

**Brentwood Borough
Council
Audit results report**

Year ended 31 March 2020
18 November 2020



Private and Confidential

18 November 2020

Dear Audit and Scrutiny Committee Members

We are pleased to attach our audit results report for the forthcoming meeting of the Audit and Scrutiny Committee. This report summarises our preliminary audit conclusion in relation to the audit of Brentwood Borough Council (the Authority) for 2019/20.

At the date of this report our audit of the Authority's accounts for the year ended 31 March 2020 is substantially complete. As set out in section 1, the Covid-19 pandemic has impacted the statements and we will be carefully considering the final disclosures, judgements made by management in the financial statements and how this informs our final audit opinion. At the date of this report, the substantive areas we have still to complete is our review, and associated consultation procedures, on the Authority's documented assessment and disclosure on its judgements associated with going concern looking twelve months from the date of the audit report (e.g. to December 2021). As set out at Appendix B and in the report, we have not received management's assessment and disclosures. In addition, with the support of our real estate specialists, we are also completing a review of a sample of asset valuations which we believe are more susceptible to the volatile market conditions we have seen post Covid-19.

This report is intended solely for the use of the Audit and Scrutiny Committee, other members of the Authority, and senior management. It should not be used for any other purpose or given to any other party without obtaining our written consent.

We would like to thank your staff for their help during the engagement given the additional pressures they have faced responding to the pandemic and working remotely.

We welcome the opportunity to discuss the contents of this report with you at the Audit and Scrutiny Committee meeting on 24 November 2020.

Yours faithfully

Neil Harris

Associate Partner

For and on behalf of Ernst & Young LLP

Encl

Contents



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). 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 Audit Results Report 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 Hywel Ball, 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

Scope update

In our audit planning report tabled at the February 2020 Audit and Scrutiny Committee meeting, we provided you with an overview of our audit scope and approach for the audit of the financial statements. We carried out our audit in accordance with this plan, with the following exceptions:

Changes to reporting timescales

As a result of COVID-19, new regulations, the Accounts and Audit (Coronavirus) (Amendment) Regulations 2020 No. 404, have been published and came into force on 30 April 2020. This announced a change to publication date for final, audited accounts from 31 July to 30 November 2020 for all relevant authorities.

Changes to our risk assessment as a result of Covid-19

- ▶ **Valuation of land and buildings, including investment properties** - The Royal Institute of Chartered Surveyors (RICS), the body setting the standards for property valuations, issued guidance to valuers highlighting that the uncertain impact of Covid-19 on markets might cause a valuer to conclude that there is a material uncertainty. Caveats around this material uncertainty were included in the year-end valuation report produced by the Authority's external valuer. We considered that the material uncertainties disclosed by the valuer gave rise to an additional risk relating to disclosures on the valuation of property, plant and equipment and investment property. This is particularly relevant for assets valued at fair value (such as investment properties) or some valued at existing use value (EUV) because of the paucity of reliable market information available at 31 March 2020 upon which to give those valuations. Accordingly, we have updated the risk as Significant (Audit planning report - Inherent risk).
- ▶ **Disclosures on Going Concern** - Financial plans for 2020/21 and medium term financial plans will need revision for Covid-19. We considered the unpredictability of the current environment gave rise to a risk that the Authority would not appropriately disclose the key factors relating to going concern, underpinned by managements assessment with particular reference to Covid-19 and the Local Authority's actual year end financial position and performance.
- ▶ **Events after the balance sheet date** - We identified an increased risk that further events after the balance sheet date concerning the Covid-19 pandemic would need to be disclosed. The amount of detail required in the disclosure needs to reflect the specific circumstances of the Authority.
- ▶ **Adoption of IFRS16** - The adoption of IFRS 16 by CIPFA/LASAAC as the basis for preparation of Local Authority Financial Statements has been deferred until 1 April 2021. The Authority will therefore no longer be required to undertake an impact assessment, and disclosure of the impact of the standard in the financial statements.

Executive Summary

Scope update

Changes to the scope of our audit as a result of Covid-19

- ▶ There have been no other changes to the scope of our audit as a result of Covid-19.

Changes in materiality - We updated our planning materiality assessment using the draft financial statements and have also reconsidered our risk assessment. Based on our materiality measure of 2% of gross expenditure on provision of services, we have updated our overall materiality assessment to £0.964m (Audit Planning Report – £1.03m). This results in updated performance materiality, at 75% of overall materiality, of £0.726m, and an updated threshold for reporting misstatements of £0.048m.

Information Produced by the Entity (IPE): We identified an increased risk around the completeness, accuracy, and appropriateness of information produced by the Authority due to the inability of the audit team to verify original documents or re-run reports on-site from the Authority's systems. We undertook the following to address this risk:

- ▶ Used the screen sharing function of Microsoft Teams to evidence re-running of reports used to generate the IPE we audited; and
- ▶ Agree IPE to scanned documents or other system screenshots.

Additional EY consultation requirements concerning the impact on auditor reports because of Covid-19.

The continued impact of the Covid-19 pandemic increases the risks to the material accuracy of financial statements and disclosures. To ensure we are providing the right assurances to the Authority and its stakeholders the firm has introduced a rigorous consultation process for all auditor reports to ensure that they include the appropriate narrative.

The changes to audit risks, audit approach and auditor reporting requirements changed the level of work we needed to perform. We will determine the impact on our audit fee and discuss with the s151 officer at the conclusion of the audit.

Executive Summary

Status of the audit

We have substantially completed our audit of Brentwood Borough Council financial statements for the year 31 March 2020 and have performed the procedures outlined in our Audit planning report. Subject to satisfactory completion of the outstanding matters in Appendix B we expect to issue an unqualified opinion on the Authority's financial statements in the form which appears at Section 3. However until work is complete, further amendments may arise.

WGA timetable has been moved to later in the year and we do not expect to issue the audit certificate at the same time as the audit report. We will submit the required return in due course and in accordance with the deadline set. The Authority is below the threshold set by the NAO and therefore we do not have to undertake any procedures.

