciation charge was consistent with the estimated useful life, and that the accounting entries were correctly reflected in the Council's general ledger and financial statements.

We identified that further disclosure was required within the financial statements around the nature of the change in accounting estimate, and the effect of this on future depreciation charges. The Council amended its financial statements to reflect this point. We have no further matters to report to you in this area.

Summary of audit differences

Our audit identified a number of misstatements in the accounts presented for audit, as summarised below. Further narrative on these matters is provided in section 8 of our report.

- ▶ A misclassification error between current and non-current liabilities was identified. This misstatement has been corrected. This adjustment has no impact on the Council's net assets, or its useable reserves. Management have updated the financial statements, and disclosure notes within a number of areas including:-
 - ▶ Restated prior year comparators to reflect a change in accounting policy with regard to the write-out of capital additions that do not add to the asset value.
 - ▶ Provided further disclosure on the effects of a change in the estimation basis for depreciation charges.
 - ▶ Updated the narrative on Related Party Transactions, reflecting the value of asset transfers to related parties.
 - ▶ Updated disclosure around estimation uncertainty inherent in the calculation of provisions recognised to reflect future losses arising from appeals against the rateable value of commercial properties.
-

Economy, efficiency and effectiveness

We have performed the procedures we outlined in our Audit Plan. We expect to issue an unqualified value for money conclusion. We have identified some challenges for the Council. These include the need to identify and implement sustainable savings and cost improvement measures to address the budget gaps highlighted within the Council's 10 year budget forecast, and at the same time maintain an appropriate level of reserves.

Whole of Government Accounts

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

Objections and Questions from Members of the Public

Market Street Controlled Parking Zone

We reported to you in our Audit Plan that we had received correspondence from an organisation representing the interest of motorists. This correspondence contends that income received by the Council from enforcement action taken in relation to the Market Street controlled parking zones is ultra vires, as the restrictions giving rise to the enforcement action have not been adequately made known to motorists by means of appropriate traffic signs.

We are satisfied the Council acted properly in responding to this matter. Steps taken by the Council included seeking legal advice, and suspending enforcement of the Order giving effect to the parking restrictions. Income received by the Council in 2014/15 until suspension of the Order was £3,317. In our opinion it is likely the courts would conclude that the Order, and any penalty charge notices issued in enforcement of that Order, are unlawful. Given the relatively small value of this income, we do not consider it cost effective or proportionate to seek a declaration to the courts on this matter.

Objection to Financial Statements

Following publication of the draft financial statements by the Council, we received correspondence in August 2015 from a member of the public setting out an intention to object to the Council draft financial statements. A number of comments and questions were raised on the draft accounts, covering the following themes:

- ▶ The clarity of disclosures within the financial statements, particularly around the narrative accompanying numerical disclosures within the Explanatory Foreword.
- ▶ Explanations within the financial statements for significant year-on-year variances in amounts reported in the financial statements.
- ▶ The completeness of disclosures in relation to related parties.

We agreed with the member of the public and the Council that rather than treat this as a formal objection to the accounts at the time, steps would be taken by the Council's finance team to respond to each of the individual points and where appropriate revisions to the draft financial statements. This process was concluded in early September 2015, with the production of written responses, revised financial statements and concluding discussions. We consider we have concluded on the matters giving rise to the concerns raised by the member of the public.

We therefore plan to issue our completion certificate along with our opinion and value for money conclusion on 29 September 2015.

Status of our Audit

Our audit work for our opinion on the Council's financial statements is substantially complete. The following items were outstanding at the date of this report which we expect to conclude by the 29 September 2015.

- ▶ Approval of the financial statements by the Audit Committee.
- ▶ Receipt of a signed letter of representation.
- ▶ Completion of our testing of the Council's NDR appeals provision.
- ▶ Complete our review of the final version of the financial statements.
- ▶ Completion of our internal review and quality control procedures.

We will provide an update to the Committee on these matters at its meeting on 29 September 2015.

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.

2. Scope update

Our 2014/15 audit work has been undertaken in accordance with the Audit Plan issued on 23 March 2015, the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the Audit Commission.

