

# Brentwood Borough Council

Annual Audit Letter for the year ended 31 March 2016

October 2016

Ernst & Young LLP



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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.psa.co.uk](http://www.psa.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 Annual Audit Letter is prepared in the context of the Statement of responsibilities. It is addressed to the Members of the audited body, and is prepared for their sole use. 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.

A hand with white nail polish is writing on a document with a blue pen. In the background, there is a calculator, a laptop, and a white mug. A yellow rectangular box is overlaid on the left side of the image.

## Executive Summary

## Executive Summary

We are required to issue an Annual Audit Letter to Brentwood Borough Council (the Council) following completion of our audit procedures for the year ended 31 March 2016.

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

Area of Work	Conclusion
<b>Opinion on the Council's:</b>	
▶ Financial statements	Unqualified - the financial statements give a true and fair view of the financial position of the Council at 31 March 2016 and of its expenditure and income for the year then ended
▶ Consistency of other information published with the financial statements	Other information published with the financial statements was consistent with the Statement of Accounts 2015/16
<b>Concluding on the Council's arrangements for securing economy, efficiency and effectiveness</b>	We concluded that you have put in place proper arrangements to secure value for money in your use of resources

Area of Work	Conclusion
<b>Reports by exception:</b>	
▶ Consistency of Annual Governance Statement	The Annual Governance Statement was consistent with our understanding of the Council
▶ Public interest report	We had no matters to report in the public interest
▶ Written recommendations to the Council, which should be copied to the Secretary of State	We had no matters to report
▶ Other actions taken in relation to our responsibilities under the Local Audit and Accountability Act 2014	We had no matters to report

Area of Work	Conclusion
<b>Reporting to the National Audit Office (NAO) on our review of the Council's Whole of Government Accounts return (WGA).</b>	The Council is below the specified audit threshold of £350 million. Therefore, we did not perform any audit procedures on the consolidation pack.

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As a result of the above we have also:

Area of Work	Conclusion
Issued a report to those charged with governance of the Council communicating significant findings resulting from our audit.	Our Final Audit Results Report was issued on 27 September 2016
Issued a certificate that we have completed the audit in accordance with the requirements of the Local Audit and Accountability Act 2014 and the National Audit Office's 2015 Code of Audit Practice.	Our certificate was issued on 28 September 2016

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In January 2017, we will also issue a report to those charged with governance of the Council summarising the certification work we have undertaken.

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

Debbie Hanson  
Executive Director  
For and on behalf of Ernst & Young LLP

Purpose



## Purpose

### **The Purpose of this Letter**

The purpose of this Annual Audit Letter is to communicate to Members and external stakeholders, including members of the public, the key issues arising from our work, which we consider should be brought to the attention of the Council.

We have already reported the initial findings from our audit work in our 2015/16 Audit Results Report to the 27 July 2016 Audit & Scrutiny Committee, representing those charged with governance. We issued a Final Audit Results Report on the 27 September 2016 before we issued our audit report. We do not repeat those detailed findings in this Letter. The matters reported here are the most significant for the Council.



# Responsibilities



## Responsibilities

### Responsibilities of the Appointed Auditor

Our 2015/16 audit work has been undertaken in accordance with the Audit Plan that we issued on 7 March 2016 and is conducted in accordance with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office.

As auditors we are responsible for:

- ▶ Expressing an opinion:
  - ▶ On the 2015/16 financial statements; and
  - ▶ On the consistency of other information published with the financial statements.
- ▶ Forming a conclusion on the arrangements the Council has to secure economy, efficiency and effectiveness in its use of resources.
- ▶ Reporting by exception:
  - ▶ If the Annual Governance Statement is misleading or not consistent with our understanding of the Council;
  - ▶ Any significant matters that are in the public interest;
  - ▶ Any written recommendations to the Council, which should be copied to the Secretary of State; and
  - ▶ If we have discharged our duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice.

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

## **Responsibilities of the Council**

The Council is responsible for preparing and publishing its statement of accounts accompanied by an Annual Governance Statement. In the Annual Governance Statement, the Council reports publicly each year on how far it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in year, and any changes planned 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.

# Financial Statement Audit



## Financial Statement Audit

### Key Issues

The Council's Statement of Accounts is an important tool for the Council to show how it has used public money and how it can demonstrate its financial management and financial health.

We audited the Council's Statement of Accounts in line with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office and issued an unqualified audit report on 28 September 2016.

