



RUNNYMEDE BOROUGH COUNCIL

Annual Audit Letter
Year ended 31 March 2019

IDEAS | PEOPLE | TRUST



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

BDO LLP

26 February 2020

Audit conclusions

Audit area	Conclusion
Financial statements Council	Unmodified true and fair opinion
Use of resources	Unmodified conclusion
Audit certificate	We issued our certificate to close the audit on 26 February 2020 following submission of the Whole of Government Accounts return.

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 Council and Group financial statements

We issued an unmodified audit opinion on the Council and Group financial statements on 27 November 2019. 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.

Materiality

Financial statements materiality was determined at £9.9 million based on 1% of the value of gross assets on the balance sheet. Specific materiality on the Comprehensive Income and Expenditure Statement (CIES) was £1.6 million based on 2% of income.

Corrected misstatements

We identified the following misstatements that have been corrected by management:

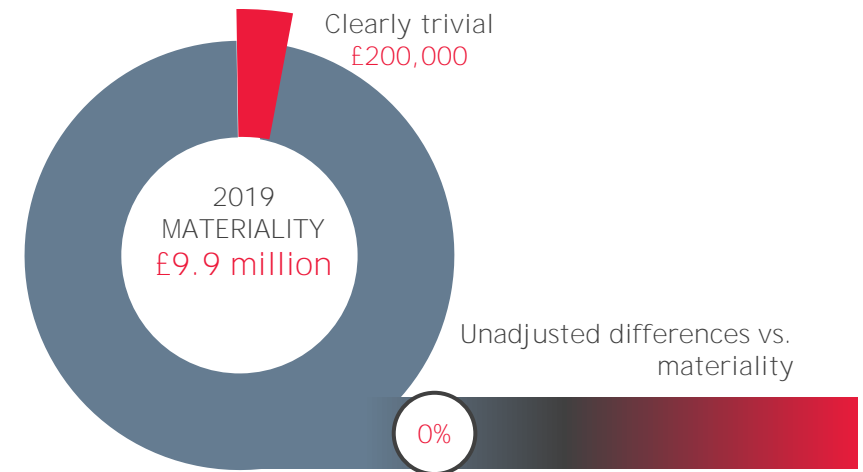
- £0.5 million additional net pensions liabilities in respect of the McCloud / GMP judgments and their impact on scheme benefits; and
- £1.2 million overstatement of the estimated share of pension scheme assets reported by the actuary.

These adjustments reduced net assets by £1.7 million and decreased the surplus on the provision of services by £0.5 million.

Unadjusted audit differences

Management corrected the financial statements for all audit differences.

There were no remaining unadjusted audit differences.



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	<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; and• 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.	<p>We identified no significant or unusual transactions which we consider to be indicative of fraud in relation to management override of controls.</p> <p>We have not found any indication of management bias in accounting estimates.</p>

FINANCIAL STATEMENTS

Audit Risks

Risk description	How the risk was addressed by our audit	Results
Revenue and expenditure recognition	<p>We carried out the following planned audit procedures in response to the fraudulent revenue and expenditure recognition risk:</p> <ul style="list-style-type: none">• Tested a sample of grants included in income to documentation from grant paying bodies and checked whether recognition criteria have been met; and• Tested a sample of expenditure either side of year end, to confirm that expenditure has been recorded in the correct period and that all expenditure that should have been recorded at year end has been.	<p>Our sample testing of revenue and capital grants confirmed that these were recognised when performance conditions attached to them had been satisfied.</p> <p>Our audit work to confirm expenditure has been recorded in the correct period and did not identify any issues.</p>

FINANCIAL STATEMENTS

Audit Risks

Risk description	How the risk was addressed by our audit	Results
Valuation of land, dwellings, buildings and investment property	<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 asset information provided to the valuer such as rental agreements and land / building sizes; and• Reviewed assumptions used by the valuer and movements against relevant indices for similar classes of assets and followed up valuation movements that appear unusual.	<p>Our review of instructions to the valuer including the valuer's skills and expertise did not identify any issues.</p> <p>We confirmed basis of valuation for assets valued in year is appropriate and in line with Code.</p> <p>Our work on the accuracy and completeness of asset information noted instances of miscommunication between the Council and the valuer that meant that some assumptions had to be built into the valuation report. These assumptions were then queried by the Council when the valuation report was received. We are satisfied that the final valuation report reflected the correct information. This issue is being addressed through the procurement of a new valuer for 2019/20.</p> <p>We were satisfied that the assumptions used by the valuer were appropriate in preparing the valuations, including the use of regional house price indices, building cost indices and market yields for investment properties.</p>