Our work comprises a number of elements. Our Audit Plan provided you with an overview of our audit scope and approach for:

- ▶ Expressing an opinion on:
 - ▶ the 2014/15 financial statements; and
 - ▶ the consistency of other information published with the financial statements,
- ▶ Reporting by exception where the Annual Governance Statement (AGS) does not comply with relevant guidance.
- ▶ Reviewing and reporting on the Council's Whole of Government Accounts (WGA) return.
- ▶ Forming a conclusion on the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources.
- ▶ Discharging the powers and duties set out in the Audit Commission Act 1998 and the Code of Audit Practice.

We carried out our work in accordance with our Audit Plan.

3. Significant findings from the financial statement audit

In this section of our report we outline the main findings from our audit of your financial statements, including our conclusions on the areas of risk/ audit emphasis outlined in our Audit Plan.

Significant risk 1: Risk of management override of controls

Description and conclusion

As identified in ISA (UK and 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.

We:

- ▶ 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 and the business rationale for unusual transactions.
- ▶ Undertook sample testing on capital expenditure, ensuring it meets the definition of capital expenditure as set out in the Code.

Significant risk 2: Property asset valuation and accounting

Description and conclusion

The Council undertakes an annual exercise to revalue property assets (including its social housing stock and investment property assets). The valuation of these assets represents a significant accounting estimate. The accounting entries arising from changes in value are complex and will have a significant impact on the Council's financial statements. The Council's Fixed Asset Register is unable to calculate the accounting entries arising from changes in the valuation of these assets. The Council is therefore reliant on excel-based spreadsheets to manually calculate the accounting entries, using data provided by the Council's valuer and historic data recorded on the Council's Fixed Asset Register.

During 2014/15 that Council revised the basis on which it calculates depreciation charges on council dwellings. Revisions include the recognition of a greater number of components, and a revision to the life of those components to reflect the expected pattern of consumption of those assets.

Taken together, we considered that these factors presented a significant risk to the financial statements, and we undertook specific testing to address this risk.

In relation to this risk we:

- ▶ Tested the reliability of the expert valuers employed by management, (placing reliance on experts commissioned by the Audit Commission in respect of land and property values, and our own valuation specialists).
- ▶ Sample tested the accounting entries applied to a sample of assets subject to valuation in 2014/15, confirming that these entries were correctly stated in the Council's general ledger and financial statements, and that the entries were consistent with the underlying valuation provided by the Council's valuer.
- ▶ Consulted with EY's valuation team to confirm that the components recognised by the Council were significant in relation to the total cost of the item, and should therefore be depreciated separately.
- ▶ Sample tested the depreciation calculation on a sample of assets, confirming that the depreciation charge was consistent with the estimated useful life, and that the accounting entries were correctly reflected in the Council's general ledger and financial statements.

Our testing identified that further disclosure was required within the financial statements around the nature of the change in accounting estimate, and the effect of this on future depreciation charges. The Council amended its financial statements to reflect this point.

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we are required to report on:

- ▶ significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures;
- ▶ significant difficulties, if any, encountered during the audit;
- ▶ significant matters, if any, arising from the audit that were discussed with management;
- ▶ written representations we are seeking;
- ▶ expected modifications to the audit report;
- ▶ other matters if any, significant to the oversight of the financial reporting process;
- ▶ findings and issues regarding the opening balance on initial audits (if applicable);
- ▶ related parties;
- ▶ external confirmations;
- ▶ going concern; and
- ▶ consideration of laws and regulations.

We have the following matters we wish to report to you:

Written representations we are seeking

ISA (UK and Ireland) 580 requires the auditor to obtain written representation that management has fulfilled its responsibility for the preparation of the financial statements including where relevant their fair presentation, as set out in the terms of the audit engagement. We have set out the representations we are seeking from the Council at Appendix C.

In addition to the standard representations we would seek on any audit engagement, we are seeking specific representations with regard to the Council's estimate of the liability disclosed in the Collection Fund arising from appeals lodged against the rateable value of business premises.

On 1 April 2013 Local Authorities assumed the liability for successful appeals against business rates charged to businesses in 2014/15 and prior years. The Council have therefore recognised an estimate of its likely liability from successful appeals received to 31 March 2015. The extent to which outstanding appeals will be successful is unknown, and estimation techniques have been applied to the outstanding appeals using historic data on success rates, and data from the Valuation Office.

