

Brentwood Borough Council

Annual Audit Letter for the year ended 31 March 2017

October 2017

Ernst & Young LLP



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Public Sector Audit Appointments Ltd (PSAA) have issued a "Statement of responsibilities of auditors and audited bodies". 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 (updated 23 February 2017)" 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 2017.

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

| Area of Work | Conclusion |
|----------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Opinion on the Council's: ▶ Financial statements | Unqualified - the financial statements give a true and fair view of the financial position of the Council as at 31 March 2017 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 Annual Accounts |
| Concluding on the Council's arrangements for securing economy, efficiency and effectiveness | We concluded that you have put in place proper arrangements to secure value for money in your use of resources |

| Area of Work | Conclusion |
|-------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------|
| Reports by exception: ▶ Consistency of Governance Statement | The 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 |
|-------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------|
| Reporting to the National Audit Office (NAO) on our review of the Council's Whole of Government Accounts return (WGA). | The Council is below the specified audit threshold of £350 million. Therefore, we did not perform any audit procedures on the consolidation pack |

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 Audit Results Report was presented to the Audit Committee meeting on 27 September 2017 |
| 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 2017 |

In January 2018, 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

Associate Partner
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 detailed findings from our audit work in our 2016/17 Audit Results Report to the Audit Committee, representing those charged with governance. 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 2016/17 audit work has been undertaken in accordance with the Audit Plan that we issued on 13 March 2017 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 2016/17 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 thy 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 you Whole of Government Accounts return. The Council is below the specified audit threshold of £350 million. Therefore, we did not perform any audit procedures on the return.

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 2017.

Our detailed findings were reported to the 27 September 2017 Audit Committee.

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

| Significant Risk | Conclusion |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>Management override of controls</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. We therefore review capital expenditure on property, plant and equipment to ensure it meets the relevant accounting</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 journals that met our criteria and tested these to supporting documentation.</p> <p>The most significant accounting estimates in the financial statements relate to the net pension liability and property valuations. We challenged the significant movement in the actuarial valuation and found no indication of management bias in this estimate. Our work on the property valuations focused on verifying and critically challenging the basis of valuation adopted by the Council's valuers, particularly for specialist assets which are valued on a depreciated replacement costs basis. We gained sufficient assurance that the values reported in the financial statements were not materially misstated..</p> <p>We have not identified any material weaknesses in controls or evidence of material management override.</p> |

requirements to be capitalised.

We have not identified any instances of inappropriate judgements being applied.

We did not identify any other transactions during our audit which appeared unusual or outside the Council's normal course of business.

Our testing did not identify any expenditure which had been inappropriately capitalised.

Other Key Findings

Conclusion

Valuations - reliance on experts

We identified two areas in our Audit Plan where we place reliance on experts; pensions and property valuations. These areas are both highly material balances in the Council's accounts which are based on estimates and professional judgement.

In accordance with Auditing Standards, we have evaluated each specialist's professional competence and objectivity, considering their qualifications, experience and available resources, together with the independence of the individuals performing the work.

We have also considered the work performed by the specialist in light of our knowledge of the Council's environment and processes and our assessment of audit risk in the particular area.

We are satisfied that the Council's valuers have the necessary qualifications and experience. We reviewed and critically challenged the basis and method of valuation adopted for a sample of assets, including particularly specialised assets which are valued on a depreciated replacement costs basis. We have concluded that for the properties we reviewed the values have been determined on an appropriate basis and the overall valuation estimate is not unreasonable.

Financial statement presentation - CIES and EFA

Amendments have been made to the Code of Practice on Local Authority Accounting in the United Kingdom 2016-17 changing the way the financial statements are presented. The new reporting requirements impact on the Comprehensive Income and Expenditure Statement (CIES) and the Movement in Reserves Statement (MIRS), and include the introduction of the new 'Expenditure and Funding Analysis' note as a result of the 'Telling the Story'

Our testing focussed on:

- Reviewing the Expenditure and Funding Analysis, the restated CIES and new notes to ensure disclosures are in line with the code of practice;
- Reviewing the analysis of how these figures are derived, how the ledger system has been re-mapped to reflect the Council's organisational structure and how overheads are apportioned across the service areas reported; and
- Agreeing the restated comparative figures back to the Council's segmental analysis and supporting working papers.

review of the presentation of local authority financial statements.