Our detailed findings were reported to the 27 July 2016 Audit & Scrutiny Committee, with our updated Audit Results Report issued on 27 September 2016.

The key issues identified as part of our audit were as follows:

Significant Risk	Conclusion
<p><b>Management override of controls</b></p> <p>A risk present on all audits is that 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.</p> <p>Auditing standards require us to respond to this risk by testing the appropriateness of journals, testing accounting estimates for possible management bias and obtaining an understanding of the business rationale for any significant unusual transactions.</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>	<p>We obtained a full list of journals posted to the general ledger during the year, and analysed these journals using criteria we set to identify any unusual journal types or amounts. We then tested a sample of journals that met our criteria and tested these to supporting documentation.</p> <p>We have not identified any material weaknesses in controls or evidence of material management override.</p> <p>We have not identified any instances of inappropriate judgements being applied.</p> <p>We did not identify any other transactions during our audit which appeared unusual or outside the Council's normal course of business.</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 for property, plant and equipment. Further detail is included on this issue below.</p> <p>Our testing did not identify any expenditure which had been inappropriately capitalised</p>

**Other Issues**

**Conclusion**

**Introduction of new revenues and benefits system**

The Council changed its revenues and benefits system from Northgate to Civica in February 2016. During the course of the audit, it became apparent that there was a significant discrepancy between housing benefit expenditure within the General Ledger and that recorded in the Housing Benefit Subsidy claim.

Management requested CIVICA to review the transfer of data between the two systems and as a result, the Council produced new Housing Benefit Subsidy claim form. The new claim form, included additional expenditure and subsidy due from the Department for Work and Pensions (DWP) of £871,774, compared to the initial claim on which subsidy income in the financial statements was based. The Council had not at the time of our audit of the financial statements been able to provide detailed audit trails to support the benefits payments in February and March 2016, as required for the audit of the subsidy claim. The Council therefore included a provision of £871,774 in the accounts to reflect the risk of the DWP withholding subsidy. There is therefore no impact on the Council's reserves as a result of the amendments.

We were able to gain sufficient assurance over the material accuracy of the amended figures in the accounts relating to housing benefit expenditure and the associated subsidy income. However we note that the lack of complete audit trails for February and March 2016 to support the subsidy claim presents a risk for the Council. We were therefore satisfied that the inclusion of a provision related to this risk was appropriate and that this was adequately disclosed in the financial statements.

We will undertake our certification of the claim in October and November 2016 and will report any issues arising from this work in our report to the Audit & Scrutiny Committee in January 2017.

**Preparation for earlier closedown**

The Council succeeded in bringing forward its timetable for the preparation of the accounts this year, with the accounts and related documents published by 13 June 2016. However, not all of the working papers required to support the financial statements were produced at the date the audit started on 6 June 2016. This reduced the efficiency of the audit process, although management responded promptly to all key requests for information during the course of the audit.

With the deadlines for the production and audit of the accounts being brought forward to 31 May and 31 July respectively from 2017/18 the Council has made a good start on preparing for this challenge. We will continue to work with management to bring forward as much work as possible on the preparation and audit of the accounts in order to meet the new deadlines in future years.

### Instructions to valuers

Our audit of the valuation of property, plant and equipment identified some areas for improvement in the procedures for the instruction of both the internal and external valuers. The key issues identified as part of our audit are summarised below:

- Management had not retained the instructions to the internal valuer;
- Management compiled the financial statements based a spreadsheet provided by the internal valuer without confirming the information in this to the actual valuation statements produced by the valuer; and
- 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 changes in value between January to March 2016.

These valuations are material estimates within the financial statements and Management should look to strengthen these arrangements in future years. In particular, the Council should ensure that:

- Clear written instructions are provided to the internal valuer and copies of these are retained for audit;
- The figures in the financial statements for property, plant and equipment should be agreed to the valuation statements as well as the detailed spreadsheets provide by the valuer; and
- Where valuations are not undertaken at year end, the Council should instruct the valuer to undertake a subsequent review to confirm whether there has been any material movement in values between the valuation date and year end which would impact on the financial statements.

A close-up, shallow depth-of-field photograph of a stack of coins. The coins are stacked vertically, with some showing their edges and others showing their faces. The lighting is warm, highlighting the metallic texture and the ridges on the edges. A bright yellow rectangular box is overlaid on the left side of the image, containing the text "Value for Money".

