COLCHESTER BOROUGH COUNCIL

Annual Audit Letter

Year ended 31 March 2019

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EXECUTIVE SUMMARY

Purpose of the Annual Audit Letter

This Annual Audit Letter summarises the key issues arising from the work that we have carried out in respect of the year ended 31 March 2019.

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

Responsibilities of auditors and the Council

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

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

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

Audit conclusions

Audit area	Conclusion
Financial statements	Unmodified opinion issued on 31 July 2019
Use of resources	Unmodified conclusion issued on 31 July 2019
Certificate of completion of the audit	Issued on 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.

BDO LLP

30 August 2019

FINANCIAL STATEMENTS

Audit opinion on the financial statements

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

- Give a true and fair view of the financial position and its income and expenditure for the year; and
- Have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting 2018/19.

Final materiality

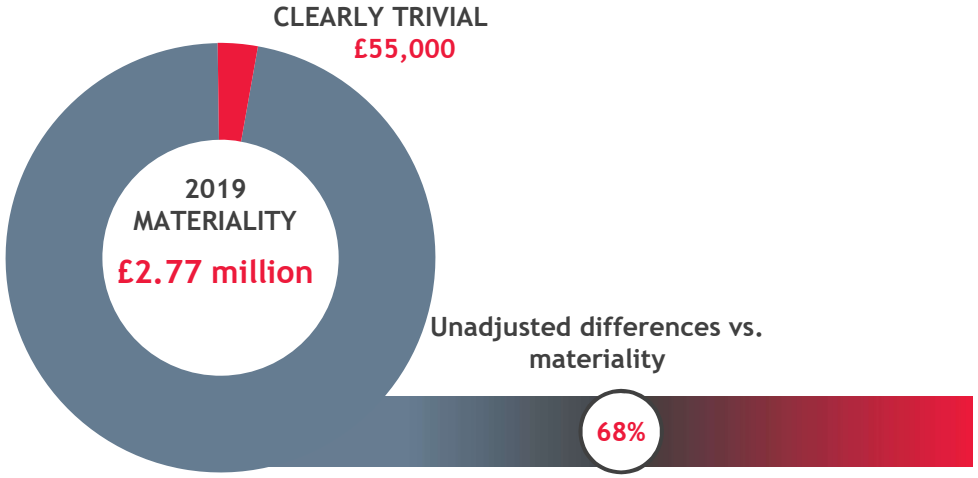
Materiality was calculated at £2.77 million based on a benchmark of 1.75% of gross expenditure.

Material misstatements

We did not identify any material misstatements.

Unadjusted audit differences

We identified one audit adjustment that, if posted, would decrease the net surplus on provision of services for the year by £1.9 million.



FINANCIAL STATEMENTS

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

Risk description	How the risk was addressed by our audit	Results
Management override of controls	We carried out the following planned audit procedures: • Tested the appropriateness of a sample 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. • Reviewed unadjusted audit differences for indications of bias or deliberate misstatement.	No issues were identified by our audit of journals and accounting estimates for management override of controls or management bias. We did not identify any transactions outside the normal course of business for the Council.
Revenue and expenditure recognition	We tested an increased sample of grants subject to performance conditions to confirm that conditions of the grant had been met before the income is recognised in the CIES.	No non-trivial issues identified.

FINANCIAL STATEMENTS

Risk description	How the risk was addressed by our audit	Results
Non- current Asset Valuations	We carried out the following planned audit procedures: • Reviewed the instructions provided to the valuer and the valuer's skills and expertise in order to determine if we could rely on the management expert. • Confirmed that the basis of valuation for assets valued in year was appropriate based on their use. • Reviewed the reasonableness of assumptions used in the valuation of non-current assets, the accuracy and completeness of the source data used by the valuer and the Council's critical assessment of the external valuer's conclusions. • Confirmed that the assets not specifically valued in the year had been assessed to ensure that their reported values remained materially correct.	We reviewed the instructions to the valuer and the valuers skills and expertise and determined that we were able to rely on them. Land and buildings were valued using an appropriate basis of valuation (such as existing use, depreciated replacement cost or market value) depending on the use of the asset. We reviewed the assumptions used by the valuer and were content that these were reasonable. We were content with the accuracy and completeness of the source data used by the valuer. We reviewed the assets not specifically valued in the year and were content that the values remained materially correct.

FINANCIAL STATEMENTS

Risk description	How the risk was addressed by our audit	Results
Pension Liability Assumptions.	We carried out the following planned audit procedures: • Reviewed the consulting actuary report over the competency and experience of the actuary and reasonableness of assumptions used. • Reviewed the competence of the management expert (actuary). • 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.	All disclosures in the financial statements agreed to the actuarial report obtained from Barnett Waddingham. The assumptions on which the Council 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. We reported a non-material unadjusted error of £1.9m. 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 considers 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.

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
The Council will need to deliver significant savings to maintain financial sustainability in the medium term and there is a risk that these savings may not be delivered.	We: • Reviewed the assumptions used in the Medium Term Financial Strategy, particularly around the likely levels of income from commercial activities. • Reviewed the Council's capital/revenue planning for future capital projects and investments. • Monitored the delivery of the budgeted savings in 2018/19 and the plans to deliver identified savings for 2019/20. • Sampled a number of saving schemes/ plans. • Held interviews with key officers.	The Council has appropriate arrangements in place to ensure that it can sustainably deploy resources in the medium term. We reviewed the MTFF and the assumptions used for revenue planning and are content that these are reasonable. The Council made a surplus compared to budget of £263k in 2018/19. The Council is budgeting a break even position for 2019/20, but requires the achievement of £1.5m of savings to achieve this. The Council has a fully costed plan for the achievement of the £1.5m of savings and has achieved the savings planned for 2018/19. We sampled some savings schemes and could see the detailed evidence/ support behind these, which demonstrated that these had been fully costed out and supported the 19/20 savings plan. Work is underway to identify the savings required to close the gap in the medium term, there are regular progress and monitoring discussions at informal budget (cabinet meetings) and discussions at away days. The Council has £7.9m of unallocated general fund balances so has sufficient resources to cover the gap in the medium term. We reviewed the capital monitoring and could see that plans are on track to deliver the capital projects very close to budget.

REPORTS ISSUED AND FEES

Fees summary

	2018/19 Final £	2018/19 Planned £	2017/18 Final £
Audit fee – PSAA scale fee	48,188	48,188	64,047
Non-audit assurance services:			
Fees for reporting on government grants:			
• Housing benefits subsidy claim	*	13,640	13,640
• Pooling of housing capital receipts return	**	4,750	4,750
Total fees	TBC	66,578	82,437

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

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

Communication

Reports	Date	To whom
Audit plan	7 March 2019	Governance & Audit Committee
Audit completion report	30 July 2019	Governance & Audit Committee

FOR MORE INFORMATION:

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

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