At the time of writing this report, outstanding matters are documented in Appendix B. However we wish to bring your attention to the following significant outstanding items:

- ▶ Going concern - We have requested additional information and proposed disclosures from the officers to understand the implications of Covid-19 on longer term financial plans.
- ▶ VFM - response to queries raised on the remainder of our VFM work.

Our audit opinion, subject to consultation, is likely to emphasise the following :

- ▶ Valuation of investment properties and other land and buildings valued using market data - We expect to include an "emphasis of matter" paragraph to draw users attention to the Council's valuer's material uncertainty disclosure in Note 38 of the accounts. This is not a modification to the audit report.
- ▶ Going concern - given the significance of the Covid-19 pandemic on the financial operations and financial management of the Authority we have been required to complete additional procedures in respect of Going Concern and assess management's disclosure covering the Council as a single entity and also in respect of its wholly owned subsidiary. Depending on our review of that information and responses there may be an impact on our audit report for 2019/20. Once we have obtained and reviewed the Council's assessment and proposed disclosure, our final audit report will be subject to internal consultation with our professional practice directorate.

Audit differences

At the time of writing, there are differences arising from our audit work. This is explained in more detail at Section 4.

Our work is still in progress and needs to be concluded. We will update this report and the Committee when the audit work has been finalised.

Executive Summary

Areas of audit focus

Our Audit Planning Report identified significant risks and key areas of focus for our audit of Brentwood Borough Council's financial statements. This report sets out our observations and conclusions, including our views on areas which might be conservative, and where there is potential risk and exposure. We summarise our consideration of these matters in this report.

We ask you to review these and any other matters in this report to ensure:

- There are no other considerations or matters that could have an impact on these issues
- You agree with the resolution of the issue
- There are no other significant issues to be considered.

There are no matters, apart from those reported by management or disclosed in this report, which we believe should be brought to your attention.

Control observations

We have adopted a fully substantive approach, so have not tested the operation of controls. However, from the results of substantive procedures performed we have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statement.

Value for money

We have considered your arrangements to take informed decisions; deploy resources in a sustainable manner; and work with partners and other third parties.

In our Audit Planning Report we identified Governance arrangements for Joint Venture decision making as a significant risk.

Since the completion of our initial planning we have identified delivering financial resilience as additional significant risk

At the time of writing this report, our work on VFM is still in progress. We will update this report and the Committee when VFM work has been finalised. Based on the work to date we expect to have no matters to report to you in relation to the Value for Money conclusion

Other reporting issues

We have reviewed the information presented in the Annual Governance Statement for consistency with our knowledge of the Authority. We have no matters to report as a result of this work.

Subject to the finalisation of the areas in the Status of Audit work section, we have no other matters to report.

Independence

We have no matters relating to our Independence to bring to your attention. Please refer to Section 9 for our update on Independence.



02 Areas of Audit Focus



Areas of Audit Focus

Significant risk

Misstatements due to fraud or error

What is the risk?

The financial statements as a whole are not free of material misstatements whether caused by fraud or error.

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.

What judgements are we focused on?

We focussed on testing key areas that are susceptible to management bias.

What did we do?

- ▶ Inquired of management about risks of fraud and the controls put in place to address those risks.
- ▶ Understood the oversight given by those charged with governance of management's processes over fraud.
- ▶ Considered of the effectiveness of management's controls designed to address the risk of fraud.

Performed mandatory procedures regardless of specifically identified fraud risks, including:

- ▶ Tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements
- ▶ Assessed accounting estimates for evidence of management bias, and
- ▶ Evaluated the business rationale for significant unusual transactions.

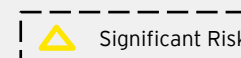
In addition to our overall response, we considered where these risks may present themselves and identified a separate fraud risk related to the capitalisation of revenue expenditure as set out on the next slide.

What are our conclusions?

We have not identified any material weaknesses in controls or evidence of material management override.

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 Authority's normal course of business





Areas of Audit Focus

Significant risk

Misstatements due to fraud or error – inappropriate capitalisation of revenue expenditure

What is the risk?

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. 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 Authority 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.

What judgements are we focused on?

We focussed on the testing capital expenditure and obtaining evidence that additions have been correctly classified as capital expenditure.

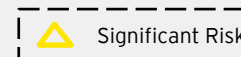
What did we do?

We took a substantive approach to respond to this risk, undertaking the following procedures:

- ▶ Tested a sample of capital expenditure at a lower testing threshold, to verify that revenue costs had not been inappropriately capitalised;
- ▶ Reviewed unusual journal pairings related to capital expenditure posted around the year-end i.e. where the debit is to capital expenditure and the credit to income and expenditure.

What are our conclusions?

Our audit work did not identify any material issues or unusual transactions to indicate any misreporting of the Authority's financial position through the inappropriate capitalisation of revenue expenditure.





Areas of Audit Focus

Significant risk

Valuation of Town Hall

What is the risk?

The Asset Under Construction in respect of Brentwood Town Hall which represent a significant balance in the Council's accounts was completed in 2019/20 and subject to valuation in 2019/20 Statement of Accounts. Management is required to make material judgements and apply estimation techniques to calculate the year-end balances recorded in the balance sheet. There is therefore a risk that this asset may be under/overstated or the associated accounting entries incorrectly posted.

What judgements are we focused on?

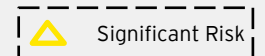
Our work on valuations focussed on assessing the reasonableness of the methodologies adopted by the valuers in undertaking their valuations in 2019/20 and of the key assumptions input into these valuations.

What did we do?

- ▶ Considered the work performed by the Authority's valuer, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
- ▶ Engaged our valuations specialist (EY Real Estates) to review the valuation of Town Hall to verify the reasonableness of the valuation methodology applied and key assumptions used;
- ▶ Checked that the valuers report reconciles to Authority's fixed asset register;
- ▶ Checked the classification of asset between Investment property and PPE; and
- ▶ Tested the accounting entries and disclosures made within the Authority's financial statements to confirm these complied with relevant accounting standards and the Code, for example ensuring that any revaluation gains and losses have been accounted for in the revaluation reserve or charged to the income and expenditure account as appropriate;

What are our conclusions?

