

Brentwood Borough Council

Audit Results Report - ISA (UK and Ireland) 260
for the year ended 31 March 2016

July 2016

Ernst & Young LLP



Building a better
working world

Contents

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In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued “Statement of responsibilities of auditors and audited bodies 2015-16”. It is available from the Chief Executive of each audited body and via the PSAA website (www.psaa.co.uk)

The Statement of responsibilities serves as the formal terms of engagement between 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 ‘Terms of Appointment from 1 April 2015’ issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (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. This report is intended solely for the use of the Members of the audited body. 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 National Audit Office's Code of Audit Practice (the Code) requires us to report to those charged with governance – the Audit and Scrutiny Committee – on the work we have carried out to discharge our statutory audit responsibilities together with any governance issues identified. This report summarises the findings from the 2015/16 audit which is substantially complete. It includes messages arising from our audit of your financial statements and the results of the work we have undertaken to assess your arrangements to secure economy, efficiency and effectiveness in your use of resources.

Below are the results and conclusions on the significant areas of the audit process.

Status of the audit	<p>We have substantially completed our audit of the financial statements of Brentwood Borough Council for the year ended 2015/16. Subject to satisfactory completion of the following remaining items included in Appendix C we will issue an audit opinion in the form which appears in Appendix F:</p> <p>We have performed the procedures outlined in our Audit Plan and anticipate issuing an unqualified opinion on the Authority's financial statements.</p> <p>We expect to conclude that you have put in place proper arrangements to secure value for money in your use of resources.</p> <p>We have yet to receive the instructions from the National Audit Office (NAO) regarding the Whole of Government Accounts submission. Therefore we have been unable to confirm the work required. Following the completion of our work, we will report the outcomes to the Finance Director and the Chair of the Audit and Scrutiny Committee</p>
Audit differences	<p>We have identified one unadjusted audit difference within the draft financial statements for £0.275 million, which management have chosen not to adjust. We ask the Audit and Scrutiny Committee to consider approving management's rationale as to why these corrections have not been made and, if approved, include this in the Letter of Representation. Appendix A to this report sets out the uncorrected misstatement. We do not consider this to be material to our audit opinion. The aggregated unadjusted audit differences of £0.275m, if made, would have no impact on useable reserves.</p> <p>Our 2014/15 audit identified four non material misstatements which management chose not to adjust. These were reported last year and remain within the comparative figures. We have included in Appendix A for information.</p> <p>Our audit identified a number of further audit differences which our team have highlighted to management for amendment. These have been corrected during the course of our work and further details are provided at Appendix B. These adjustments are to the disclosure notes and have not had an impact on useable reserves.</p>

Scope and materiality

In our audit plan presented at the 7 March 2016 Audit, Scrutiny and Transformation Committee meeting, we communicated that our audit procedures would be performed using a materiality of £1.01 million. We have reassessed this based on the actual results for the financial year and have decreased this amount to £0.959 million. The difference results from a reduction in gross expenditure in net cost of services from £41.813 million in 2014/15 to £40.764 million in 2015/16.

The threshold for reporting audit differences which impact the financial statements has also decreased as a result from £0.051 million to £0.048 million.

The basis of our assessment of materiality is 2% of gross operating expenditure, which has remained consistent with prior years.

We also identified the following areas where misstatement at a level lower than our overall materiality level might influence the reader. 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. We checked the bandings reported in the financial statements, tested the completeness of the disclosures and confirmed that the disclosures made were compliant with the Code of Practice. We agreed transactions back to the payroll system and supporting documentation.
- Related party transactions. Our audit strategy was to obtain and review declarations from senior officers and members of the Council for any material disclosures and ensure that the disclosure was compliant with the Code. To test the completeness of the disclosure, we are carrying out a sample check of contracts from the Council's contract register to Companies House records to identify whether any key decision-makers in the Council had an interest in the company.

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

Since issuing our audit plan in March 2016, however we identified the following issue:

- a significant risk to the value for money conclusion. The significant risk related to the Council's arrangements for deploying resources in a sustainable manner, concerning the Council's cumulative budget gap in the Medium Term Financing Plan (MTFP) over the next three years and the level of reserves being used to fund the budget gaps over this period.

Significant audit risks

We identified the following audit risk during the planning phase of our audit, and reported this to you in our audit plan:

- Risk of management override.