In estimating the value of the provision, management have made a number of judgements and assumptions that are not readily corroborated by other evidence. We are therefore seeking the following specific representations from the Council:

- ▶ Confirmation that the Council's provision considers all appeals lodged with the Valuation Office by 31 March 2015.
- ▶ Confirmation that you are not aware of any information that would indicate appeals submitted towards the end of the financial year 2014/15 are speculative in nature, and are therefore less likely to be successful than appeals submitted throughout the remainder of the year.

- ▶ Confirmation that you have reviewed appeals in relation to properties with a high rateable value, and that you consider the likely success rates to be no different to appeals on properties with a lower rateable value.

We have set out in full the representations we are seeking from the Council at Appendix C.

Related Parties

As a result of our audit work, the Council has amended the related party disclosures included within the draft financial statements. The amendments disclose the value of assets transferred to related parties at nil consideration.

4. Economy, efficiency and effectiveness

The Code of Audit Practice 2010 sets out our responsibility to satisfy ourselves that the Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources. In examining corporate performance management and financial management arrangements we consider the following criteria 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 operating for the foreseeable future.
- ▶ **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 or improving efficiency and productivity.

Arrangements for securing financial resilience

In our Audit Plan we identified a significant risk in relation to financial resilience. This risk reflected the size of the budget gap faced by the Council over the medium term, resulting primarily from reduced funding from central government. This is in line with the challenges being faced by many other Councils across the United Kingdom.

We have set out below further details on how the Council has responded to the challenges it is facing, along with our understanding of the current financial position. In our view the challenge faced by the Council is considerable, and there are a number of uncertainties that could yet have a significant impact on future financial stability of the Council, not least the upcoming Autumn 2015 Spending Review.

Current budget gap

The Council's 10 year budget forecast prepared in December 2014 identified a cumulative budget gap of £2.4 million over the three years 2015/16 to 2017/18. Since that time, the Council has achieved the majority of the £917,000 savings required to achieve a balanced budget in 2015/16. This leaves a residual budget gap of £1.5 million to be addressed in 2016/17 and 2017/18. The Council has started work on identifying the savings of £751,000 necessary to deliver a balanced budget in 2016/17, although these are yet to be delivered.

This budget gap would be greater if the Council did not receive £3 million of grant funding from the New Homes Bonus in 2015-16. While there is currently no indication that central government will cease or reduce the New Homes Bonus, reliance on this uncertain funding stream does, however, represent a risk to the financial resilience of the Council. If this funding ceased the Council's budget gap over the period to 2015/16 – 2016/17 would rise to £4.5 million.

Medium Term Financial Strategy (MTFS) and key assumptions

The Council does not prepare and publish a MTFS, although the key components of a MTFS are prepared and presented annually to Members as part of the Council's budget setting process.

Key assumptions made by the Council when setting its budget include estimates of the future levels of Government grant funding (including Revenue Support Grant and New Homes Bonus). As noted above, any reduction in these, or other Government funding, would present a risk to achievement of the Council's future budgets.

Other key assumptions included within the Council's budget are:

- ▶ Provision is made for inflation on pay, non-pay, and fees and charges.
- ▶ Provision has been made for known items of growth.
- ▶ Increases in Council Tax of 2% have been factored in from 2016/17 onwards.

Actions for the Council

We consider that the Council has most of the elements of a MTFS but this would be improved by combining this into a comprehensive and standalone document. In our view this would facilitate improved governance and monitoring of the Council's financial position.

Reserves and balances

At the end of the 2014/15 financial year the level of unearmarked general fund reserves was £1.7 million. In addition to the General Fund balance, the Council has earmarked reserves of £6.6 million. While these reserves are currently earmarked to meet specific items these could also be released to support the Council's budget if needed.

In our view, the total reserves available to the Council to support the general fund are £3.2 million (available down to the minimum level required of £1.5 million as set by the Council's s151 officer). These levels of general and earmarked reserves are lower than the average of district councils' reserves as a percentage of total spend. While the Council's current budget plans are not predicated on the use of reserves, the overall level of reserves available to the Council leave limited scope to meet unexpected financial pressures.