Our work on the valuation of Town Hall is complete.
Our testing has not identified any material misstatements from inappropriate judgements being applied.





Areas of Audit Focus

Significant risk

Valuation of land and buildings, including investment properties

What is the risk?

The fair value of other land buildings (OLB) and Investment Property (IP) represent significant balances in the Authority'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. Covid-19 has impacted the valuation of the Authority's investment properties and other assets valued using market data as outlined by the Authority's valuer. This is because of the paucity of reliable market information available at 31 March 2020 upon which to give those valuations. The Authority has included in Note 34 of the accounts reference to the valuers material uncertainty.

What judgements are we focused on?

Our work on valuations focussed on assessing the reasonableness of the methodologies adopted by the valuers in undertaking their valuations in 2019/20 and of the key assumptions input into these valuations. We have also considered those assets that were not valued in 2019/20 and the potential for material misstatement in the valuation of those assets.

What did we do?

- ▶ Considered the work performed by the Authority's valuer, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work.
- ▶ Engaged our valuations specialist (EY Real Estates) to review a sample of other land & buildings & investment properties asset valuations to verify the reasonableness of the valuation methodology applied and key assumptions used.
- ▶ Reviewed assets not subject to valuation in 2019/20 to confirm that the valuation of remaining asset base was not materially misstated.
- ▶ Checked that the material uncertainty reported by the Authority's valuer was appropriately disclosed in the financial statements.
- ▶ Checked that the valuers report reconciles to Authority's fixed asset register.
- ▶ Assessed the classification of assets, the valuation basis that was assigned and any material increases or impairments that arise during the year with no issues arising
- ▶ Tested the accounting entries and disclosures made within the Authority's financial statements to confirm these complied with relevant accounting standards and the Code, for example ensuring that any revaluation gains and losses have been accounted for in the revaluation reserve or charged to the income and expenditure account as appropriate;



Areas of Audit Focus

Significant risk



What are our conclusions?

- Our work on the valuation of land and buildings is complete including review of samples by EY Real Estates.
- Our testing has not identified any material misstatements from inappropriate judgements being applied to the property valuation estimates.
- The expert valuers possess the relevant qualifications and experience, and undertook a review of all of the Authority's assets.
- We considered the underlying assumptions made by the expert valuer and concluded that they were reasonable.

Findings

The Authority's external valuer did disclose a 'material uncertainty' in its year end valuation report in line with RICS guidance. The Authority repeated the 'material uncertainty' in the statement of accounts. As part of its preparation of accounts, management commissioned a market conditions review from its valuer to enable it to assess the significance of the material valuation uncertainty on its asset base. In doing so, management are concluding that the material valuation uncertainty does not cast doubt on the assumptions and valuation methodology adopted to prepare its asset valuation disclosures for the 2019-2020 financial year. Management have been able to evidence to us that they have challenged the valuer's conclusions and are able to quantify the impact of uncertainty on the Authority's property values, concluding that the impact as not material.

Based on the work we have undertaken we are satisfied that the carrying value of PPE and IP disclosed in the financial statements is materially accurate. Subject to consultation with our professional practice team, we are considering whether to include an emphasis of matter paragraph in our audit report highlighting the Council's disclosure in this area to the reader of the accounts. An example of an emphasis of matter paragraph is included in our draft audit report at page 20.

For clarity, an emphasis of matter paragraph is not a modification of our opinion. It is a paragraph in our report which highlights a disclosure in the financial statements that, in our judgment, is of importance to the users' understanding of the financial statements.



Areas of Audit Focus

We identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be key audit matters we will include in our audit report.



Pension Liability Valuation

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. 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 2020 this totalled £39.3m million.

The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the Council. 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.

What did we do?

- ▶ Liaised with the auditors of Essex Pension Fund to obtain assurances over the information supplied to the actuary in relation the Authority;
- ▶ Assessed the work of the Pension Fund actuary (Barnett Waddingham) including the assumptions they have used by relying on the work of PWC - Consulting Actuaries commissioned by the National Audit Office for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team;
- ▶ Reviewed Essex County Council draft financial statements and compare the year end asset values with the estimate used by the actuary in producing the Council's IAS 19 report and considered the impact on the Authority's pension fund liability and IAS19 disclosures;
- ▶ Assessed the results of the triennial valuation, including the assumptions used and the impact on the Authority's pension liability;
- ▶ Engaged with the Authority, and their actuary, to understand any ongoing impact of the McCloud judgement and GMP rulings on the IAS19 liability;
- ▶ Reviewed and tested the accounting entries and disclosures made within the Authority's financial statements in relation to IAS19; and
- ▶ Considered the nature and value of level 3 investments held by Essex Pension Fund and the proportion of the overall Fund relating to Brentwood in order to identify any additional procedures required to support the estimates of the valuation of these asset as at 31 March 2020.



Areas of Audit Focus



Pension Liability Valuation

What are our findings and conclusions

We have received and reviewed the assurance from the Essex Pension Auditor. The assurance from the pension fund auditor includes reference to a Material Uncertainty having been reported against the value of property assets as at 31 March 2020, which the auditor anticipates referring to in an Emphasis of Matter Paragraph in our their Audit Opinion on the Pension Fund. We are satisfied that this does not have a material and fundamental impact on the asset values or net liability reported in the Authorities accounts with which we would need to include an Emphasis of Matter in our audit report.

The actuary has estimated the value of assets of the fund as at 31 March 2020 using a forecast investment return. Subsequently pension fund auditor (BDO) reported change in fund values. This has resulted in drop in Authority's pension reserve by £0.138m. We have reported this as audit difference in section 4.

We have received and reviewed reports from the EY actuarial team. Based on these reports we are satisfied that the assumptions they have used are appropriate.

We have considered the IAS19 report and assessment obtained from the actuary and concluded that the impact of the change in asset values and the impact of the McCloud consultation and Goodwin ruling are not material.