The 'addressing audit risks' section of this report sets out how we have gained audit assurance over this issue.

Other reporting issues	<p>We wish to report the following matters:</p> <ul style="list-style-type: none">• The Council published the relevant documents on the website in time for the public inspection period beginning 13 June 2016. However, management had not completed all audit working papers by the time of our audit starting on 6 June 2016, which reduced the efficiency of our audit.• Management has amended the narrative report, remuneration report and several disclosure notes following our audit. The changes made to the remuneration report related to the inclusion of off-payroll arrangements in line with Government guidance.• We identified some areas for improvement in the procedures for the instruction of internal and external valuers in respect of material valuation estimates to support the financial statements for property, plant and equipment. Management should look to strengthen these arrangements in future years.• The Council implemented new systems for council tax, business rates and housing benefits in 2015/16. We were able to gain sufficient assurance over the material accuracy of the figures produced by the new systems but noted that management had not engaged internal audit to test the process for ensuring that the data migration between the systems was complete and accurate. If undertaken, this would have provided management and Members with detailed and independent assurance over the data transfer.
Control observations	<p>We have adopted a fully substantive approach and have therefore not tested the operation of controls.</p>

We would like to take this opportunity to thank the Council's staff for their assistance during the course of our work.

Debbie Hanson

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

August/September 2016

2. Responsibilities and purpose of our work

The Council's responsibilities

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

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

Purpose of our work

Our audit was designed to:

- Express an opinion on the 2015/16 financial statements and the consistency of other information published with them;
- Report on an exception basis on the Annual Governance Statement;
- Consider and report any matters that prevent us being satisfied that the Council had put in place proper arrangements for securing economy, efficiency and effectiveness in the use of resources (the value for money conclusion); and
- Discharge our statutory duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice.

In addition, this report contains our findings related to the areas of audit emphasis and any views on significant deficiencies in internal control or the Council's accounting policies and key judgments.

Alongside our work on the financial statements, we also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of our review and the nature of our report are specified by the National Audit Office.

3. Financial statements audit

Addressing audit risks

We identified the following audit risks during the planning phase of our audit, and reported these to you in our Audit Plan. Here, we set out how we have gained audit assurance over those issues.

A significant audit risk in the context of the audit of the financial statements is an inherent risk with both a higher likelihood of occurrence and a higher magnitude of effect should it occur and which requires special audit consideration. For significant risks, we obtain an understanding of the entity's controls relevant to each risk and assess the design and implementation of the relevant controls.

Significant Risks (including fraud risks)	Audit procedures performed	Assurance gained and issues arising
<p>Risk of management override</p> <p>As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.</p> <p>For local authorities the potential for the incorrect classification of revenue spend as capital is a particular area where there is a risk of management override.</p>	<ul style="list-style-type: none"> We tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements We reviewed accounting estimates for evidence of management bias covering property, plant and equipment, pension liability and business rates appeals provision; Evaluated the business rationale for any significant unusual transactions; and Reviewed capital expenditure on property, plant and equipment to ensure it meets the relevant accounting requirements to be capitalised. 	<p>We did not identify any material misstatements, evidence of management bias or significant unusual transactions in our testing.</p> <p>Our review of accounting estimates did not identify any evidence of management bias.</p> <p>We identified some areas for improvement in the procedures for the instruction of internal and external valuers in respect of material valuation estimates to support the financial statements for property, plant and equipment. Management should look to strengthen these arrangements in future years.</p> <p>Our testing did not identify any expenditure which had been inappropriately capitalised.</p>

Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we are required to communicate to you significant findings from the audit and other matters that are significant to you oversight of the Council's financial reporting process, including the following:

- Qualitative aspects of your accounting practices; estimates and disclosures;
- Matters specifically required by other auditing standards to be communicated to those charged with governance. For example, issues about fraud, compliance with laws and regulations, external confirmations and related party transactions;
- Any significant difficulties encountered during the audit; and
- Other audit matters of governance interest

We wish to report the following matters:

- The Council succeeded in bringing forward its timetable for the preparation of the narrative report, financial statements and Annual Governance Statement this year. The Council published all the required documents on the website in time for the public inspection period beginning on 13 June 2016. However, management had not completed all working papers in support of the financial statements by the time of our audit start date of 6 June 2016. This reduced the

efficiency of our audit. In particular, it delayed the audit of payroll and income and expenditure. Management has since responded promptly to all key requests for information. We will work with management to ensure working papers are available at the same as the financial statements for the 2016/17 audit.