Actions for the Council

In considering the Council's level of reserves and balances, we noted that many of the earmarked reserves have been held for a number of years, with few sums transferred into, or out of, those reserves. In particular, we noted that 'Other' Earmarked Reserves of £689,000 comprises 38 separate reserves with a value ranging from £256 to £81,360.

The Council should review and assess whether there is a continued need to hold these reserves and, where there is not return those reserves to general reserves. We also consider the Council should update its policy on the use of earmarked reserves, including all of the relevant elements within the guidance in Local Authority Accounting Panel Bulletin 99.

Arrangements for securing economy, efficiency and effectiveness

We did not identify any significant risks in relation to this criterion, and have no issues to report in relation to this criterion.

Our work did not identify any other matters relating to aspects of the Council's corporate performance and financial management framework which are not covered by the scope of the two specified criteria above.

5. 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.

The matters reported below are limited to those deficiencies that we identified during the audit and that we concluded are of sufficient importance to merit being reported to you.

5.1 Current year observations

Description	Impact
<p>The Council has engaged a third party to assist it in estimating the likely impact of appeals lodged with the Valuation Office against the rateable value of business premises.</p> <p>In testing this estimate, we sought information to support the judgements made in calculating the estimate, and evidence underlying calculation of the estimate. Responses to our requests have often been piecemeal as the Council did not have a clear understanding of the methodology applied by the third party.</p> <p>As noted above our work on this estimate is currently in progress. We will update Members on progress in completing this work at the Audit Committee on 29 September.</p>	<p>Without a clear understanding of the work undertaken on its behalf by third parties, the Council is unable to sufficiently review and validate its provision for business rate appeals.</p> <p>It has also led to delays in completing our testing of this significant estimate.</p>
<p>Our sample testing of expenditure reported within the Comprehensive Income and Expenditure Statement included a number of payments related to refuse collection. In testing this expenditure, we sought to confirm the value of the payment against the underlying contract. However, at the time this testing was undertaken, the Council were unable to provide us with up to date payment schedules for all elements of the contract that would have provided evidence of the amounts due.</p> <p>We have now been able to obtain the evidence necessary to support our audit opinion through reconciliation to the overall contract value reported to Committee at the point the contract was let.</p>	<p>Without access to an up to date payment schedule, it is unclear how officers have confirmed that claims for payment submitted by the Council's contractor are accurate in advance of those claims being authorised for payment.</p> <p>It has also led to delays in completing our testing of this significant estimate.</p>

6. Status of our work

6.1 Financial statement audit

Our audit work for our opinion on the Council's financial statements is substantially complete. The following items were outstanding at the date of this report.

Item	Actions to resolve	Responsibility
Letter of representation	To be considered at Audit Committee on 29 September 2015	Management and Audit Committee
Annual accounts	<ul style="list-style-type: none"> ▶ Approval of accounts by Audit Committee. ▶ Complete our review of the final version of the financial statements. ▶ Completion of our internal review and quality control procedures. 	Management, Audit Committee and EY

On the basis of our audit work to date, we anticipate issuing an unqualified auditor's report on the Council's financial statements on the 29th September 2015. However, until we have completed our outstanding procedures, it is possible that further matters requiring amendment may arise.

6.2 Economy, efficiency and effectiveness

Our work in respect of our conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources is complete.

We expect to present a qualified value for money conclusion on the Council's arrangements to ensure economy, efficiency and effectiveness in its use of resources.

6.3 Objections and Questions from Members of the Public

During the course of our audit we have dealt with two issues raised with us by members of the public.

Income from Market Street Controlled Parking Zone

We reported to you in our Audit Plan that we had received correspondence from an organisation representing the interest of motorists. This contends that income received by the Council from enforcement action taken in relation to the Market Street controlled parking zones is ultra vires, since the restrictions giving rise to the enforcement action have not been adequately made known to motorists by means of appropriate traffic signs.

We are satisfied that the Council has acted properly in responding to this matter. Steps taken by the Council included:

- ▶ Obtaining advice from Legal Counsel.
- ▶ On the basis of that advice suspended enforcement action pending replacement of the Order giving effect to the controlled parking zone.
- ▶ Giving due consideration of whether the Council has a legal obligation to refund money paid on historic Penalty Charge Notices that have not been appealed.