The accounting entries and disclosures are in line with our expectations and the Code and agree to the IAS19 report.



Areas of Audit Focus



Group accounts

Seven Arches Investment Limited (SAIL), wholly owned investment company, has a significant investment properties base. Material judgemental inputs and estimation techniques are required to calculate the year-end Group investment properties balances held in the balance sheet. As the Group Investment properties base is significant, and the outputs from the valuer are subject to estimation, there is a higher inherent risk assets may be under/overstated or the associated accounting entries incorrectly posted. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of experts and assumptions underlying fair value estimates.

Our approach has focused on:

- ▶ Considering the work performed by the Authority's valuers, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
- ▶ Engaged EY Real Estates to review the valuation of 44 East Street Chichester (TK Maxx);
- ▶ Sample testing key asset information used by the valuers in performing their valuation (e.g. floor plans to support valuations based on price per square metre);
- ▶ Considered if there are any specific changes to assets that have occurred and that these have been communicated to the valuer;
- ▶ Tested accounting entries have been correctly processed in the financial statements; and
- ▶ Request the component auditor, M J Bushell Ltd, to perform certain procedures on the subsidiary, SAIL.

What are our findings and conclusions

Our work on the valuation of SAIL's asset is complete. The Authority's valuer prepared their valuation as at January 2020 and then prepared a Market Review to bridge the gap between the January and March 2020 valuation dates which stated that there should be no value changes. Whilst the relevant material uncertainty clause was included for Covid-19, this valuation does not appear to take into account the impact that the pandemic has had on the retail sector. We have also considered that the resultant net initial yield was below a reasonable range given the edge of prime location.

We have challenged the valuer on the key assumptions applied. This resulted in reduction in Group investment property by £0.835million which is adjusted in the financial statements as noted in section 4.

At the time of writing this report, we need to complete group auditor reporting procedures and thereafter routine completion of group audit work.



Areas of Audit Focus



Going concern disclosure

Covid-19 has created a number of financial pressures throughout Local Government. It is creating financial stress through a combination of increasing service demand leading to increased expenditure in specific services, and reductions in income sources. There is currently not a clear statement of financial support from MHCLG that covers all financial consequences of Covid-19.

CIPFA's Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 states that organisations that can only be discontinued under statutory prescription shall prepare their accounts on a going concern basis.

However, International Auditing Standard 570 Going Concern, as applied by Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom, still requires auditors to undertake sufficient and appropriate audit procedures to consider whether there is a material uncertainty on going concern that requires reporting by management within the financial statements, and within the auditor's report. We are obliged to report on such matters within the section of our audit report 'Conclusions relating to Going Concern'.

To do this, the auditor must review management's assessment of the going concern basis applying IAS1 Presentation of Financial Statements. This assessment needs to cover at least 12 months from the date of the audit opinion.

At the time of writing this report, we have requested management to provide detailed assessment and proposed disclosures of financial impact as a result of covid-19 on the reserves and liquidity position. This assessment should also include impact of subsidiaries.

Our approach will focus on:

- ▶ Assessing the adequacy of disclosures required in 2019/20;
- ▶ Discussing with management the going concern assessment and challenging management's underlying assumptions;
- ▶ Assessing the reasonableness of the financial impact assessment, cashflow and liquidity forecasts, known outcomes, sensitivities, mitigating actions and key assumptions, particular around reductions in fees and charges; and
- ▶ Considering the impact on our audit report.

We also need to formally complete internal consultation to agree final audit opinion and conclusions in respect of the going concern disclosure. We will also consider whether the findings arising from our review of the Councils forward looking viability and liquidity assumptions identifies any matters that relate to the adequacy of the Council's arrangements for securing financial resilience in the period prior to the Covid-19 pandemic during the 2019-2020 financial year.



03 Audit Report



Audit Report

Draft audit report

This is an example report - our audit report will not be completed and issued until the work and internal consultation on opinion is complete.

Our opinion on the financial statements

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BRENTWOOD BOROUGH COUNCIL

Opinion

We have audited the financial statements of Brentwood Borough Council for the year ended 31 March 2020 under the Local Audit and Accountability Act 2014. The financial statements comprise the:

- ▶ Authority and Group Movement in Reserves Statement,
- ▶ Authority and Group Comprehensive Income and Expenditure Statement,
- ▶ Authority and Group Balance Sheet,
- ▶ Authority and Group Cash Flow Statement and the related notes 1 to [x],
- ▶ Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement and the related notes 1 to [x],
- ▶ Collection Fund and the related notes 1 to [x]

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 2019/20.

In our opinion the financial statements:

- ▶ give a true and fair view of the financial position of Brentwood Borough Council as at 31 March 2020 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 2019/20.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and the Comptroller and Auditor General's (C&AG) AGN01, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter - Other land building and Investment Property valuation

We draw attention to Note [x] of the statement of accounts, which describes the valuation uncertainty the Authority is facing as a result of the Covid-19 pandemic in relation to other land and building and investment property valuations. Our opinion is not modified in respect of this matter.



Audit Report

Draft audit report

This is an example report - our audit report will not be completed and issued until the work and internal consultation on opinion is complete.

Our opinion on the financial statements

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- ▶ the Chief Finance Officer's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- ▶ the Chief Finance Officer's has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The other information comprises the information included in the Statement of Accounts 2019/20, other than the financial statements and our auditor's report thereon. The Chief Finance Officer is responsible for the other information. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinion on other matters prescribed by the Local Audit and Accountability Act 2014

Arrangements to secure economy, efficiency and effectiveness in the use of resources

In our opinion, based on the work undertaken in the course of the audit, having regard to the guidance issued by the Comptroller and Auditor General (C&AG) in April 2020, 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 2020.

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.



Audit Report

Draft audit report

This is an example report - our audit report will not be completed and issued until the work and internal consultation on opinion is complete.

Our opinion on the financial statements

Responsibility of the Chief Finance Officer

As explained more fully in the Statement of the Responsibilities set out on page 1, the Chief Finance Officer 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 2019/20, and for being satisfied that they give a true and fair view.