- Management has amended the narrative report to highlight risks to the achievement of the Council's corporate objectives. The financial and performance information included in this report has also been enhanced and the report now complies with the requirements of the Update to the Code of Practice on Local Authority accounting issued in February 2016.
- Our review of accounting estimates did not identify any evidence of management bias. We did however identify some areas for improvement in the procedures for the instruction of internal and external valuers in respect of material valuation estimates to support the financial statements for property, plant and equipment. Management should look to strengthen these arrangements in future years. The issues identified as part of our 2015/16 audit are summarised below:
 - Management had not retained the instructions to the internal valuer;
 - Management compiled the financial statements based a spreadsheet of updated valuations provided by the internal valuer without confirming the information in this to the valuation statements produced by the valuer;
 - The internal valuers conducted their work in November/December 2015. Although this is reasonable, management had not subsequently obtained a year end impairment review to identify whether there had been a material impairment between the period January to March 2016. The internal valuer has undertaken a subsequent review concluding that there is no such impairment which would impact on the financial statements; and
 - The internal valuer had not undertaken a valuation of twelve general fund properties 2015/16. Management therefore decided to increase the valuation of the properties by 5%. The CIPFA Code on Local Authority accounting specifies that valuations should be undertaken by professionally qualified valuers. Therefore the application of the 5% increase which was determined by management rather than a professional valuer was inappropriate and not in line with the Code. As the properties had last been valued in 2014/15 and the updated valuation did not show a material change in valuation, we have not sought an amendment to the financial statements in relation to this issue.
- During 2015/16, the Council implemented new financial systems for council tax, business rates and housing benefits. Management engaged internal audit to review the controls in place to ensure the completeness of data migration from the old to new financial systems. However, management should have considered engaging internal audit to test that controls in place had operated successfully and that data migration was complete. This would have provided management and Members with detailed and independent assurance over the completeness and accuracy of the data transfer.

Control themes and observations

It is the responsibility of the Council to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility as your auditor is to consider whether the Council has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

We have adopted a fully substantive approach and have therefore not tested the operation of controls.

We have reviewed the Annual Governance Statement and can confirm that it not misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Council.

Request for written representations

We have requested a management representation letter to gain management's confirmation in relation to a number of matters, as outlined in Appendix G. In addition to the standard

representations, we have requested the following specific representations, for areas where cannot otherwise gain audit assurance:

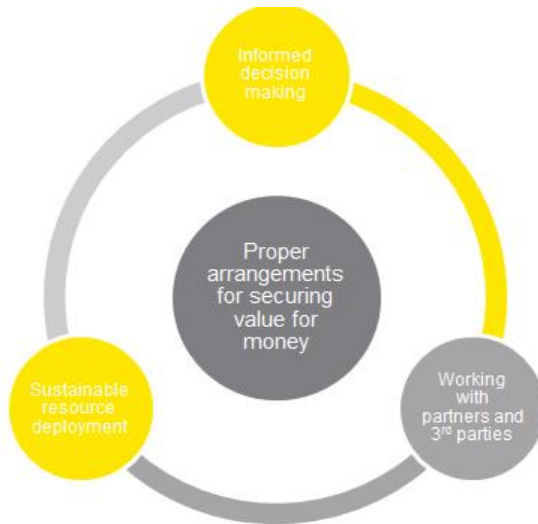
- Use of a specialist
 - We have requested representation that Members and management did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and that Members and management are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists;
- Estimates
 - For the estimates for property, plant and equipment, investment properties, pension liabilities and business rate appeals we have requested representation from Members and management that the estimates appropriately reflect their intent and ability to make judgments, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for the revenue and expenses during the year on behalf of the entity; and
- Retirement benefits
 - We have requested representation from Members and management that the actuarial assumptions underlying the scheme liabilities are consistent with the knowledge Members and management of the business and that all significant retirement benefits and all settlements and curtailments have been identified and properly accounted for.

Whole of Government Accounts

Alongside our work on the financial statements, we also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of our review and the nature of our report are specified by the National Audit Office.

We are currently awaiting the guidance from the National Audit Office, who specify our work. We will report any matters that arise from our work to the Finance Director and Chair of the Audit and Scrutiny Committee.