Between the 1 April 2014, and the suspension of the Order giving effect to the controlled parking zone, Council have provided explanations to demonstrate that income received from enforcement action totalled £3,317. This income is included within the Council's 2014/15 financial statements.

On the basis of Counsel's advice to the Council, in our opinion it is likely the courts would conclude that the Order, and any penalty charge notices issued in enforcement of that Order, are unlawful. However, given the value of the income attributable to this, we do not consider it cost effective or proportionate to seek a declaration to the courts on this matter.

Questions on the 2014/15 Draft Financial Statements

Following publication of the draft financial statements by the Council, we received correspondence from a member of the public indicating an intention to object to the Council's draft financial statements. This covered a number of detailed points, particularly:

- ▶ The clarity of disclosures within the financial statements, particularly around the narrative accompanying numerical the numerical disclosures within the Explanatory Foreword.
- ▶ The reasons for significant variances between amounts reported in the 2013/14 financial statements, and amounts reported in the 2014/ 15 financial statements, particularly in relation to capital expenditure, and the losses arising on disposal of capital items.
- ▶ The completeness of disclosures in relation to related parties.

We agreed with the member of the public and the Council that rather than treat this as a formal objection to the accounts, steps would be taken by the Council's finance team to respond to each of the individual points and where appropriate revisions to the draft financial statements. This process was concluded in early September 2015, with the production of written responses, revised financial statements and concluding discussions. We consider we have concluded on the matters giving rise to the concerns raised by the member of the public, and plan to issue our completion certificate along with our opinion and value for money conclusion on 29th September 2015.

7. Fees update

A breakdown of our fee is shown below.

	Proposed final fee 2014/15 £'000	Planned fee 2014/15 £'000	Scale fee 2014/15 £'000
Total Audit Fee – Code work	86,045	80,045	80,045
Certification of claims and returns	33,840	33,840	33,840

Our final fee for 2014/15 includes a proposed variation to the scale fee of £6,000. During 2014/15 we have considered a number of matters that represent a change in the scope of our audit and fall outside of the scale fee. These include:

- ▶ Our consideration of correspondence from the public in relation to car parking income, and formal objections received in relation to the financial statements.
- ▶ Our consideration of the effects of the change in accounting policy in relation to the write-off of assets not adding to value, and the testing of subsequent amendments to the financial statements.
- ▶ Our consideration of the change in estimation techniques proposed by management in relation to the componentisation and depreciation of council dwellings.

Our work on the certification of grant claims is currently in progress. Our final fee for this work will be included within our Annual Certification Report for 2014 /15. This will be reported to those charged with governance in January 2016.

8. Summary of audit differences

In the normal course of any audit, we identify differences between amounts we believe should be recorded in the financial statements and amounts actually recorded. These differences are classified as either 'factual' or 'judgemental'. Factual differences represent items that can be accurately quantified and relate to a definite set of facts or circumstances. Judgemental differences generally involve estimation and relate to facts or circumstances which are uncertain or open to interpretation.

We determined planning materiality to be £1.821 million (2014: £2.118 million), which is 2% of gross expenditure reported in the accounts of £91 million. This 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.

We consider gross expenditure to be one of the principal considerations for stakeholders in assessing the financial performance of the Council.

We set our tolerable error for the audit at the lower end of the available range. Tolerable error is the application of planning materiality at the individual account or balance level. It is set to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds planning materiality. The level of tolerable error drives the extent of detailed audit testing required to support our opinion. We set tolerable error at this level as a result of material errors identified in the prior year by our audit.

We have set the threshold at which we report audit differences to the Audit Committee at £91,050 (2014: £105,900).

We also identified the following areas where misstatement at a level lower than our overall materiality level might influence the reader of the accounts. For these areas we developed an audit strategy specific to these areas. The areas identified and audit strategy applied include:

- ▶ **Remuneration disclosures including any severance payments, exit packages and termination benefits.** Our audit strategy was to:
 - ▶ Test the completeness and accuracy of the disclosure by reference to payroll records.
 - ▶ Confirm the disclosures in Notes 32 and 33 were consistent with the Code disclosure requirements.
 - ▶ Sample test transactions to the payroll records and other relevant supporting documentation.
- ▶ **Related party transactions.** Our audit strategy was to
 - ▶ Obtain and review the declarations from senior officers and members of the Council and confirm that transactions with related parties had been correctly disclosed within Note 36.
 - ▶ Confirm the disclosures in Note 36 were consistent with the Code disclosure requirements.
- ▶ **Members' allowances.** Our audit strategy was to
 - ▶ Test the completeness and accuracy of the disclosure by reference to payroll records and other relevant documentation.