In preparing the financial statements, the Chief Finance Officer is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Authority either intends to cease operations, or have no realistic alternative but to do so.

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 for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

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 April 2020, 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 2020.

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.

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.



Audit Report

Draft audit report

This is an example report - our audit report will not be completed and issued until the work and internal consultation on opinion is complete.

Our opinion on the financial statements

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.

Delay in the certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate until we have completed the work necessary to issue our assurance statement in respect of the Authority's Whole of Government Accounts consolidation pack. We are satisfied that this work does not have a material effect on the financial statements or on our value for money conclusion.

Until we have completed these procedures we are unable to certify that we have completed the audit of the accounts in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice issued by the NAO.

Use of our report

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.

Neil Harris (Key Audit Partner)
Ernst & Young LLP (Local Auditor)
Luton Date



04 Audit Differences





Audit Differences

In the normal course of any audit, we identify misstatements between amounts we believe should be recorded in the financial statements and the disclosures and amounts actually recorded. These differences are classified as “known” or “judgemental”. Known differences represent items that can be accurately quantified and relate to a definite set of facts or circumstances. Judgemental differences generally involve estimation and relate to facts or circumstances that are uncertain or open to interpretation.

At the time of writing, we are finalising our audit work. We will update this report and the Audit and Scrutiny Committee as necessary.

Summary of adjusted differences

We highlight the following misstatements that were identified during the course of our audit that we wish to bring to your attention. We expect all of these to be updated by management in the final financial statements.

Group Investment property

We have engaged our colleagues from EY Estates to support the local audit team in reviewing a sample of these assets. We have challenged the assumptions and methodology of the assets. This resulted in a revised valuation report from Council’s valuer which lead to reduction in Group investment property by £0.835million. This also affected financing and investment income and expenditure in the Group CIES and impact on SAIL Profit & Loss Account in Group Reserves.

Group Cash Flow Statement

Consolidation adjustments for Group accounts in Group Cash Flow Statement by £19m for (increase)/ decrease in creditors and increase/ (decrease) in debtors. No impact on net cash position.

Corrected Disclosure differences

Following disclosures were amended however none of them would have impact on the general fund balance:

- Gross Non-Domestic Rateable Value for the Brentwood Borough Council area at 31 March 2020 amended as £71.728m
- Note 3a - Total Interest payments amended as £3.209m (draft statement of accounts: £2.598m)
- Note 3a - Employee benefit expense amended as £11.817m (draft statement of accounts: £12.781m)
- Note 3a - Other services expenses amended as £25.357m (draft statement of accounts: £25.005m)
- Note 10 - To include narrative to explain that AUC exclude Town Hall



Audit Differences

Summary of un-adjusted differences

In addition we highlight the following misstatements to the financial statements and/or disclosures which were not corrected by management. We request that these uncorrected misstatements be corrected or a rationale as to why they are not corrected be considered and approved by the Audit Committee and provided within the Letter of Representation:

Pensions

Projected misstatement - The actuary has estimated the value of assets of the fund as at 31 March 2020 using a forecast investment return. Subsequently pension fund auditor (BDO) reported change in fund values. This has resulted in drop in Authority's pension reserve by £0.138m. This adjustment had no impact on the general fund balance.

Provisions

Judgemental difference- Managements calculation of NDR appeals provision factors in 2020/21 yield losses. There is a difference between the assessment Authority has undertaken and our expectations. We do not expect 2020/21 yield losses to be considered for provision as at 31 March 2020. This resulted in over provision by £0.260m. Management considers this to be a difference in professional opinion therefore that no adjustment should be made.

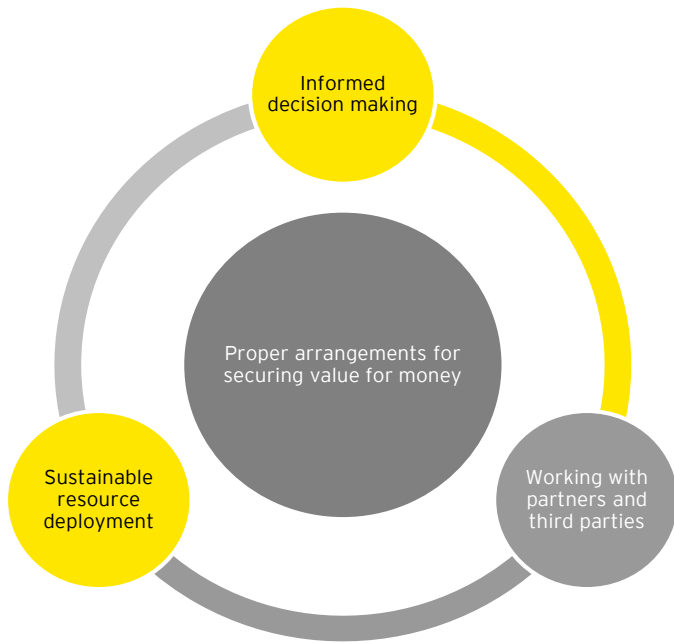


05

Value for Money



Value for Money



Background

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 (VFM) conclusion.

For 2019/20 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 (NAO). 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.

Impact of covid-19 on our VFM assessment

On 16 April 2020 the NAO published an update to auditor guidance in relation to the 2019/20 VFM assessment in the light of Covid-19. This clarified that in undertaking the 2019/20 VFM assessment auditors should consider local authorities responses to Covid-19 only as far as it relates to the 2019-20 financial year and only where clear evidence comes to the auditor's attention of a significant failure in arrangements as a result of Covid-19 during the financial year, would it be appropriate to recognise a significant risk in relation to the 2019-20 VFM arrangements conclusion. We identified no such evidence for the Authority and therefore identified no significant VFM risk associated to Covid-19.

Overall conclusion

We identified one significant risk around these arrangements. The table below present our findings in response to the risk in our Audit Planning Report and any other significant weaknesses or issues we want to bring to your attention. We have not identified any new significant risks around these arrangements. At the time of writing this report, our work on VFM has not been concluded.

