



UTTLESFORD 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.



BDO LLP

27 August 2019

Audit conclusions

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

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.

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

FINANCIAL STATEMENTS

Audit 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 £930k based on a benchmark of 1.7% of gross expenditure.

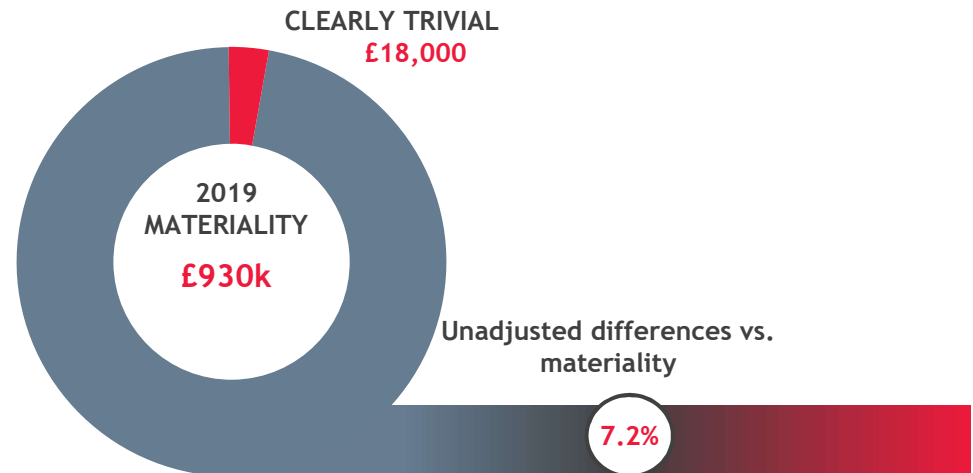
Material misstatements

Our audit identified one material disclosure adjustment, which was a £1.9m adjustment between the CAA and the revaluation reserve.

Unadjusted audit differences

We identified audit adjustments that, if posted, would decrease the net surplus on provision of services for the year by £67,000.

This excludes the McCloud additional pension liabilities £722k, which is balance sheet only.



FINANCIAL STATEMENTS

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

Risk description	How the risk was addressed by our audit	Results
<p>Management override of controls</p>	<p>We carried out the following planned audit procedures:</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 biases and evaluated whether the circumstances producing the bias, if any, represented a risk of material misstatement due to fraud. • Obtained an understanding of the business rationale for significant transactions that were outside the normal course of business for the Council or that otherwise appeared to be unusual, if any. 	<p>No issues were identified by our audit of journals and accounting estimates for management override of controls or management bias.</p> <p>We did not identify any transactions outside the normal course of business for the Council.</p>
<p>Under auditing standards there is a presumption that income recognition presents a fraud risk.</p>	<p>We carried out the following planned audit procedures:</p> <ul style="list-style-type: none"> • Tested a sample of fees and charges to ensure income has been recorded in the correct period and that all income that should have been recorded has been recorded. 	<p>No issues were identified from audit procedures completed in respect of this risk.</p>

FINANCIAL STATEMENTS

Risk description	How the risk was addressed by our audit	Results
<p>There is a risk over the valuation of land and buildings due to inherent uncertainty and judgements involved.</p>	<p>We carried out the following planned audit procedures:</p> <ul style="list-style-type: none"> • Reviewed the instructions provided to the valuers and the valuers' skills and expertise in order to determine if we can rely on the management experts • Reviewed the reasonableness of assumptions used in the valuation of non-current assets, the accuracy and completeness of the source data used by the valuers and the Council's critical assessment of the external valuers' conclusions. • Confirmed that the basis of valuation for assets valued in year is appropriate based on their use. • Confirm that the assets not specifically valued in the year have been assessed to ensure that their reported values remain materially correct. 	<p>The Council's external professional valuer valued the property as at 31 March 2019, resulting in an approximately £9m net increase in value. We tested a representative sample of land and buildings (including investment properties) subject to revaluation, to ensure the information on which valuations were based was accurate and the valuation movements were correctly accounted for. We challenged the valuer and questioned the Council where individual movements were outside of expected ranges, and we are satisfied that, overall, the Council's valuations fall within a reasonable range for those assets formally revalued.</p> <p>We challenged the assumptions used by valuers for specialised assets valued on a depreciated replacement cost (DRC) basis, council dwellings valued on an existing use basis with a social housing adjustment (EUV-SH) adjusted, other land and buildings valued on an EUV basis and investment properties valued at fair value (FV). We also challenged the valuers on the reasons why individual assets moved in value outside of our expectation, for instance due to changes in valuation method or yields.</p> <p>Our Audit work on Property, Plant and Equipment identified three unadjusted errors:</p> <ul style="list-style-type: none"> • £365k worth of revaluations that should have been credited to services rather than through the revaluation reserve. • £149k formula error on the valuation report • £149k of assets that did not need to be indexed per the valuer's report