We have not identified any material misstatements from our work on the CIES and Expenditure and Funding Analysis. The disclosures are compliant with the Code of Practice and reflect the Council's organisational structure.

As a result of these changes, the service analysis should be based on the organisational structure under which the Council operates. This change in the Code required a new structure for the primary statements, new notes and a full retrospective restatement of impacted primary statements.

Our application of materiality

When establishing our overall audit strategy, we determined a magnitude of uncorrected misstatements that we judged would be material for the financial statements as a whole.

| Item | Thresholds applied |
|----------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Planning materiality | <p>We determined planning materiality to be £932 380 (2016: £959 000), which is 2% of Gross Expenditure reported in the accounts.</p> <p>We consider Gross Expenditure to be one of the principal considerations for stakeholders in assessing the financial performance of the Council.</p> |
| Reporting threshold | <p>We agreed with the Audit Committee that we would report to the Committee all uncorrected audit differences in excess of £46 600 (2016: £48 000)</p> |

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:
- Related party transactions;
- Councillors' allowances.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations.

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".

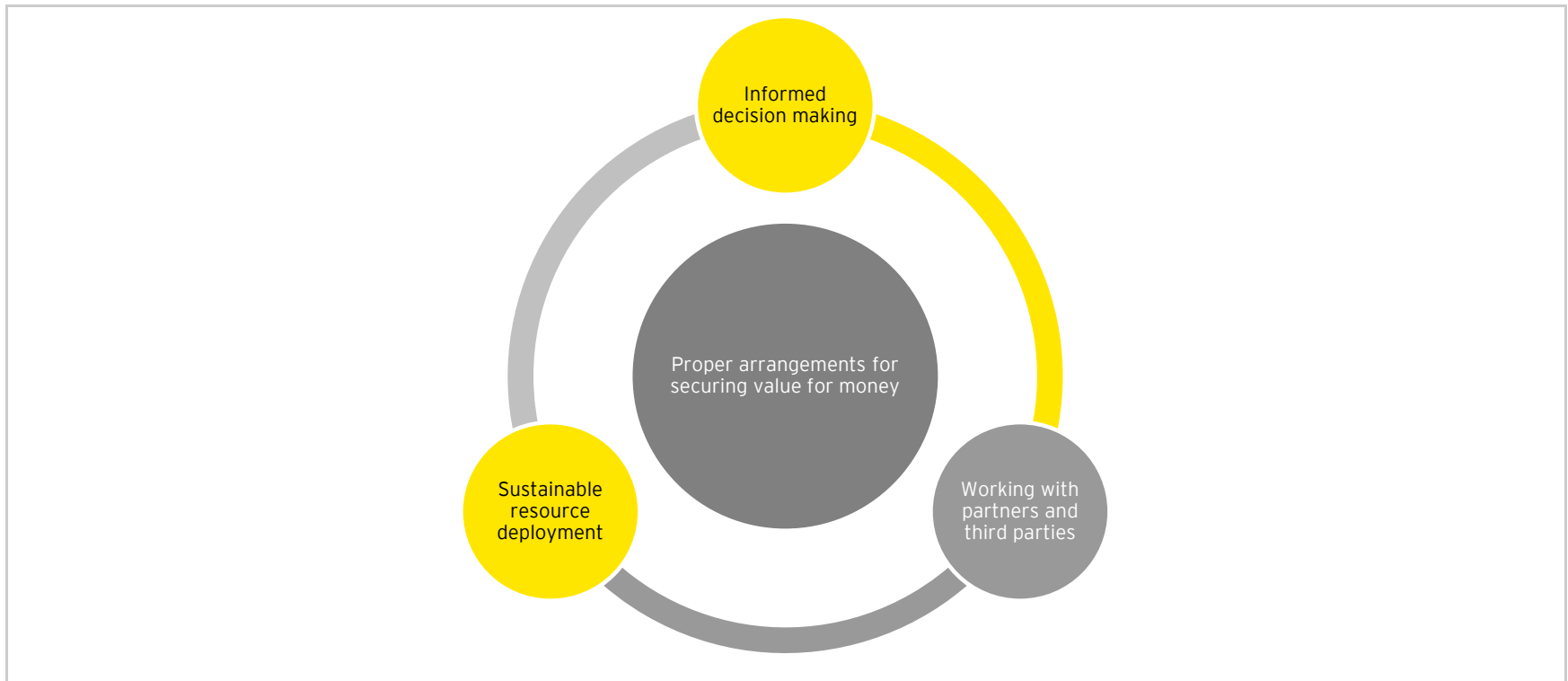
Value for Money

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 identified two significant risks in relation to these arrangements. The tables below present the findings of our work in response to the risks identified.

We have performed the procedures outlined in our Audit Plan and communicated to management. We did not identify any significant weaknesses in the Council's arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

We therefore issued an unqualified value for money conclusion on 28 September 2017.

| Significant Risk | Conclusion |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>Sustainable resource deployment:</p> <p>The impact of continuing reductions in funding from central government is particularly challenging for the Council.</p> <p>The Council's medium-term financial strategy (MTFS) highlights the need to identify and deliver significant savings totalling £5.7 million over the three years from 2017/18. At the time of our planning, the MFTS included the use of reserves to bridge this gap. The use of this level of reserves would reduce the Council's working balance to nil by the end of 2018/19. The minimum level of working balance recommended by the Council's Finance Director is £2.2 million.</p> <p>The Council recognises that reliance on reserves to support the base budget is not financially sustainable and is developing a detailed strategy to reduce costs and generate income in order to bridge the significant funding gap. As part of this, the Council is considering a greater level of partnerships, collaboration and commercial development activities.