- ▶ Confirm the disclosures in Note 31 were consistent with the Code disclosure requirements.

8.1 Uncorrected misstatements

We have no uncorrected misstatements to bring to your attention.

8.2 Corrected misstatements

We highlight in particular the following misstatements identified during the course of our audit, and which have been corrected by management.

- ▶ Tenants' deposits of £0.159 million in relation to commercial properties were incorrectly classified as current liabilities (the amounts are not due for payment within 12 months of the balance sheet date). An amendment has been made to the financial statements to re-classify these amounts as non-current liabilities. This amendment has no impact on the Council's net assets, or its useable reserves.
- ▶ In 2014/15 the Council has amended its accounting policy with regard to treatment of the write-out of capital additions that do not add to the asset value. We concluded that the amendments made by the Council met the criteria set out in IAS 8 for recognition of a change in accounting policy. As such the Council should have prepared restated accounts that removed the effects of the previous accounting policy, and provided a note to the financial statements that set out the impact of the change in accounting policy. The Council have updated their financial statements to address these requirements.
- ▶ During 2014/15 that Council has revised the basis on which it calculates depreciation charges on council dwellings. Revisions include the recognition of a greater number of components, and a revision to the life of those components to reflect the expected pattern of consumption of those assets. We are satisfied that this represents a change in accounting estimate rather than a change in accounting policy. By its nature the change does not therefore relate to prior periods, and the Council are correct to account for the change in accounting estimate prospectively. The Council has, however, amended the disclosures within its financial statements around the nature of the change in accounting estimate, and the effect of this on future depreciation charges.
- ▶ The Explanatory Foreword has been amended to ensure greater consistency with the format of the financial statements.
- ▶ The narrative disclosures made in relation to Related Party Transactions have been amended to include details of the value of assets transferred to related parties.
- ▶ The capital commitments note has been amended to
 - Remove accrued contract retention payments included in error; and
 - Reflect the full value of the commitments in relation to Cotlandswick Leisure Centre.

The effect of these amendments is to reduce the value of capital commitments by £0.5 million to £1.7 million.

9. Independence confirmation: update

We confirm there are no changes in our assessment of independence since our confirmation in our Audit Plan dated 23 March 2015. We complied with the Auditing Practices Board's Ethical Standards for Auditors and the requirements of the Audit Commission's 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 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. If you wish to discuss any matters concerning our independence, we will be pleased to do so at the Audit Committee on 29 September 2015.

Appendix A Required communications with the Audit Committee

There are certain communications that we must provide to the Audit Committee. These are detailed here:

Required communication	Reference
Terms of engagement	The Statement of responsibilities serves as the formal terms of engagement between the Audit Commission's appointed auditors and audited bodies.
Planning and audit approach Communication of the planned scope and timing of the audit including any limitations.	Audit Plan
Significant findings from the audit <ul style="list-style-type: none"> ▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▶ Any significant difficulties encountered during the audit ▶ Any significant matters, arising from the audit that were discussed with management ▶ Written representations we are seeking ▶ Expected modifications to the audit report ▶ Any other matters significant to the oversight of the financial reporting process ▶ 	Audit results report
Misstatements <ul style="list-style-type: none"> ▶ Uncorrected misstatements and their effect on our audit opinion ▶ The effect of uncorrected misstatements related to prior periods ▶ A request that any uncorrected misstatement be corrected ▶ In writing, corrected misstatements that are significant 	Audit results report
Fraud <ul style="list-style-type: none"> ▶ Enquiries of the Audit Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ▶ Any fraud we have identified or information we have obtained indicating that a fraud may exist ▶ A discussion of any other matters related to fraud 	Audit results report
Related parties Significant matters arising during the audit in connection with the entity's related parties including, when applicable: <ul style="list-style-type: none"> ▶ Non-disclosure by management ▶ Inappropriate authorisation and approval of transactions ▶ Disagreement over disclosures ▶ Non-compliance with laws and regulations ▶ Difficulty in identifying the party that ultimately controls the entity 	Audit results report
External confirmations <ul style="list-style-type: none"> ▶ Management's refusal for us to request confirmations ▶ Inability to obtain relevant and reliable audit evidence from other procedures 	Audit results report

