

# **Brentwood Borough Council**

Annual Audit Letter for the year  
ended 31 March 2019

February 2020

The EY logo consists of the letters 'EY' in a bold, white, sans-serif font. A yellow triangle is positioned above the 'Y', pointing downwards towards the letters.

Building a better  
working world

# Contents

01

Executive Summary



03

Financial Statement Audit



05

Other Reporting Issues



07

Focused on your future



02

Purpose and Responsibilities



04

Value for Money



06

Data Analytics



08

Audit Fees



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.psa.co.uk](http://www.psa.co.uk)).

This 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 April 2018)' 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.



# 01 Executive Summary

## Executive Summary

We are required to issue an annual audit letter to Brentwood Borough Council following completion of our audit procedures for the year ended 31 March 2019. 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>	Unqualified:
▶ Financial statements	<ul style="list-style-type: none"> <li>The financial statements give a true and fair view of the financial position of the Council as at 31 March 2019 and of its expenditure and income for the year then ended; and</li> </ul>
▶ Consistency of other information published with the financial statements	Other information published with the financial statements was consistent with the Annual Accounts
<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 £500 million. Therefore, we did not perform any audit procedures on the consolidation pack.



## Executive Summary (cont'd)

---

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 Reports were issued on 28 <sup>th</sup> January 2020
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 <sup>th</sup> January 2020.

---

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

Neil Harris  
Associate Partner  
For and on behalf of Ernst & Young LLP



## 02 Purpose and Responsibilities

# Purpose and Responsibilities

## 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 2018/19 Audit Results Reports to the Audit and Scrutiny Committee meeting on 28 January 2020, 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 of the Appointed Auditor

Our 2018/19 audit work has been undertaken in accordance with the Audit Plan presented to the Audit and Scrutiny Committee on 30 January 2019 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 2018/19 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. The Council is below the specified audit threshold of £500 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 (AGS). In the AGS, 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.



03

## 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 unqualified audit reports on 28 January 2020.

Our detailed findings were reported to the Audit and Scrutiny meeting on 28 January 2020.

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

Significant Risk	Conclusion
<p><b>Misstatements due to fraud or error</b></p> <p>The financial statements as a whole are not free of material misstatements whether caused by fraud or error.</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>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><b>Incorrect capitalisation of revenue expenditure</b></p> <p>As identified in ISA 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 would otherwise appear to be operating effectively.</p> <p>In considering how the risk of management override may present itself, we conclude that this is primarily through management taking action to override controls and manipulate in year financial transactions that impact the medium to longer term projected financial position. A key way of improving the revenue position is through the inappropriate capitalisation of revenue expenditure. The Council has a significant fixed asset base and a material capital programme and therefore has the potential to materially impact the revenue position through inappropriate capitalisation.</p>	<p>Our audit work did not identify any material issues or unusual transactions to indicate any misreporting of the Council's financial position through the inappropriate capitalisation of revenue expenditure</p>



## Financial Statement Audit (cont'd)

Other Key Findings	Conclusion
<p><b>Valuation of Land and Buildings</b>            The fair value of Property, Plant and Equipment (PPE) and Investment Properties (IP) represent significant balances in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.</p>	<p>Our work on the valuation of land and buildings is complete.</p> <p>Our testing has not identified any material misstatements from inappropriate judgements being applied to the property valuation estimates.</p> <p>The expert valuers possess the relevant qualifications and experience, and undertook a review of all of the Council's assets.</p> <p>We considered the underlying assumptions made by the expert valuer and concluded that they were reasonable.</p>
<p><b>Pension liability valuation</b>            The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by Essex County Council.</p> <p>The Council's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Council's balance sheet. At 31 March 2018 this totalled £46.4 million. The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the County Council.</p> <p>Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.</p>	<p>We have assessed and are satisfied with the competency and objectivity of the Council actuary. EY pensions team and PwC (Consulting Actuary to the NAO) have reviewed the work of the actuaries and have deemed the assumptions used to be reasonable.</p> <p>The Council have obtained the revised IAS 19 report to include the impact of McCloud ruling and have made the relevant changes to the accounts.</p> <p>We have also considered the potential impact of the Guaranteed minimum pension ruling and concluded no material impact.</p> <p>The accounting entries and disclosures are in line with our expectations and the Code.</p>