FINANCIAL STATEMENTS

Risk description	How the risk was addressed by our audit	Results
There is a risk over the valuation of the Council's LGPS liability due to inherent uncertainty and judgements involved.	We carried out the following planned audit procedures: <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• Obtained assurance from the auditor of the pension fund over the controls for providing accurate membership data to the actuary• Checked whether any significant changes in membership data have been communicated to the actuary.	<p>All disclosures in the financial statements agree to the actuarial report obtained from Barnett Waddingham. The assumptions on which the Council has based its disclosure are consistent with those used by the actuary, which are in line with the expectations set out in PwC's consulting actuary report.</p> <p>We reported a non-material un-adjusted error of £722k to increase the Council's pension liability. This adjustment was not the result of an audit finding but due to a recent judgement in the supreme court (Lord Chancellor v McCloud) that the Council and BDO consider creates an obligation on LGPS schemes that existed at the balance sheet date and requires recognition by the applicable accounting framework. The Council sought actuarial advice on the impact on its liability and we are satisfied with the assumptions used by the actuary.</p>

FINANCIAL STATEMENTS

Risk description	How the risk was addressed by our audit	Results
IFRS9 is implemented from 2018/19.	We carried out the following planned audit procedures: <ul style="list-style-type: none">• Reviewed the draft financial statements and supporting working papers which details the Council's proposed approach to the new accounting standard.• Checked the draft financial statements against the CIPFA Disclosure Checklist to ensure that all of the required presentational changes have been correctly reflected within the financial statements.	No issues were identified from our audit.
IFRS15 is implemented from 2018/19.	We carried out the following planned audit procedures: <ul style="list-style-type: none">• Reviewed the draft financial statements and supporting working papers which details the Council's proposed approach to the new accounting standard.• Checked the draft financial statements against the CIPFA Disclosure Checklist to ensure that all of the required presentational changes have been correctly reflected within the financial statements.	We reviewed the supporting working papers provided by the Council prior to the audit and agreed with Management's assertion that the effect of this change was immaterial to the Council's Accounts.

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 risk 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 the cost pressures and the amount of Government grant reductions applied.• reviewed the strategies to close the budget gap in the medium term.• held interviews with key officers.	<p>The Council has appropriate arrangements in place to ensure that it can sustainably deploy resources in the medium term.</p> <p>We have reviewed the MTFS and the assumptions used for revenue planning and are content that these are reasonable. The Council made a surplus compared to budget of £336k in 2018/19. The Council is budgeting a break even position for 2019/20, putting aside £1.059 from the 2019/20 budget into a funding reserve and then allocating this over the next 4 years to support a programme of change (saving and efficiencies) in future years. Work is underway to identify the savings required to close the gap in the medium term, an efficiency workshop for senior managers was planned for August 2019 (a similar workshop occurred in 2018/19 and these savings were built into the budget position).</p> <p>The Council has sufficient unallocated general fund balances so has sufficient resources to cover the gap in the medium term.</p>

REPORTS ISSUED AND FEES

Fees summary

	2018/19 Final £	2018/19 Planned £	2017/18 Final £
Audit fee - PSAA scale fee	40,745	40,745	52,916
Non-audit assurance services:			
Fees for reporting on government grants:			
• Housing benefits subsidy claim	*	17,000	22,808
Aspire subsidiary statutory audit	*	12,500	13,000
Total fees	TBC	70,245	88,724

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

Communication

Reports	Date	To whom
Audit plan	7 February 2019	Governance, Audit and Performance Committee
Audit completion report	25 July 2019	Governance, Audit and Performance Committee



FOR MORE INFORMATION:

David Eagles
e: david.eagles@bdo.co.uk

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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