4. Value for money



We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. This is known as our value for money conclusion.

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- ▶ Take informed decisions;
- ▶ Deploy resources in a sustainable manner; and
- ▶ Work with partners and other third parties.

Overall conclusion

Since issuing our audit plan in March 2016, we have completed our value for money arrangements risk assessment and as a result have identified a significant risk in relation to the Council's arrangements to deploy resources in a sustainable manner. The significant risk reflects the cumulative budget gap in the Medium Term Financing Plan (MTFP) over the next three years and the fact that the Council plans to use reserves to help fund these gaps. While the level of earmarked reserves would remain above the minimum level recommended by the Finance Director, reliance on the use of reserves on an ongoing basis to balance its budget is not a sustainable strategy. Although we recognise that this is part of a short term strategy to manage the current period of transition during which efficiency savings are being identified to provide longer term solutions, this still presents a risk to the Council's future financial sustainability.

We have previously reported that the Council has a strong track record of delivering its budget and planned savings. The scale of savings that the Council will now be required to deliver in addition to those that have previously been achieved, increases the risk that financial savings targets will not be achieved.

To address the specific risk we have identified, we have undertaken a more detailed review of the Council's MTFP and the key assumptions within this. We have also looked at the level and planned use of reserves and updated our previous assessment of the Council's track record in delivering previous budgets and savings plans, as well as progress on addressing the budget gaps identified in the current MTFP.

As a result of our work, we have concluded that the Council has continued to respond well to the financial challenges it, along with other public sector bodies, is facing. We did not identify any significant weaknesses in the Council's arrangements. We therefore expect to conclude that you have put in place proper arrangements to secure value for money in your use of resources.

We did however identify the following areas to bring to your attention.

Significant risks

The table below presents the findings of our work in response to the risk area outlined above.

VFM risk identified	Impacts arrangements for:	Key findings
<p>Significant cumulative budget gap over the next three years and the planned use of reserves to bridge the funding gaps.</p>	<p>Deploying resources in a sustainable manner</p>	<p>Planned General Fund reserves in the short term are above the Council's recommended minimum level. While on the basis of the work we have undertaken we have concluded that the Council are likely to achieve the savings and efficiencies currently identified, there remains a cumulative funding gap by 2018/19 of over £2 million for which efficiency savings have not as yet been fully identified or quantified. The Council is currently working on ways to reduce this gap and is developing strategies around waste and leisure and recreation to identify savings as well as ongoing work with the Administration to identify other opportunities. Given the Council's history of delivering savings and a balanced budget, we have concluded that it is likely that savings and efficiencies to bridge this gap will be identified and delivered. In addition, the Council has sufficient reserves that could be applied to bridge any gaps as part of their short term strategy while longer term solutions are identified.</p> <p>We have also considered the Council's budget monitoring arrangements as part of our audit work. July 2016 is early in terms of budget monitoring so details regarding the progress of 2016/17 savings is still limited at the moment. However the finance team have done some work around this and based on the evidence provided, the Council are on track to deliver the majority of savings and any remaining gap remains within reasonable levels.</p> <p>Work has also been undertaken by the Leadership Team to identified further savings to reduce the 2017/18 budget gap. While not all options will be viable, actions are being taken and this remains a top priority for senior management.</p> <p>Progress in bridging the significant funding gap at this stage appears reasonable. Nevertheless, this remains a key challenge for the Council.</p>

Other matters to bring to you attention

As noted above, the Council has continued to respond well to the financial challenges it is facing. The scale of that challenge is however increasing and the level of funding pressures beyond 2016/17 could have a significant impact on the Council's future financial stability. 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.

Key findings

Current budget gap – In its updated MTFP issued in March 2016, the Council identified a cumulative funding gap of £2.02 million over the next three years. Bridging this gap to ensure its future financial viability presents a significant challenge for the Council. The Council continues to take proactive steps to identify savings and income generation opportunities. An initial draft of future savings to balance the budget for 2017/18 has been discussed by the Leadership Team. While not all of the potential savings identified will be viable, this demonstrates the actions being taken to bridge the funding gap. Savings are discussed regularly at senior management meetings and are a top priority.

MTFP and key assumptions – The MTFP is based on a number of assumptions, including estimates of future levels of Government funding from areas such as Revenue Support Grant (RSG) and the New Homes Bonus (NHB). The reduction of any Government funding source in future years, would present a risk to achievement of the Council's future budgets.