## Financial Statement Audit (cont'd)

Other Key Findings	Conclusion
<p><b>Group Accounting</b></p> <p>2018/19 will be the first year the Council will consolidate the accounts of the wholly owned subsidiary Seven Arches Investment Limited (SAIL) with the Council's accounts. Group accounting is a complex accounting method and therefore there is an increased risk of material misstatement due to error.</p>	<p>Our work on the Group accounting is complete. We have one matter arising to report.</p> <p>For SAIL Investment properties, we have engaged our colleagues from EY Estates to support the local audit team in reviewing a sample of these assets. In light of the recent retail decline, we have challenged the assumptions of the asset namely :-</p> <ul style="list-style-type: none"><li>• Market rent per sq. ft.</li><li>• Gross/ net initial yield</li><li>• Purchaser's costs</li></ul> <p>This resulted in a revised valuation report from Council's valuer which lead to reduction in Group investment property by £1,013,000 which will be adjusted for in the financial statements.</p> <p>Using the revised valuation report, we identified differences between our expected valuation range and the values used by the Council's valuer in the property valuations. This could lead to an overstatement on the Group balance sheet of £242k in investment property.</p>
<p><b>IFRS 9 financial instruments</b></p> <p>This new accounting standard is applicable for local authority accounts from the 2018/19 financial year and will change:</p> <ul style="list-style-type: none"><li>▶ How financial assets are classified and measured;</li><li>▶ How the impairment of financial assets are calculated; and</li><li>▶ The disclosure requirements for financial assets.</li></ul> <p>There are transitional arrangements within the standard and the 2018/19 CIPFA Code of practice on local authority accounting provides guidance on the application of IFRS 9.</p>	<p>The Council have appropriately reflected the impact of IFRS 9 in their financial statements.</p>

## Financial Statement Audit (cont'd)

---

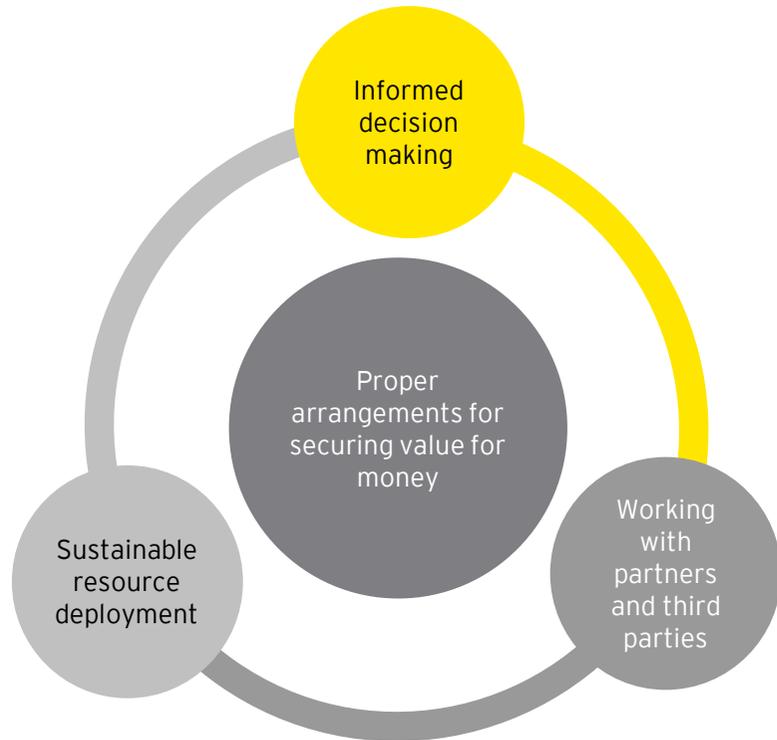
Other Key Findings	Conclusion
<p data-bbox="103 323 712 352"><b>IFRS 15 Revenue from contracts with customers</b></p> <p data-bbox="103 371 981 528">This new accounting standard is applicable for local authority accounts from the 2018/19 financial year. The key requirements of the standard cover the identification of performance obligations under customer contracts and the linking of income to the meeting of those performance obligations.</p> <p data-bbox="103 564 992 721">The impact on local authority accounting is likely to be limited as large revenue streams like council tax, non domestic rates and government grants will be outside the scope of IFRS 15. However where that standard is relevant, the recognition of revenue will change and new disclosure requirements introduced.</p>	<p data-bbox="1028 323 2085 416">Having reviewed the Council's analysis of the impact of IFRS 15 on their financial statements, we agreed with their conclusion that this standard does not have a material impact on their disclosures.</p>

---



## 04 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.

For 2018/19 this is based on the overall evaluation criterion:

"In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people"

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.

In considering your proper arrangements, we will draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your annual governance statement.

We identified two areas that may present a significant risk in our Audit Plan. We have also identify another significant value for money risk during the course of audit.

These related to arrangements for:

- Governance arrangements for Joint Venture decision making
- Due diligence process for consideration of out of borough commercial investments
- Financial planning and the achievement of savings in the medium term

We have completed our planned audit work in relation to the significant risk and expect having no matters to report about your arrangements to secure economy, efficiency and effectiveness in your use of resources and expect to issue an unqualified value for money conclusion.