Required communication	Reference
<p>Consideration of laws and regulations</p> <ul style="list-style-type: none"> ▶ Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off ▶ Enquiry of the Audit Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit Committee may be aware of 	Audit results report
<p>Independence</p> <p>Communication of all significant facts and matters that bear on EY's objectivity and independence</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> ▶ The principal threats ▶ Safeguards adopted and their effectiveness ▶ An overall assessment of threats and safeguards ▶ Information about the general policies and process within the firm to maintain objectivity and independence 	Audit results report
<p>Going concern</p> <p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> ▶ Whether the events or conditions constitute a material uncertainty ▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▶ The adequacy of related disclosures in the financial statements 	Audit results report
<p>Significant deficiencies in internal controls identified during the audit</p>	Audit results report
<p>Fee reporting</p> <ul style="list-style-type: none"> ▶ Final, planned and scale fee broken down into the headings of Code audit work; certification of claims and returns; and any non-audit work (or a statement to confirm that no non-audit work has been undertaken for the body). 	Audit Plan and Audit results report
<p>Summary of certification work undertaken</p> <ul style="list-style-type: none"> ▶ Annual report to those charged with governance summarising the certification work undertaken 	Annual Certification Report – to be issued in January 2016.

Appendix B Letter of representation

ISA (UK and Ireland) 580 requires the auditor to obtain written representation that management has fulfilled its responsibility for the preparation of the financial statements including where relevant their fair presentation, as set out in the terms of the audit engagement. We have set out the representations we are seeking from the Council below.

Required representations

This representation letter is provided in connection with your audit of the financial statements of St Albans City & District Council (“the Council”) for the year ended 31 March 2015. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the financial position of St Albans City & District Council as of 31 March 2015 and of its expenditure and income for the year then ended in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

We understand that the purpose of your audit of our financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing (UK and Ireland), which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose – all fraud, shortages, errors and other irregularities, should any exist.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with the Accounts and Audit Regulations (England) 2011 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.
2. We acknowledge our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position, and of its expenditure and income of the Council in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 and are free of material misstatements, including omissions. We have approved the financial statements.
3. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.
4. We believe that the Council has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 that are free from material misstatement, whether due to fraud or error.

B. Fraud

1. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud

2. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
3. We have no knowledge of any fraud or suspected fraud involving management or other employees who have a significant role in the Council's internal controls over financial reporting. In addition, we have no knowledge of any fraud or suspected fraud involving other employees in which the fraud could have a material effect on the financial statements. We have no knowledge of any allegations of financial improprieties, including fraud or suspected fraud, (regardless of the source or form and including without limitation, any allegations by "whistleblowers") which could result in a misstatement of the financial statements or otherwise affect the financial reporting of the Council.

C. Compliance with Laws and Regulations

1. We have disclosed to you all known actual or suspected noncompliance with laws and regulations whose effects should be considered when preparing the financial statements.

D. Information Provided and Completeness of Information and Transactions

1. We have provided you with:
 - Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters as agreed in terms of the audit engagement.
 - Additional information that you have requested from us for the purpose of the audit.
 - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
2. All material transactions have been recorded in the accounting records and are reflected in the financial statements.
3. We have made available to you all minutes of the meetings of the Council, and committees including Cabinet and the Audit Committee (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the year to the most recent meeting on the following date: *29 September 2015*.
4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Council's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the year-end. These transactions have been appropriately accounted for and disclosed in the financial statements.
5. We have disclosed to you, and the Council has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

E. Liabilities and Contingencies

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements.
2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.
3. We have recorded and/or disclosed, as appropriate, all liabilities related litigation and claims, both actual and contingent, and have disclosed all guarantees that we have given to third parties.