The Council clearly recognises these risks and the MTFP reflects a reduction in RSG of 44% in 2016/17 and 67% year on year in 2017/18, with RSG being phased out entirely by 2018/19. A levy for business rates adjustment has also been included from 2018/19. The NHB included in the MTFP is broadly in line with the confirmed settlements. By the end of the spending review's four year settlement, the Council's grant funding will have fallen by 77% and this is reflected in the budget.

The Council has assumed a 0.5% per year growth in the council tax base for future years and for 2016/17 a £5 increase in council tax has been built in to additional income generation targets. It has also assumed that the council tax freeze grant will stop after 2015/16.

The business rates retention baseline funding was set at £1.758 million for 2015/16 based on the actual determination. However, from 2016/17 the retention figure is dependent on a proportion of what the Council actually collects. As a result, the estimated amount for 2016/17 and beyond has fallen to £1.578 million. Business rates are expected to fall, despite an increase in businesses, due to the number of appeals lodged. While every effort to forecast the impact of these has been made, the success or failure of appeals is beyond the control of the Council. Our audit work has not identified any issues with estimation of appeals levels.

A provision for pay and inflation increase of 1% has been made. This seems prudent in light of the Government expectation that pay awards in the public sector be limited to 1% for the next three years. Future levels of general inflation, although currently remaining low, are however, less certain.

Reserves and balances – At the end of 2016, the level of General Fund balance was £3.965 million. Of this £0.3 million is forecast to be spent or to remain as an allocation during 2016/17, with a further £0.285 million allocated to bridge the current funding gap in 2016/17. This would leave £3.38 million uncommitted or unallocated at the end of 2016/17. This is significant above the recommended minimal level of £2.2 million. However, future allocations in the MTFP would depleted General Fund reserves during 2018/19 should efficiencies and savings not be identified to bridge the significant funding gaps. The Council is however working on proposals to bridge the funding gap for 2017/18 and beyond.

In addition to the General Fund balance, the Council also has earmarked reserves of £2.5 million. Some of these reserves are allocated towards specific items of spend (for example, community alarms reserve £0.3 million and Duchess of Kent/Nightingale reserve of £0.34 million) but not all are specifically allocated and so could be released to support budgets in the short term if needed.

Track record of delivering previous budgets and savings – The Council has a strong record of delivering its budget and planned savings. The 2015/16 budget included £0.9 million of savings or additional income which were successfully delivered. This resulted in the reported deficit for the year being £0.06 million less than expected. The Council has also delivered savings of £0.513 million and £0.45 million in 2013/14 and 2014/15 respectively, while also underspending or breaking even on spend on services. This consistent performance indicates that the Council has a sound system of budgetary control.

As part of the 2016/17 budget, the Council has identified increased income and savings of £1 million

Appendix A – Uncorrected audit differences

The following differences, which are greater than £0.048 million, have been identified during the course of our audit and have not been considered material by management or by us for adjustments. We are bringing them to the Committee's attention to enable you to form your own view on these items.

Balance sheet and statement of comprehensive income and expenditure 2015/16

Item of account	Balance sheet (Decrease) / Increase £m	Comprehensive income and expenditure statement (Decrease) / Increase £m
B/S – Assets Held for Sale	£0.275	
B/S – Revaluation Reserve	£(0.275)	
<p>The Council has not recognised Hallsford Bridge, a brownfield site next to an industrial estate, as an asset in its non-current asset register and therefore the Balance Sheet. Management decided not to recognise the asset until it qualified as a held-for-sale-asset because the sum is not material. The Council is planning to sell the asset in July 2016.</p>		
Cumulative effect of unadjusted differences	£0	£0

**Balance sheet and Statement of comprehensive income and expenditure 2014/15
Comparatives**

Item of account	Balance sheet (Decrease) / Increase £m	Comprehensive income and expenditure statement (Decrease) / Increase £m
CIES – Cultural and related services		(£0.062)
CIES – Various services headings		£0.062
Depreciation for the Town Hall has been posted to the incorrect Net Cost of Services (NCS) line. As a result cultural and related services are overstated and other NCS items are understated.		
B/S – Debtors, other local authorities	£0.058	
CIES – Environment & regulatory		(£0.058)
An invoice raised in April 2015 for recycling service provided in January 2015 was not accrued for as a debtor at year end. We further extrapolated for this error across the untested balance as per line below.		
B/S - Debtors	£0.099	
CIES – Various service headings		(£0.099)
Testing of debtors above identified one invoice raised in April 2015 which relates to 2014/15 which has not been accrued for. We have extrapolated across the entire population of invoices raised in April to calculate the potential total error.		
CIES – various service headings		£0.199
MiRS – General fund		(£0.164)
MiRS – HRA		(£0.035)
MiRS – Pension reserve	£0.199	
B/S - Pensions liability	(£0.199)	