Significant Risk	Conclusion
<p>Governance arrangements for Joint Venture decision making.</p> <p>The council has recently received bids from external organisations to become partners in a Joint Venture with the aim of building new homes in the borough.</p> <p>This Joint Venture has a significant impact on the Council's future, as this is a key part of the Council delivering balanced budgets going forward.</p> <p>Therefore the governance around the Joint Venture process and decision making is considered to be a significant risk to the Council delivering value for money.</p>	<p>We are satisfied that the information provide to Members for Joint Venture are appropriate and advice from appropriately knowledgeable professionals with relevant experience.</p> <p>We have not identified any issues in the review of the governance arrangements for Joint Venture decision making.</p> <p>We note that the Joint Venture agreement has not yet been signed. We understand that this is scheduled for the 2019-2020 financial year but highlight that once the Joint Venture has been agreed, the Council should take steps to:</p> <ul style="list-style-type: none"> <li>• Determine the representatives responsible for managing the Joint Venture</li> <li>• Allocate clear roles and responsibilities between representatives</li> <li>• Agree a schedule of regular meetings between the Council and Joint Venture Partner representatives to review and monitor delivery of agreed Joint Venture outputs</li> <li>• Define the form and frequency of reporting, key milestones and deliverables</li> <li>• Define the approach to measuring performance and set appropriate forecasts and financial targets in line with actual market performance.</li> </ul>
<p>Due diligence process for consideration of out of borough commercial investments.</p> <p>The creation of Seven Arches Investment Limited (SAIL), as a wholly owned subsidiary, by the Council has now led to one completed out of borough investment and another which is expected to be completed prior to year end. Out of borough investments are subject to greater public scrutiny.</p> <p>The due diligence process must be thorough and demonstrate value for money for the borough. The Council should also ensure that is meets the prudential framework guidelines.</p>	<p>We are satisfied that the Council has engaged with experts and has taken the appropriate level of advice to ensure it takes informed decisions in line with the Council's investment strategy.</p> <p>We have not identified any issues in the review of the arrangements in place for out of borough commercial investment.</p>

Significant Risk	Conclusion
<p>Since the completion of our initial planning we have obtained the updated Medium term financial plan (MTFP) as set out in the Council's 2019/20 budget and update to MTFP.</p> <p>The Council's MTFP identified a net budget gaps of £0.9 million at the end of 2021/22. This assumes the Council will achieve savings or generate additional income of just over £7 million over the period of the MTFP.</p> <p>We have therefore undertaken a detailed review of the MTFP as well as the Council's plans to deliver savings to assess whether arrangements to maintain financial sustainability are adequate.</p>	<p>Our approach focussed on reviewing the arrangements at the Council to secure financial resilience. We looked at the Council's plans to support the delivery of its Medium Term Financial Plan, including:</p> <ul style="list-style-type: none"> <li>• reviewing the programme of savings and efficiency plans in place at the Council;</li> <li>• assessing the effectiveness of in year monitoring of progress against plan</li> </ul> <p>We have reviewed a sample of savings and are satisfied that there are plans in place to deliver these and monitor the delivery.</p> <p>We have identified no significant concerns on the Council's arrangements to secure its financial resilience and sustainability.</p>

---



05

## Other Reporting Issues



## Other Reporting Issues

### Consistency of other information published with the financial statements, including the Annual Governance Statement

We must give an opinion on the consistency of the financial and non-financial information in the Statement of Accounts 2018/19 with the audited financial statements.

Financial information in the Statement of Accounts 2018/19 and published with the financial statements is consistent with the audited financial statements.

We must also review the Annual Governance Statement for completeness of disclosures, consistency with other information from our work, and whether it complies with relevant guidance.

We have reviewed the Annual Governance Statement and can confirm it is consistent with other information from our audit of the financial statements and we have no other matters to report.

### Whole of Government Accounts

The Council is below the specified audit threshold of £500 million. Therefore, we did not perform any audit procedures on the consolidation pack.

### Other powers and duties

We have a duty under the Local Audit and Accountability Act 2014 to consider whether to report on any matter that comes to our attention in the course of the audit, either for the Council to consider it or to bring it to the attention of the public (i.e. "a report in the public interest"). We did not identify any issues which required us to issue a report in the public interest.

We also have a duty to make written recommendations to the Council, copied to the Secretary of State, and take action in accordance with our responsibilities under the Local Audit and Accountability Act 2014. We did not identify any issues.