Value for Money Risks

We are only required to determine whether there are any risks that we consider significant within the Code of Audit Practice, where risk is defined as:

“A matter is significant if, in the auditor’s professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public”

Our risk assessment supports the planning of enough work to deliver a safe conclusion on your arrangements to secure value for money, and enables us to determine the nature and extent of any further work needed. If we do not identify a significant risk we do not need to carry out further work.

The table below presents the findings of our work in response to the risks areas in our Audit Planning Report.

What is the significant value for money risk?

Governance arrangements for Joint Venture decision making

The joint venture between Seven Arches Investment Limited (SAIL) and Morgan Sindall was approved by full Council on 30th July 2019 subject to agreement of the final detailed terms between the parties. The partnership, called Brentwood Development Partnership, was formally established on 9th October 2019.

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. 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.

What arrangements did the risk affect?

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

What are our findings?

At the time of writing this report, our work on VFM is still in progress. We have raised queries with the management to obtain further understanding on the arrangement.

We are focusing on:

- The quality of the information provided to Members and Officers when taking decisions in relation to the Joint Venture.
- The nature and consideration of advice taken by the Council, including legal and financial advice.
- The extent to which the Council has identified, considered, and mitigated the risks around the Joint Venture.
- The adequacy of the processes established by the Council to review and monitor delivery of the agreed outputs.

We have reviewed the extent to which the financial implications of the Joint Venture are reflected within the Council’s Medium Term Financial Plan. We have no matters to report.

We will also review the Authority’s arrangements to secure its financial resilience and sustainability along with going concern assessment.



06 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 2019/20 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.

Financial information in the Statement of Accounts 2019/20 and published with the financial statements was consistent with the audited financial statements.

We have reviewed the latest version of 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

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, is specified by the National Audit Office. As the Authority's assets, income, liabilities and expenditure are below the threshold set by HM Treasury, detailed audit of the return is not required for Brentwood Borough Council.

We will submit the required return in due course and in accordance with the deadline set.

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 Authority to consider it or to bring it to the attention of the public (i.e. "a report in the public interest"). We also have a duty to make written recommendations to the Authority, copied to the Secretary of State, and take action in accordance with our responsibilities under the Local Audit and Accountability Act 2014. At the date of this report, we have had no reason to exercise these duties but will revisit this at the conclusion of the audit.



07

Assessment of Control Environment



Assessment of Control Environment

Financial controls

It is the responsibility of the Authority 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 Authority has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. As we have adopted a fully substantive approach, we have therefore not tested the operation of controls. 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.

We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements of which you are not aware.

We considered whether circumstances arising from Covid-19 resulted in a change to the overall control environment of effectiveness of internal controls, for example due to significant staff absence or limitations as a result of working remotely. We identified no issues which we wish to bring to your attention.



08

Data Analytics



Use of Data Analytics in the Audit

► Data analytics – Journal Entry Analysis and Payroll Analysis

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 2019/20, our use of these analysers in the Authority's audit included testing journal entries and employee expenses, 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.

Payroll Analysis

We also use our analysers in our payroll testing. We obtain all payroll transactions posted in the year from the payroll system and perform completeness analysis over the data, including reconciling the total amount to the General Ledger trial balance. We then analyse the data against a number of specifically designed procedures. These include analysis of payroll costs by month to identify any variances from established expectations, as well as more detailed transactional interrogation.



09

Independence

Independence

Confirmation

We confirm there are no changes in our assessment of independence since our confirmation in our audit planning report dated February 2020. We complied with the APB Ethical Standards. 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 consider that our independence in this context is a matter which you should review, as well as us. It is important that you and your Audit and Scrutiny Committee consider the facts known to you and come to a view. If you would like to discuss any matters concerning our independence, we will be pleased to do this at the meeting of the Audit and Scrutiny Committee on 24 November 2020.

We confirm we have not undertaken any non-audit work outside the NAO Code requirements in relation to our work.

Relationships, services and related threats and safeguards

The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and your Authority, senior management and its affiliates, including all services provided by us and our network to your Authority, senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on the our integrity or objectivity, including those that could compromise independence and the related safeguards that are in place and why they address the threats.

There are no relationships from 1 April 2019 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

Services provided by Ernst & Young

The table overleaf includes a summary of the fees for the year ended 31 March 2020 in line with the disclosures set out in FRC Ethical Standard and in statute.

Fee analysis

As part of our reporting on our independence, we set out below a summary of the fees paid for the year ended 31 March 2020.

We confirm that we have not undertaken non-audit work.

All fees exclude VAT	Planned fee 2019/20	Scale fee 2019/20	Final Fee 2018/19
	£	£	£
Code work fee	52,365	52,365	52,365
Property valuations significant risk (Note 1)	9,000	N/A	6,000
Group consolidation (Note 1)	3,000	N/A	3,000
VFM risk (Note 1)	3,000	N/A	2,500
Change in PPE system	N/A	N/A	1,000
Additional fee to address Covid-19 related risks (Note 2)	TBC	N/A	N/A
Total audit	TBC	52,365	64,865

Note 1 - At the time of writing this report, we haven't agreed planned additional fee with s151 officer. We will also supply this to PSAA to enable PSAA to determine the final fee for 2019-20 audit. We will provide an update on the final fee position determined by PSAA to the Audit and Scrutiny Committee.

Note 2: We have carried out additional work in response to the material uncertainty reported by the Authority's valuer and additional procedures to address Covid-19 related risks. These are specific to the 19/20 audit year and once quantified we will discuss with management and the PSAA.

Update on audit fees

Scale fees

Summary of impact

We outlined in our audit plan the basis on which the scale fees are set by PSAA. We also outlined a combination of factors which mean that we do not believe the existing scale fees provide a clear link with both a public sector organisation's risk and complexity. Based on these factors, and in light of requests from PSAA to provide further detailed analysis we have estimated the impact on the Council as shown below. Note that given the timing of this exercise it does not include the impact of any specific requirements in relation to additional work in response to COVID-19.