Actual pension contributions and pensionable pay for 2014/15 were not included in the data submission to Essex County Council Pension Fund. Therefore, the Pension Fund applied the estimated 2015/16 figures in providing the 2014/15 IAS19 figures to the Council. The impact of incorrect pensionable pay on service costs has been estimated by the Council. We have reviewed this calculation and are satisfied that the impact is not material

Cumulative effect of unadjusted differences	£0.157	(£0.157)
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Appendix B – Corrected audit differences

The following corrected differences, which are greater than £0.719 million, have been identified during the course of our audit and warrant communicating to you. These amendments relate to disclosure notes and do not impact on reserves.

Disclosures

Disclosure	Description of difference
Note 13: Assets Held for Sale: £1.850 million	Management has amended the accounts to include a note to the Balance Sheet to analyse assets held for sale in line with page 410 of the 2015/16 CIPFA Code of Practice on Local Authority Accounting Guidance Notes for Practitioners
Note 24.2: Amounts Reported for Resource Allocation Decisions: Reconciliation to Subjective Analysis: £1.471 million	Management had understated income and expenditure within Recharges for Support Services by netting of transactions against each other. Management has amended the Note to comply with paragraph 3.4.2.92 of the CIPFA Code of Practice on Local Authority Accounting.

Appendix C – Outstanding matters

The following items relating to the completion of our audit procedures are outstanding at the date of the release of this report

Item	Actions to resolve	Responsibility
Management representation letter	Receipt of signed letter of representation	Management and Audit and Scrutiny Committee
Narrative Statement, Accounts and Annual Governance Statement.	<ul style="list-style-type: none"> • Incorporation of EY review comments on disclosure notes • Approval of accounts by Audit and Scrutiny Committee • Accounts re-certified by the Finance Director 	EY, management and Audit and Scrutiny Committee
Subsequent events review	Completion of the subsequent events procedures to the date of signing the audit report	EY and management
Remaining audit work	<ul style="list-style-type: none"> • Journal testing; • Income and expenditure testing; • Housing benefits predictive analytical review and work being completed by the auditor of Basildon Council; • Letter from the valuer of the land at the Brentwood centre • Letter of assurance from the auditor of Essex County Council Pension Fund • Disclosure of related parties; • Completion of minor disclosure notes; and • Completion of Manager and Director review procedures. 	EY
Remaining audit work	Completion of Whole of Government Accounts once guidance received from the Treasury via the National Audit Office	EY

Appendix D – Independence

We confirm there are no changes in our assessment of independence since our confirmation in our Audit Plan dated 7 March 2016 2016.

We complied with the Auditing Practices Board's Ethical Standards for Auditors and the requirements of the Public Sector Audit Appointments Ltd (PSAA)'s Terms of Appointment. 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 confirm that we are not aware of any relationships that may affect the independence and objectivity of the firm that we are required by auditing and ethical standards to report to you.

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 and come to a view. If you wish to discuss any matters concerning our independence, we will be pleased to do so at the forthcoming meeting of the Audit Committee on 27 July 2016.

We confirm that we have met the reporting requirements to the Audit Committee, as 'those charged with governance' under International Standards on Auditing (UK and Ireland) 260 – Communication with those charged with governance. Our communication plan to meet these requirements was set out in our Audit Plan of 7 March 2016.

Appendix E – Auditor fees

The table below sets out the scale fee and our final proposed audit fees.

Description	Proposed final Fee 2015/16 £	Scale Fee 2015/16 £	Variation comments
Total Audit Fee – Code work	68,006	68,006	Not Applicable
Certification of claims and returns	18,070	18,070	Not Applicable
Non-audit work – Agreed Upon Procedures in relation to the Council's Pooled Capital Receipts Return.	To Be Confirmed	Not Applicable	Not Applicable

Our actual fee is in line with the scale fee set by the PSAA at this point in time, subject to satisfactory clearance of the outstanding work.