## Other Reporting Issues (cont'd)

---

### Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we must tell you significant findings from the audit and other matters if they are significant to your oversight of the Council's financial reporting process. They include the following:

- Significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures;
- Any significant difficulties encountered during the audit;
- Any significant matters arising from the audit that were discussed with management;
- Written representations we have requested;
- Expected modifications to the audit report;
- Any other matters significant to overseeing the financial reporting process;
- Related parties;
- External confirmations;
- Going concern;
- Consideration of laws and regulations; and
- Group audits.

We have no issues to report



06

## Data Analytics



# Use of Data Analytics in the Audit

## Analytics Driven Audit

### Data analytics

We used our data analysers to enable us to capture entire populations of your financial data. These analysers:

- ▶ Help identify specific exceptions and anomalies which can then be the focus of our substantive audit tests; and
- ▶ Give greater likelihood of identifying errors than traditional, random sampling techniques.

In 2018/19, our use of these analysers in the Council's audit included testing journal entries to identify and focus our testing on those entries we deem to have the highest inherent risk to the audit.

We capture the data through our formal data requests and the data transfer takes place on a secured EY website. These are in line with our EY data protection policies which are designed to protect the confidentiality, integrity and availability of business and personal information.

### Journal Entry Analysis

We obtain downloads of all financial ledger transactions posted in the year. We perform completeness analysis over the data, reconciling the sum of transactions to the movement in the trial balances and financial statements to ensure we have captured all data. Our analysers then review and sort transactions, allowing us to more effectively identify and test journals that we consider to be higher risk, as identified in our Audit Planning Report.



07

Focused on your future



## Focused on your future

---

The Code of Practice on Local Authority Accounting in the United Kingdom introduces the application of new accounting standards in future years. The impact on the Council is summarised in the table below.

Standard	Issue	Impact
<b>IFRS 16 Leases</b>	<p>It is currently proposed that IFRS 16 will be applicable for local authority accounts from the 2020/21 financial year.</p> <p><i>Whilst the definition of a lease remains similar to the current leasing standard; IAS 17, for local authorities who lease a large number of assets the new standard will have a significant impact, with nearly all current leases being included on the balance sheet.</i></p> <p><i>There are transitional arrangements within the standard and although the 2019/20 Accounting Code of Practice for Local Authorities has yet to be issued, CIPFA have issued some limited provisional information which begins to clarify what the impact on local authority accounting will be. Whether any accounting statutory overrides will be introduced to mitigate any impact remains an outstanding issue.</i></p>	<p>Until the 2020/21 Accounting Code of Practice for Local Authorities or a forthcoming provisions paper is issued by CIPFA, there remains some uncertainty in this area.</p> <p>However, what is clear is that the Council will need to undertake a detailed exercise to identify all of its leases and capture the relevant information for them. The Council must therefore ensure that all lease arrangements are fully documented.</p>

---

A close-up photograph of a person's hand reaching into a filing cabinet to touch a folder. The cabinet is filled with numerous folders of various colors (yellow, blue, white) and sizes, each containing stacks of papers. The background is a textured, light-colored wall.

## 08 Audit Fees

## Audit Fees

---

As part of our reporting on our independence, we set out below a summary of the fees paid for the year ended 31 March 2019. We confirm that we have not undertaken non-audit work outside the NAO Code requirement.

	Final Fee 2018/19	Planned Fee 2018/19	Scale Fee 2018/19	Final Fee 2017/18
	£	£	£	£
Audit Fee - Code work	64,865 (Note 1)	64,865	64,865	70,876
Non-audit work - Housing subsidy grant claim (Note 2)	NA	N/A	N/A	33,606

**Note 1** - We have undertaken additional work in relation to changes in scope on group accounting, the valuation of investment properties, change in PPE system and significant risks to our VFM conclusion. We have provided to the Director of Corporate Resources with a breakdown of our proposed fee variation of £12,500. This is yet to be agreed by management. Subject to Director of Corporate Resources comments, we will also supply this to PSAA to enable PSAA to determine the final fee for 2018-19 audit. We will provide an update on the final fee position determined by PSAA to the Audit and Scrutiny Committee.

**Note 2** - From 2018/19, the Council is responsible for appointing their own reporting accountant to undertake the work on their claims in accordance with the instructions determined by the relevant grant paying body. The Council has not appointed EY to act as reporting accountants in relation to the housing subsidy claim.

**About EY**

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit [ey.com](http://ey.com).

© 2018 EYGM Limited.  
All Rights Reserved.

ED None

EY-000070901-01(UK) 07/18. CSG London.



In line with EY's commitment to minimise its impact on the environment, this document has been printed on paper with a high recycled content.

This material has been prepared for general informational purposes only and is not intended to be relied upon as accounting, tax, or other professional advice. Please refer to your advisors for specific advice.

[ey.com](http://ey.com)