F. Subsequent Events

1. There have been no events subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

G. Accounting Estimates

1. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
2. Accounting estimates recognised or disclosed in the financial statements:
 - We believe the measurement processes, including related assumptions and models, we used in determining accounting estimates is appropriate and the application of these processes is consistent.
 - The disclosures relating to accounting estimates are complete and appropriate in accordance with the applicable financial reporting framework.
 - The assumptions we used in making accounting estimates appropriately reflects our intent and ability to carry out specific courses of action on behalf of the entity, where relevant to the accounting estimates and disclosures.
 - No subsequent event requires an adjustment to the accounting estimates and disclosures included in the financial statements.

H. Retirement benefits

1. On the basis of the process established by us and having made appropriate enquiries, we are satisfied that the actuarial assumptions underlying the scheme liabilities are consistent with our knowledge of the business. All significant retirement benefits and all settlements and curtailments have been identified and properly accounted for.

I. Going Concern

1. We are not aware of any issues that are relevant to the Council's ability to continue as a going concern, including significant conditions and events, our plans for future action, and the feasibility of those plans.

J. Segmental reporting

1. I have reviewed the operating segments reported internally to the Authority and I am satisfied that it is appropriate to aggregate these as, in accordance with IFRS 8: Operating Segments, they are similar in each of the following respects:

- The nature of the services
- The nature of the processes
- The type or class of customer for the services

K. Use of the Work of an Expert

1. We agree with the findings of the experts engaged to value items of property, plant and equipment and investment property, and to estimate the liability disclosed in the Collection Fund arising from appeals lodged the rateable value of business premises. We have adequately considered the qualifications of the experts in determining the amounts and disclosures included in the financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the experts with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the experts.

L. Specific representations

1. We make the following specific representations in relation to estimates made in relation to the liability disclosed in the Collection Fund arising from appeals lodged against the rateable value of business premises
 - We confirm that the Council's provision considers all appeals lodged with the Valuation Office by 31 March 2015.
 - We confirm that we are not aware of any information that would indicate appeals submitted towards the end of the financial year 2014/15 are speculative in nature, and are therefore less likely to be successful than appeals submitted throughout the remainder of the year.
 - We confirm that we have reviewed appeals in relation to properties with a high rateable value, and that we consider the likely success rates to be no different to appeals on properties with a lower rateable value.

Yours faithfully

Colm O'Callaghan
Deputy Chief Executive (Finance)

I confirm that this letter has been discussed and agreed at the Audit Committee on 29 September 2015

Councilor Chris White
Chairman of Audit Committee

Appendix C Audit report

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ST ALBANS CITY & DISTRICT COUNCIL

Opinion on the Authority's financial statements

We have audited the financial statements of St Albans City & District Council for the year ended 31 March 2015 under the Audit Commission Act 1998 (as transitionally saved). The Authority's financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, and the related notes 1 to 44, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement and the related notes H1 to H10, and the Collection Fund and the related notes C1 to C3.

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

This report is made solely to the members of St Albans City & District Council, as a body, in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the authority and the authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Deputy Chief Executive (Finance) and auditor

As explained more fully in the Statement of the Deputy Chief Executive (Finance)'s Responsibilities set out on page 13, the Deputy Chief Executive (Finance) is responsible for the preparation of the Statement of Accounts 2014/2015, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Deputy Chief Executive (Finance) and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Statement of Accounts 2014/15 to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of St Albans City & District Council as at 31 March 2015 and of its expenditure and income for the year then ended;
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

Opinion on other matters

In our opinion, the information given in the Statement of Accounts 2014/15 for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we report by exception

We report to you if:

- in our opinion the annual governance statement does not comply with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007 (updated as at December 2012);
- we issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- we designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or
- we exercise any other special powers of the auditor under the Audit Commission Act 1998.

We have nothing to report in these respects.

Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources

Respective responsibilities of the Authority and auditor

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission in October 2014.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2014, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for us to consider under its Code of Audit Practice in satisfying ourselves whether the Authority put in

place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2015.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2014, we are satisfied that, in all significant respects, St Albans City & District Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2015.

Certificate

We certify that we have completed the audit of the accounts of St Albans City & District Council in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Neil Harris

for and on behalf of Ernst & Young LLP, Appointed Auditor
Luton

Date: 29 September 2015

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