We have also undertaken extra work as a result of:

- the working papers not being available at the start of the audit;
- reviewing the supporting evidence regarding the transfer of information between the legacy and new systems for council tax, business rates and housing benefits on 1 February 2016; and
- identification of a significant risk for the value for money conclusion regarding the Council's arrangements for deploying resources in a sustainable manner,

Should a scale fee variation increase be necessary we will discuss in the first instance with the Finance Director

Our certification of the housing benefits claim takes place in October and November 2016. We will confirm the final fees charged in our certification report to be issued to the Council in February 2017.

We confirm we have not undertaken any non-audit work outside of the PSAA's requirements. During 2014/15 we undertook work under Agreed upon Procedures in relation to the Council's Pooled Capital Receipts Return in line with the requirements set by the Department for Communities and Local Government (DCLG). Should the DCLG specify the same arrangements for 2015/16, it is likely that we would again consider undertaking this work under Agreed upon Procedures.

Appendix F – Draft audit report

Independent auditor's report to the members of Brentwood Borough Council.

Opinion on the Authority's financial statements

We have audited the financial statements of Brentwood Borough Council for the year ended 31 March 2016 under the Local Audit and Accountability Act 2014. The financial statements comprise the:

- Movement in Reserves Statement;
- Comprehensive Income and Expenditure Statement;
- Balance Sheet;
- Cash Flow Statement;
- The related notes 1 to 39;
- Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement and related notes 1 to 7; and
- Collection Fund and related notes 1 to 3.

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 2015/16.

This report is made solely to the members of Brentwood Borough Council, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. 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 Finance Director and auditor

As explained more fully in the Statement of the Finance Director Responsibilities set out on page 10, the Finance Director is responsible for the preparation of the Statement of Accounts, 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 2015/16, 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 Finance Director; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Statement of Accounts 2015/16 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 Brentwood Borough Council as at 31 March 2016 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

Opinion on other matters

In our opinion the information given in the Statement of Accounts 2015/16 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 is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Council;
- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014;
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

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

Authority's responsibilities

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.

Auditor's responsibilities

We are required under Section 20(1) (c) of the Local Audit and Accountability Act 2014 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 National Audit Office (NAO) requires us to report to you our conclusion relating to proper arrangements.

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 criterion issued by the Comptroller and Auditor General (C&AG) in November 2015, as to whether Brentwood Borough 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. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether Brentwood Borough Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2016.

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, Brentwood Borough Council 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 issued by the C&AG in November 2015, we are satisfied that, in all significant respects, Brentwood Borough Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2016.

Certificate

We certify that we have completed the audit of the accounts of Brentwood Borough Council in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice issued by the National Audit Office.

Debbie Hanson

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

August/September 2016

Appendix G – Management representation letter

[To be prepared on the entity's letterhead]

[Date]

Debbie Hanson
Ernst & Young
400 Capability Green
Luton
Bedfordshire
LU1 3LU

Dear Debbie,

Brentwood Borough Council Letter of Representations

This letter of representations is provided in connection with your audit of the financial statements of Brentwood Borough Council (“the Council”) for the year ended 31 March 2016. 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 Brentwood Borough Council as of 31 March 2016 and of its income and expenditure for the year then ended in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

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 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16].
2. We acknowledge, as members of management of the Council, 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, financial performance (or results of operations) and cash flows of the Council in accordance with [the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16. 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. As members of management of the Council, 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 2015/16, that are free from material misstatement, whether due to fraud or error.

5. We believe that the effects of any unadjusted audit differences, summarised in the accompanying schedule, accumulated by you during the current audit and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. We have not corrected these differences identified by and brought to the attention from the auditor because of the reasons specified in the Schedule of Unadjusted Differences.

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 disclosed to you all significant facts relating to any frauds, suspected frauds or allegations of fraud known to us that may have affected the Council (regardless of the source or form and including, without limitation, allegations by “whistle-blowers”), whether involving management or employees who have significant roles in internal control. Similarly, we have disclosed to you our knowledge of frauds or suspected frauds affecting the entity involving others where the fraud could have a material effect on the financial statements. We have also disclosed to you all information in relation to any allegations of fraud or suspected fraud communicated by employees, former employees, analysts, regulators or others, that could affect the financial statements.

