



COLCHESTER BOROUGH COUNCIL

Annual Audit Letter

Year ended 31 March 2020

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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 carried out in respect of the year ended 31 March 2020.

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 review and report on:

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

BDO LLP

6 January 2020

Audit conclusions

Audit area	Conclusion
Financial statements	Unqualified opinion, with an emphasis of matter in respect of the valuation of land and buildings and the valuation of pooled property assets within the pension fund, due to a material uncertainty included in the final valuation report by the valuers of these assets. Issued on 30 November 2020.
Use of resources	Unmodified conclusion issued on 30 November 2020.

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 conclusion

We issued our audit report on 30 November 2020.

We issued an unqualified 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 income and expenditure for the year
- Have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Council Accounting 2019/20.

Final materiality

Final materiality was calculated at £3,320,000 based on a benchmark of 2% of gross expenditure.

Material misstatements

We identified one material misstatement in the Council's draft accounts. This only affected a disclosure note within the financial instruments note on the maturity analysis of financial liabilities and was corrected by management.

Unadjusted audit differences

We identified audit adjustments, the net impact of which if posted, would decrease the net deficit on provision of services for the year by £1,455,000.

We reported these audit differences and the Governance and Audit Committee accepted management's decision not to amend the Statement of Accounts for these differences because the impact was not material.

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:	We used our data analytics tools to inspect journals processed throughout the year and as part of the financial reporting close process for any unusual transactions.
Auditing standards presume that management is in a unique position to perpetrate fraud by overriding controls	<ul style="list-style-type: none"> Reviewed and verified journal entries made in the year, agreeing the journals to supporting documentation. We determined key risk characteristics to filter the population of journals. We used our IT team to assist with the journal extraction Reviewed estimates and judgements applied by management in the financial statements to assess their appropriateness and the existence of any systematic bias Reviewed unadjusted audit differences for indications of bias or deliberate misstatement. Considered the operation of the control environment to ensure that in light of remote working and response to COVID-19 there has been no lapse in the operation of the control environment. 	<p>We identified a number of journal entries that we considered to be high risk. All were agreed to supporting documentation, with appropriate explanations obtained for all journals identified.</p> <p>We assessed and corroborated significant management estimates and judgements in the following key areas:</p> <ul style="list-style-type: none"> Valuation of land and buildings Pension liability Non-domestic rates appeals provision Non-collection of receivables Depreciation/Amortisation <p>We found no evidence of management override or bias for these estimates.</p> <p>Our review of unadjusted audit differences did not identify any indications of bias or deliberate misstatement.</p> <p>Our review of the control environment found there had been no lapse in the operation of the control environment.</p>

FINANCIAL STATEMENTS

Risk description	How the risk was addressed by our audit	Results
<p>Revenue Recognition</p> <p>Auditing standards presume that income recognition presents a fraud risk.</p> <p>For the Council, we consider the risk of fraudulent revenue recognition to be in respect of the accuracy and existence of revenue grants which have conditions attached.</p>	<p>We tested an increased sample of grants subject to performance conditions to confirm that the conditions of the grant had been met before the income was recognised in the Comprehensive Income and Expenditure Statement.</p>	<p>We tested a sample of:</p> <ul style="list-style-type: none"> • items that had been credited to services • items credited to taxation and non specific grant income <p>The correct accounting treatment had been applied dependent upon the status of conditions attached to the grant.</p>
<p>Expenditure cut off</p> <p>For public sector bodies the risk of fraud related to expenditure is also relevant.</p>	<p>We checked that expenditure is recognised in the correct accounting period by substantively testing expenditure around year-end.</p> <p>We used a lower sample selection threshold for testing than we would if the risk had not been significant.</p> <p>We carried out top up testing as part of our subsequent events work to cover the period from fieldwork to the date of signing.</p>	<p>We substantively tested expenditure transactions throughout the year and around year end to check that expenditure is recognised in the correct accounting period, is classified correctly and accurately recorded.</p> <p>Our audit work did not identify any issues.</p>

FINANCIAL STATEMENTS

Risk description	How the risk was addressed by our audit	Results
<p>Valuation of non-current assets</p> <p>The valuation of non-current assets is a significant risk as it involves a high degree of estimation uncertainty.</p>	<p>We carried out the following planned audit procedures:</p> <ul style="list-style-type: none"> • Reviewed the instructions provided to the valuer and the valuer's skills and expertise in order to determine if we can rely on the management expert • Confirmed that the basis of valuation for assets valued in year is appropriate based on their usage • Reviewed the accuracy and completeness of information provided to the valuer, such as rental agreements and sizes • Reviewed assumptions used by the valuer and movements against relevant indices for similar classes of assets • Followed up on valuation movements that appear unusual • Confirmed that assets not specifically valued in the year have been assessed to ensure their reported values remained materially correct. 	<p>From our review of the instructions provided to the valuer and our assessment of the expertise of the valuer, we satisfied ourselves that we could rely on their work.</p> <p>We were satisfied that the valuation of the Council's non current assets was completed appropriately and materially accurate.</p> <p>The valuer included a material uncertainty statement in their final valuation reports in respect of the year-end valuations, in light of circumstances surrounding coronavirus. We included an Emphasis of Matter in our audit report to highlight this uncertainty.</p>