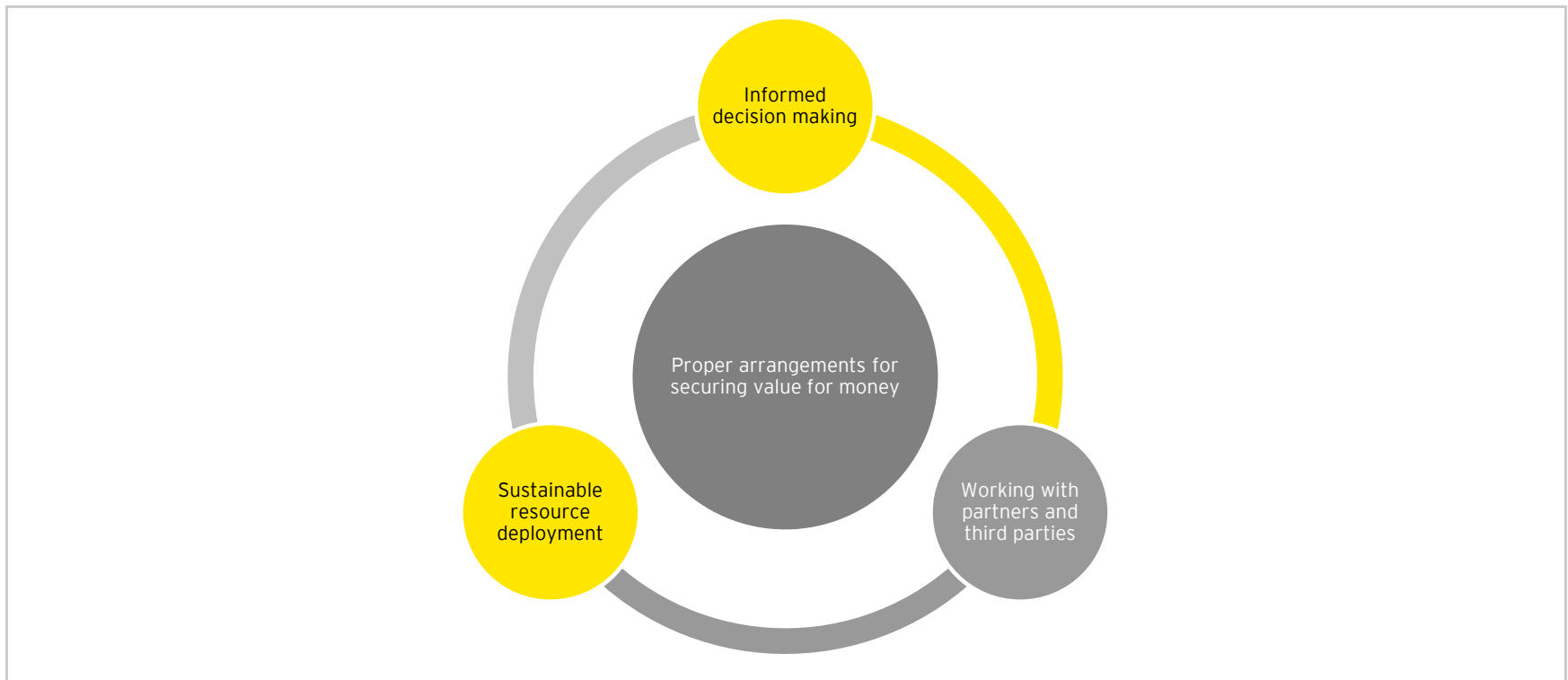
Value for Money

## 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.





We issued an unqualified value for money conclusion on 28 September 2016.

We identified one significant risk in relation to our value for money conclusion. This related to sustainable resource deployment, and the need to achieve the savings over the medium term to balance the general fund budget. We have performed the procedures outlined in our Audit Plan to address this risk and our work did not identify any significant matters in relation to the Council's arrangements. We therefore concluded that the Council had adequate arrangements in place.

As part of our work we made the following observations.

## Key Findings

### Savings plans

In its updated MTFP issued in March 2016, the Council identified a cumulative funding gap of £2.02 million over the next three years to 2018/19. Bridging this gap to ensure its future financial viability presents a significant challenge and the Council continues to take proactive steps to identify savings and income generation opportunities to achieve this.

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. 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.

Given the Council's history of delivering savings and a balanced budget, we have concluded that progress in bridging the significant funding gap at this stage appears reasonable. Nevertheless, this remains a key challenge for the Council.