C. Compliance with Laws and Regulations

1. We have disclosed to you all identified or suspected non-compliance 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;
 - Additional information that you have requested from us for the purpose of the audit; and
 - 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, Policy, Finance and Resources Committee and Audit and Scrutiny Committee or summaries of actions of recent meetings for which minutes have not yet been prepared held through the to the most recent meeting.
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 period end. These transactions have been appropriately accounted for and disclosed in the financial statements.

5. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
6. 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. There are no guarantees that we have given to third parties.

F. Subsequent Events

1. As described in Note 33 to the financial statements, there have been no events subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

Representations required in specific circumstances

G. Use of the Work of a Specialist

1. We agree with the findings of the specialists that we engaged to evaluate the Property, Plant and Equipment, Investment Properties, Pension Liabilities and business rate appeals and have adequately considered the qualifications of the specialists 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 specialists 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 specialists.

H. Estimates for Property, Plant and Equipment, Investment Properties, Pension Liabilities and Business Rate Appeals

1. We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimate(s) have been consistently applied and are appropriate in the context of the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.
2. We confirm that the significant assumptions used in making the estimates for property, plant and equipment, investment properties, pension liabilities and business rate appeals.

3. The estimates for property, plant and equipment, investment properties, pension liabilities and business rate appeals appropriately reflect our intent and ability to make judgments, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for the revenue and expenses during the year on behalf of the entity.
4. We confirm that the disclosures made in the financial statements with respect to the accounting estimate(s) are complete and made in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.
5. We confirm that no adjustments are required to the accounting estimate(s) and disclosures in the financial statements due to subsequent events

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.

Yours Sincerely,

Finance Director

I confirm that this letter has been discussed and agreed at the Audit and Scrutiny Committee on 27 July 2016

Chairman of Audit and Scrutiny Committee

SCHEDULE OF UNADJUSTED DIFFERENCES: 2015/16

Appendix A to the Audit Results Report details the following uncorrected audit misstatements in the 2015/16 financial statements. It is not proposed to adjust the accounts for these for the following reasons:

Description	Amount	Reason
The Council has not recognised Hallsford Bridge, a brownfield site next to an industrial estate, as an asset in its non-current asset register and therefore the Balance Sheet. Management decided not to recognise the asset until it qualified as a held-for-sale-asset because the sum is not material. The Council is planning to sell the asset in July 2016	£275,000	This has had no overall impact on the Council's reserves. As the asset is due for disposal, this should not be a recurring issue in 2016/17. The item is not material.

Appendix H – Required communications with the audit committee

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

Required communication	Reference
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 ▶ Significant difficulties, if any, encountered during the audit ▶ Significant matters, if any, arising from the audit that were discussed with management ▶ Written representations that we are seeking ▶ Expected modifications to the audit report ▶ Other matters if any, significant to the oversight of the financial reporting process 	Audit Results Report
Going concern	
Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:	Audit Results Report
<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 	No conditions or events were identified, either individually or in aggregate, that indicated there could be doubt about Brentwood Borough Council's ability to continue as a going concern for the 12 months from the date of our 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 that we have identified or information we have obtained that indicates that a fraud may exist ▶ A discussion of any other matters related to fraud 	Audit Results Report We have made enquiries of management. We have not been made aware of any material fraud or illegal acts during our audit.
Related parties	
Significant matters arising during the audit in connection with the entity's related parties including, when applicable:	Audit Results Report
<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 	We have no matters we wish to report.

Required communication	Reference
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 	<p>Audit Results Report</p> <p>We have received all requested confirmations.</p>
Consideration of laws and regulations	
<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 	<p>Audit Results Report</p> <p>We have not identified any material instances of non-compliance with laws and regulations.</p>
Independence	
<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 	<p>Audit Plan and Audit Results Report</p>
Significant deficiencies in internal controls identified during the audit	
	<p>Annual Audit Letter/Audit Results Report</p>
Fee Information	
<ul style="list-style-type: none"> ▶ Breakdown of fee information at the agreement of the initial audit plan ▶ Breakdown of fee information at the completion of the audit 	<p>Audit Plan</p> <p>Audit Results Report</p> <p>Annual Audit Letter</p>
Certification work	
<ul style="list-style-type: none"> ▶ Summary of certification work undertaken 	<p>Certification Report</p>

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Ernst & Young LLP, 1 More London Place, London, SE1 2AF.

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