FINANCIAL STATEMENTS

Risk description	How the risk was addressed by our audit	Results
<p>Valuation of Pension Liability</p> <p>The valuation of the pension liability is a significant risk as it involves a high degree of estimation uncertainty</p>	<p>We carried out the following planned audit procedures:</p> <ul style="list-style-type: none">• Agreed the disclosures to the information provided by the pension fund actuary• Reviewed the competence of the management expert (actuary)• Reviewed the reasonableness of the assumptions used in the calculation against other local government actuaries and other observable data• Reviewed the controls in place for providing accurate membership data to the actuary• Contacted the pension fund auditor, requesting confirmation of the controls in place for providing accurate membership data to the actuary and testing of that data• Checked that any significant changes in membership data had been communicated to the actuary.	<p>No issues were found in assessing the competency of managements experts, or, in the agreement of disclosures to the information provided by the actuary.</p> <p>We compared the key financial and demographic assumptions used by the actuary, to an acceptable range provided by a consulting actuary commissioned for local public auditors by the NAO. We considered that the assumptions and methodology used by the Pension Fund actuary were appropriate.</p> <p>We obtained assurance from the auditors of the Essex Pension fund over the controls in place for providing accurate membership data to the actuary and the testing of that data.</p> <p>The pension fund auditor has confirmed in their assurance letter that the valuation of property assets has been reported on the basis of 'material valuation uncertainty' in light of circumstances surrounding coronavirus. We included an Emphasis of Matter in our audit report to highlight this uncertainty.</p>

FINANCIAL STATEMENTS

Risk description	How the risk was addressed by our audit	Results
eFinancials General ledger system upgrade There is a risk that balances are not transferred correctly resulting in a material misstatement to the financial statements	We reviewed the system implementation procedures undertaken by the Council and substantively tested the data migration to ensure that balances had been appropriately transferred between the old system and the new system.	We concluded that the most efficient way to test the migration was to substantively test the transfer to the new system. We agreed that each balance had been correctly transferred from the old system to the new system.

USE OF RESOURCES

Audit conclusion

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 its savings and achieve income targets to maintain financial sustainability in the medium term and there is a risk that these projections will not be met.	<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 Forecast, particularly around the likely levels of income from commercial activities• Monitored the delivery of the budgeted savings in 2019/20 and the plans to deliver identified savings for 2020/21• Sampled a number of savings schemes and plans• Held interviews with key officers	<p>The Council achieved its savings target for the year, with some savings in the budget which were not achieved being offset by savings elsewhere. An updated medium term financial strategy to 2024/25 was approved by Cabinet in October 2020.</p> <p>The planned savings for 2020/21 of £1.5 million have all been identified.</p> <p>Due to covid-19 the Council has been affected with a loss of income - this is forecast to be in the region of £9.092m for 20/21. The impact for 2019/20 was considered relatively small as the effect was only felt at the end of March 2020.</p> <p>The Council is planning to use £6.209m of reserves in the period 2020-2022 in order to balance the budget and currently have a budget gap of £2.574m in 2022/23. The Council has sufficient reserves to cover the gaps in the medium term.</p> <p>We are satisfied that the Council has adequate arrangements for setting and monitoring financial budgets and forecasts. While there is a recognised funding gap in the medium term, we are satisfied that the Council is making appropriate arrangements to manage this in a way that will ensure it continues to remain financially sustainable.</p>

REPORTS ISSUED AND FEES

Fees summary

	2019/20	2018/19
	£	£
Audit fee	TBC	£48,188
Audit fee – PSAA scale fee	£48,188	£48,188
Proposed Amendment	TBC ¹	-
Non-audit assurance services (Fees for reporting on Government grants)	£18,390	£18,390
Housing benefit subsidy claim	£TBC ²	£13,640
Pooling of Housing capital receipts return	£4,750	£4,750
Total fees	TBC	£66,578

¹ An additional fee for 2019/20 will be agreed with management at a meeting later this month. Any fee variation will require approval from PSAA.

² Work is ongoing and so we are unable to conclude on the final fee until the work is complete.

Communication

Communication	Date (to be) communicated	To whom
Audit Planning Report	10 March 2020	Governance and Audit Committee
Audit Completion report	24 November 2020	Governance and Audit Committee
Annual Audit Letter	19 January 2021	Governance and Audit Committee

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