We have discussed our position on baseline fees with the s151 officer, but as noted below these amounts are subject to the approval of PSAA.

	Rationale for fee variation	Impact (£)
Scale fee		52,365
Changes in risk profile	As a result of macro changes in the sector and the impact on the council in terms of the risks being faced, the decisions being made and the financial reporting of those, this in turn increases audit risk, as outlined in our audit plans, and we need to extend our procedures to address these.	11,305
Changes in regulatory environment	There has been a significant increase in the focus on areas of the financial statements especially where judgemental estimates are made. This is to address regulatory expectations from FRC reviews on the extent of audit procedures performed in areas such as the valuation of land and buildings and pension assets and liabilities. Our required procedures now entail higher samples sizes, increased requirements for corroborative evidence to support the assumptions and the increased use of specialists. We have also seen wider changes in the regulatory environment which all firms have needed to respond to. These include the various reviews, completed or ongoing, which all have a focus on audit quality and what is expected of external auditors. This has increased compliance and quality assurance costs which are now required for us to continue to provide services to the sector.	17,282
TOTAL Revised scale fee	To be approved by PSAA	80,952

Independence

New UK Independence Standards

The Financial Reporting Council (FRC) published the Revised Ethical Standard 2019 in December and it will apply to accounting periods starting on or after 15 March 2020. A key change in the new Ethical Standard will be a general prohibition on the provision of non-audit services by the auditor (and its network) which will apply to UK Public Interest Entities (PIEs). A narrow list of permitted services will continue to be allowed.

Summary of key changes

- Extraterritorial application of the FRC Ethical Standard to UK PIE and its worldwide affiliates
- A general prohibition on the provision of non-audit services by the auditor (or its network) to a UK PIE, its UK parent and worldwide subsidiaries
- A narrow list of permitted services where closely related to the audit and/or required by law or regulation
- Absolute prohibition on the following relationships applicable to UK PIE and its affiliates including material significant investees/investors:
 - Tax advocacy services - Remuneration advisory services - Internal audit services - Secondment/loan staff arrangements
- An absolute prohibition on contingent fees.
- Requirement to meet the higher standard for business relationships i.e. business relationships between the audit firm and the audit client will only be permitted if it is inconsequential.
- Permitted services required by law or regulation will not be subject to the 70% fee cap.
- Grandfathering will apply for otherwise prohibited non-audit services that are open at 15 March 2020 such that the engagement may continue until completed in accordance with the original engagement terms.
- A requirement for the auditor to notify the Audit and Scrutiny Committee where the audit fee might compromise perceived independence and the appropriate safeguards.
- A requirement to report to the Audit and Scrutiny Committee details of any breaches of the Ethical Standard and any actions taken by the firm to address any threats to independence. A requirement for non-network component firm whose work is used in the group audit engagement to comply with the same independence standard as the group auditor. Our current understanding is that the requirement to follow UK independence rules is limited to the component firm issuing the audit report and not to its network. This is subject to clarification with the FRC.

Next Steps

We do not provide any non-audit services which would be prohibited under the new standard.

Other communications

EY Transparency Report 2019

Ernst & Young (EY) has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained. Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year end 30 June 2019: https://assets.ey.com/content/dam/ey-sites/ey-com/en_uk/about-us/transparency-report-2019/ey-uk-2019-transparency-report.pdf




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.

10 Appendices





Appendix A

Required communications with the Audit and Scrutiny Committee





There are certain communications that we must provide to the Audit and Scrutiny Committees of UK clients. We have detailed these here together with a reference of when and where they were covered:

		 Our Reporting to you
Required communications	 What is reported?	 When and where
Terms of engagement	Confirmation by the Audit and Scrutiny Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter.	Audit Plan - February 2020
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit Plan - February 2020
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 - November 2020





Appendix A

		 Our Reporting to you
 Required communications	 What is reported?	 When and where
Going concern	<p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <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 	Our work on going concern disclosures is in progress at the time of writing this 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 ▶ Material misstatements corrected by management 	Audit Results Report - November 2020
Subsequent events	<ul style="list-style-type: none"> ▶ Enquiry of the Audit and Scrutiny Committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements. 	Audit Results Report - November 2020
Fraud	<ul style="list-style-type: none"> ▶ Enquiries of the Audit and Scrutiny Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the Authority ▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▶ Unless all of those charged with governance are involved in managing the Authority, any identified or suspected fraud involving: <ol style="list-style-type: none"> a. Management; b. Employees who have significant roles in internal control; or c. Others where the fraud results in a material misstatement in the financial statements. ▶ The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected ▶ Any other matters related to fraud, relevant to Audit and Scrutiny Committee responsibility. 	Audit Results Report - November 2020




Appendix A

		 Our Reporting to you
Required communications	 What is reported?	  When and where
Related parties	<p>Significant matters arising during the audit in connection with the Authority's related parties including, when applicable:</p> <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 Authority 	Audit Results Report - November 2020
Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, 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>Communications whenever significant judgments are made about threats to objectivity and independence and the appropriateness of safeguards put in place.</p> <p>For public interest entities and listed companies, communication of minimum requirements as detailed in the FRC Revised Ethical Standard 2019:</p> <ul style="list-style-type: none"> ▶ Relationships between EY, the company and senior management, its affiliates and its connected parties ▶ Services provided by EY that may reasonably bear on the auditors' objectivity and independence ▶ Related safeguards ▶ Fees charged by EY analysed into appropriate categories such as statutory audit fees, tax advisory fees, other non-audit service fees ▶ A statement of compliance with the Ethical Standard, including any non-EY firms or external experts used in the audit 	Audit Plan - February 2020 and Audit Results Report - November 2020