FINANCIAL STATEMENTS

Audit Risks

Risk description	How the risk was addressed by our audit	Results
Valuation of pension liabilities	<p>We carried out the following planned audit procedures:</p> <ul style="list-style-type: none">• Reviewed the controls for providing accurate membership data to the actuary;• Checked whether any significant changes in membership data have been communicated to the actuary; and• Reviewed the reasonableness of the assumptions used in the calculation against other actuaries and other observable data.	<p>We received assurances from the auditor of the Surrey pension fund that appropriate controls are in place to maintain accurate membership records and to provide accurate cash flow and investment information to the actuary.</p> <p>We confirmed with the Council that no significant changes in membership took place in the year.</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 National Audit Office. The assumptions and methodology used by the actuary are appropriate, and will result in an estimate of the pension liability which falls within a reasonable range.</p> <p>As requested by us, the Council obtained an updated valuation of the liability to take account of the McCloud age discrimination ruling and GMP gender equalisation costs and corrected the financial statements to increase the liability by £0.5 million.</p> <p>This updated valuation also found that the estimated return on scheme assets in the pension fund had been overstated by the actuary and the Council's share of scheme assets was decreased by £1.2 million.</p>

USE OF RESOURCES

Audit Risks

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 reasonableness of the cost pressures and the amount of Government grant reductions;• Monitored the delivery of the budgeted savings in 2018/19 and the plans to reduce services costs and increase income from 2019/20; and• Review the strategies to close the budget gap after 2019/20.	<p>The Council has made a concerted effort to ensure efficiency savings were met over the past few years and delivered savings of £6 million in recent years. The Council's strategy to invest in the area and regeneration of Addlestone is planned to bring returns through rental income that will be able to off-set the reduction in Government funding. This carries with it increased risk and exposure to economic downturns and the Council has recognised this and increased its General Fund reserves by £2.7 million and maintained its working balance at £3.9 million.</p> <p>The budget for 2019/20 shows a surplus of income over expenditure with a reduction of £1.2 million of the General Fund expected compared to 2018/19. The budget has modelled further reductions in Government funding over the coming years which could lead to service pressure. The Council will partially offset this with an increase in council tax.</p> <p>The Council faces challenges in relation to Property Investment Plans with yields on acquisitions hardening during the year. The Council seeks to maintain a low risk investment strategy that also maximises the yield on investments and cash flows.</p> <p>We are satisfied that the Council has a good understanding of the budget requirement in the coming years, has arrangements in place to identify and to manage the delivery of required savings.</p>

REPORTS ISSUED AND FEES

Fees summary

	2018/19 Final £	2018/19 Planned £	2017/18 Final £
Audit fee			
• Council and Group	(1) 73,332	34,754	45,135
Non-audit assurance services			
Fees for reporting on government grants:			
• Housing benefits subsidy claim	(2) 13,208	7,208	8,970
• Pooling of housing capital receipts return	2,250	2,250	2,250
Fees for other non-audit services	15,458	9,458	11,220

Communication

Reports	Standards and Audit Committee
Audit plan	30 May 2019
Audit completion report	Initial 18 July 2019 Final 22 November 2019

(1) Additional costs have been incurred in the audit due to the complexity of the Group balance sheet following significant asset acquisitions in recent years and the testing of the data used and assumptions applied by the valuer for these assets. Public Sector Audit Appointments Limited (PSAA) had proposed a reduction in planned scale fees of 23% for 2018/19. However, we have incurred significant resource overruns of £38,578 in 2018/19. We propose increasing the final fee for 2018/19 to £73,332. This will need to be agreed with the Assistant Chief Executive and Standards and Audit Committee, and then to request a formal variation of the scale fee through PSAA.

(2) Additional work was required to test benefit cases for each of the error types identified to be able to amend the subsidy return or provide sufficient numbers of cases to extrapolate the potential errors in the amount claimed.



FOR MORE INFORMATION:

Leigh Lloyd-Thomas
e: leigh.Lloyd-thomas@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.

BDO is an award winning UK member firm of BDO International, the world's fifth largest accountancy network, with more than 1,000 offices in more than 100 countries.

BDO LLP is a corporate establishment under the Limited Liability Partnership Act 2000 and a UK Member Firm of BDO International. BDO Northern Ireland, a separate partnership, operates under a licence agreement. BDO LLP and BDO Northern Ireland are both separately authorised and regulated by the Financial Conduct Authority to conduct investment business.

© 2020 BDO LLP. All rights reserved.

www.bdo.co.uk