### Medium term financial plan (MTFP)

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) as well as income from areas such as council tax and business rates.

The Council clearly recognises the risks around these sources of income and the MTFP includes reasonable assumptions for reduction in RSG and NHB over future years. 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 also made prudent assumptions about the growth in the council tax base and the level of income from business rates, with business rates expected to fall, despite an increase in businesses, due to the number of appeals lodged.

### Levels of reserves

At the end of 2016, the level of General Fund balance was just under £4 million and this is projected to reduce around £3.4 million at the end of 2016/17. This is significantly above the recommended minimal level of £2.2 million recommended by the Council's Finance Director. However, should efficiencies and savings not be identified to bridge the significant funding gaps in future years, then the General Fund reserves would be further reduced during 2018/19.

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, but not all are specifically allocated and so could be released to support budgets in the short term if needed.

We therefore note that the Council has sufficient reserves that could be applied to bridge any budget gaps in the short term strategy while longer term solutions are identified. We would note however that the use of reserves to bridge shortfalls in funding for ongoing services is not sustainable and should therefore only be used as a short term measure whilst sustainable solutions re identified and implemented.

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#### **Budget setting and monitoring processes**

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We have also considered the Council's budget monitoring arrangements as part of our audit work.

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. Details regarding the progress of 2016/17 savings was still limited at the time of our audit in July 2016. However the finance team have continued to work on this and based on the evidence provided, we are satisfied that the Council was on track to deliver the majority of savings and any remaining gap remains within reasonable levels.

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## Other Reporting Issues

## Other Reporting Issues

### Whole of Government Accounts

The Council is below the specified audit threshold of £350 million. Therefore, we did not perform any audit procedures on the consolidation pack.

### Annual Governance Statement

We are required to consider the completeness of disclosures in the Council's Annual Governance Statement, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it is misleading.

We completed this work and did not identify any areas of concern.

### Report in the Public Interest

We have a duty under the Local Audit and Accountability Act 2014 to consider whether, in the public interest, to report on any matter that comes to our attention in the course of the audit in order for it to be considered by the Council or brought to the attention of the public.

We did not identify any issues which required us to issue a report in the public interest.

### Written Recommendations

We have a duty under the Local Audit and Accountability Act 2014 to designate any audit recommendation as one that requires the Council to consider it at a public meeting and to decide what action to take in response.

We did not identify any issues which required us to issue a written recommendation.

### Objections Received

We did not receive any objections to the 2015/16 financial statements from member of the public.

### Other Powers and Duties

We identified no issues during our audit that required us to use our additional powers under the Local Audit and Accountability Act 2014.

## **Independence**

We communicated our assessment of independence in our Audit Results Report to the Audit & Scrutiny Committee on 27 July 2016. We issued a Final Audit Results Report on the 27 September 2016 before we issued our audit report. 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 regulatory and professional requirements.

## **Control Themes and Observations**

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

A close-up photograph of a person's face as they look through a pair of black binoculars. The person's eyes are focused on the lenses, and their hands are visible holding the device. The background is a soft, out-of-focus white. A bright yellow rectangular box is overlaid on the left side of the image, containing the text "Focused on your future".

Focused on your  
future

## Focused on your Future

Area	Issue	Impact
<b>EU referendum</b>	<p>Following the majority vote to end the UK's membership of the European Union (EU) in the EU Referendum held on 23 June 2016 there is a heightened level of volatility in the financial markets and increased macroeconomic uncertainty in the UK. All three major rating agencies (S&amp;P, Fitch and Moody's) took action on the UK Sovereign credit rating and, following the rating action on the UK Government. For entities in the public sector, there is likely to be an impact on investment property valuations if confidence in the wider UK property market falls; and the valuation of defined benefit pension obligations may also be affected. It is too early to estimate the quantum of any impact of these issues, but there is likely to be significant ongoing uncertainty for a number of months while the UK renegotiates its relationships with the EU and other nations.</p>	<p>Many of the issues and challenges that face the UK public sector will continue to exist, not least because continued pressure on public finances will need responding to. Additionally it may well be that the challenges are increased if the expected economic impacts of the referendum and loss of EU grants outweigh the benefits of not having to contribute to the EU and require even more innovative solutions.</p> <p>We are committed to supporting our clients through this period, and help identify the opportunities that will also arise. We will engage with you on the concerns and questions you may have, provide our insight at key points along the path, and provide any papers and analysis of the impact of the referendum on the Government and Public Sector market.</p>

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ED None

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