</p> | <p>To date the Council has responded well to the financial pressure facing public sector bodies, but continues to face significant financial challenges over the next three years, with uncertainty in the levels of future funding it will receive.</p> <p>The Council has a good track record of financial management and achieved break even at year end for 2016/17, despite the previously identified budget gap, thus demonstrating its ability to close such gaps.</p> <p>The Council's most recent Medium Term Financial Strategy identifies budget gaps of just over £2 million at the end of 2019/20. The MTFS previously indicated that the Council planned to use general fund reserves to bridge these gaps. The update to the MTFS developed in March 2017 includes details of savings, income generation and other efficiencies which have been identified to bridge the £2 million gap. As part of its plans to address the future financial challenges, the Council is also putting in place a number of initiatives including the development of the Town Hall, Town Centre redevelopment, as well as review of the leisure strategy and repairs and maintenance contracts.</p> <p>It is important that the Council puts in place robust project management arrangements to ensure the timely delivery of these various project streams. We have therefore considered the arrangements being put in place as part of our work. We have concluded that the Council has put in place appropriate project management arrangements and has commissioned external support to ensure it has the appropriate skills to deliver this programme of work.</p> |

Taking informed decisions:

Internal audit identified weaknesses in contract management and procurement as well as risk management and governance, resulting in moderate assurance audit reports.

Our own review of the contract register also identified a number of inadequacies

Some of the issues identified included:

- Contracts are not held in a central location and contract managers not always aware of the details of contracts.
- Procurement documentation is not always retained and contracts are not always in place for services provided despite payments being made
- Improvements required to operational risk registers and reporting of risks to committee, including a need to more clearly define risks and controls and assign responsibility for managing risks.

The Council has accepted the recommendations made by internal audit and is taking action to strengthen arrangements in these areas.

In light of the weaknesses noted by internal audit and the importance of sound procurement and risk management in the delivery of the Council's plans to meet the future financial challenge, we reviewed the procurement and risk management arrangements that had been put in place for these initiatives. On the basis of the work we have undertaken we are satisfied that the arrangements the Council has put in place are adequate.



Other Reporting Issues

Other Reporting Issues

Whole of Government Accounts

Alongside our work on the financial statements, we also review and report to the National Audit Office (NAO) on you Whole of Government Accounts return. The Council is below the specified audit threshold of £350 million. Therefore, we did not perform any audit procedures on the return.

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 2016/17 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 Committee on 27 September 2017. 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

As part of our work, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of internal control, we are required to communicate to you significant deficiencies in internal control identified during our audit.

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

Our audit did not identify any controls issues to bring to the attention of the Audit Committee

A close-up photograph of a person's hands holding binoculars to their eyes. The person's face is partially visible in the background, looking through the lenses. 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 |
|--------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><i>Earlier deadline for production and audit of the financial statements from 2017/18</i></p> | <p>The Accounts and Audit Regulations 2015 introduced a significant change in statutory deadlines from the 2017/18 financial year. From that year the timetable for the preparation and approval of accounts will be brought forward with draft accounts needing to be prepared by 31 May and the publication of the audited accounts by 31 July.</p> | <p>These changes provide challenges for both the preparers and the auditors of the financial statements.</p> <p>To prepare for this change the Council has taken some steps in 2016/17. For example it has started to critically review and amend the closedown process to achieve earlier draft accounts production.</p> <p>As auditors, nationally we have:</p> <ul style="list-style-type: none"> ▶ Issued a thought piece on early closedown ▶ As part of the strategic Alliance with CIPFA jointly presented accounts closedown workshops across England, Scotland and Wales ▶ Presented at CIPFA early closedown events and on the subject at the Local Government Accounting Conferences in July 2017. <p>Locally we have:</p> <ul style="list-style-type: none"> ▶ Set up a forum for chief accountants to meet with us to share ideas on how procedures can be streamlined. This will meet for the first time in October 2017. ▶ Agreed with the Council to engage early, following the completion of the 2016/17 audit, to facilitate early substantive testing for 2017/18 and also to consider steps the Council can take. Some of the areas we have identified include: <ul style="list-style-type: none"> ▶ Streamlining the Statement of Accounts removing all non-material disclosure notes ▶ Bringing forward the commissioning and production of key externally provided information such as IAS 19 pension information and asset valuations ▶ Providing training to departmental finance staff regarding the requirements and implications of earlier closedown ▶ Re-ordering tasks from year-end to monthly/quarterly timing, reducing year-end pressure ▶ Establishing and agreeing working materiality amounts. |

Appendix A

Audit Fees



Appendix A Audit Fees

Our fee for 2016/17 is in line with the scale fee set by the PSAA and reported in our 13 March 2017 Audit Plan.

| Description | Final Fee 2016/17 £ | Planned Fee 2016/17 £ | Scale Fee 2016/17 £ | Final Fee 2015/16 £ |
|--------------------------------------------------------------|------------------------|--------------------------|------------------------|------------------------|
| Total Audit Fee - Code work | 69,326 | 68,006 | 68,006 | 79,977 |
| Total Audit Fee - Certification of claims and returns | To be confirmed | 28,565 | 28,565 | 33,606 |

In 2015/16 a scale fee variation of £11,971 was agreed with officers. This related to additional work arising from dealing with a whistleblowing issue, late working papers to support the final accounts audit and the change of revenues system during the year, all of which impacted on the 2015/16 final accounts audit.

In 2015/16 a scale fee variation of £15,536 was also agreed with officers for the certification work. This related to additional work on the 2015/16 housing benefit subsidy claim as a result of changes in the housing benefit system part way through the year and resulting data conversion issues which impacted on the audit. This is subject to final agreement with management and approval by PSAA

In 2016/17 we are proposing an additional fee of £1,320 in respect additional work in response to the significant risks identified for our value for money conclusion. This scale fee variation is subject to PSAA approval.

We confirm we have not undertaken any non-audit work outside of the PSAA's requirements.

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ED None

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