Appendix A

		 Our Reporting to you
Required communications	 What is reported?	  When and where
	<ul style="list-style-type: none"> ▶ Details of any inconsistencies between the Ethical Standard and Group's policy for the provision of non-audit services, and any apparent breach of that policy ▶ Details of any contingent fee arrangements for non-audit services ▶ Where EY has determined it is appropriate to apply more restrictive rules than permitted under the Ethical Standard ▶ The Audit and Scrutiny Committee should also be provided an opportunity to discuss matters affecting auditor independence 	
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. 	We have received all requested confirmations
Consideration of laws and regulations	<ul style="list-style-type: none"> ▶ Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur ▶ Enquiry of the Audit and Scrutiny 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 and Scrutiny Committee may be aware of. 	We have asked management and those charged with governance. We have not identified any material instances or non-compliance with laws and regulations
Significant deficiencies in internal controls identified during the audit	<ul style="list-style-type: none"> ▶ Significant deficiencies in internal controls identified during the audit. 	Audit Results Report - November 2020




Appendix A

		Our Reporting to you
Required communications	 What is reported?	  When and where
Group Audits	<ul style="list-style-type: none"> ▶ An overview of the type of work to be performed on the financial information of the components ▶ An overview of the nature of the group audit team's planned involvement in the work to be performed by the component auditors on the financial information of significant components ▶ Instances where the group audit team's evaluation of the work of a component auditor gave rise to a concern about the quality of that auditor's work ▶ Any limitations on the group audit, for example, where the group engagement team's access to information may have been restricted ▶ Fraud or suspected fraud involving group management, component management, employees who have significant roles in group-wide controls or others where the fraud resulted in a material misstatement of the group financial statements. 	Audit Plan - February 2020 and Audit Results Report - November 2020
Written representations we are requesting from management and/or those charged with governance	<ul style="list-style-type: none"> ▶ Written representations we are requesting from management and/or those charged with governance 	Audit Results Report - November 2020
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	<ul style="list-style-type: none"> ▶ Material inconsistencies or misstatements of fact identified in other information which management has refused to revise 	Audit Results Report - November 2020
Auditors report	<ul style="list-style-type: none"> ▶ Any circumstances identified that affect the form and content of our auditor's report 	Audit Results Report - November 2020
Fee Reporting	<ul style="list-style-type: none"> ▶ Breakdown of fee information when the audit planning report is agreed ▶ Breakdown of fee information at the completion of the audit ▶ Any non-audit work 	Audit Plan - February 2020 and Audit Results Report - November 2020

Appendix B




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 
Completion of remaining audit testing	<ul style="list-style-type: none"> ▶ Long term debtors ▶ Payables 	EY
VFM	Response to audit queries raised on VFM work	Management
Management assurance letter	Receipt of responses to our management assurance letters from Audit committee chair, Monitoring officer and s151 officer.	Management
Going concern assessment	<p>To address covid-19 risk, we have requested management to provide detailed assessment and disclosure around financial impact on reserves and liquidity position. This assessment needs to cover 12 months from the date of audit opinion.</p> <p>We are required to go through our internal consultation process once we receive the assessment from management.</p> <p>This assessment needs to cover the impact of subsidiaries.</p>	Management to provide audit team with proposed final going concern disclosure note and supporting assessment. EY will then review and subject to these procedures, conclude their consultation procedures on the work performed associated with the Council's disclosure, assessment and impact on the audit report. See below.
Going concern and property valuation disclosure review	Completion of our routine review and consultation procedures on the Council's going concern assessment and disclosures, disclosures on valuation of assets and the impact on our audit report.	EY
Group reporting	<ul style="list-style-type: none"> ▶ Receipt of final group reporting documents from component auditor. ▶ Completion of group auditor reporting and thereafter routine completion of group audit work. 	Component auditor and EY

Appendix B

Outstanding matters

Item 	Actions to resolve 	Responsibility 
Statement of accounts	Review of the final version of the statements	EY and management
Final review process	<ul style="list-style-type: none"> ▶ Clearance of queries arising from final reviews by Associate Partner and Manager. ▶ Completion of our final closure processes. ▶ Completion of our audit report consultation processes. 	EY
Management representation letter	Receipt of signed management representation letter	Management and audit committee
Subsequent events review	Completion of subsequent events procedures to the date of signing the audit report	EY and management



Appendix C

Management representation letter

Management Rep Letter

[To be prepared on the entity's letterhead]

Xx November 2020

Neil Harris
Associate Partner
Ernst & Young LLP
400 Capability Green
Luton
LU1 3LU

This letter of representations is provided in connection with your audit of the financial statements of Brentwood Borough Council ("the Group and Council ") for the year ended 31 March 2020. 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 Council financial position of Brentwood Borough Council as of 31 March 2020 and of its income and expenditure for the year then ended in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

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), 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 2019/20 .
2. We acknowledge, as members of management of the Group and 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 2019/20, and are free of material misstatements, including omissions. 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.

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4. As members of management of the Group and 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 2019/20, that are free from material misstatement, whether due to fraud or error. We have disclosed to you any significant changes in our processes, controls, policies and procedures that we have made to address the effects of the COVID-19 pandemic on our system of internal controls.
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 consolidated financial statements taken as a whole. We have not corrected these differences identified by and brought to the attention from the auditor because *[specify reasons for not correcting misstatement]*

B. Non-compliance with law and regulations, including fraud

1. We acknowledge that we are responsible to determine that the Group and Council's activities are conducted in accordance with laws and regulations and that we are responsible to identify and address any non-compliance with applicable laws and regulations, including fraud.
2. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
3. 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.
4. We have no knowledge of any identified or suspected non-compliance with laws or regulations, including fraud that may have affected the Group and Council (regardless of the source or form and including without limitation, any allegations by "whistleblowers"), including non-compliance matters:
 - involving financial statements;
 - related to laws and regulations that have a direct effect on the determination of material amounts and disclosures in the Group and Council's financial statements;
 - related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Group and Council's activities, its ability to continue to operate, or to avoid material penalties;
 - involving management, or employees who have significant roles in internal controls, or others; or
 - in relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.

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Appendix C

Management representation letter (continued)

Management Rep Letter

C. Information Provided and Completeness of Information and Transactions

- 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.
- All material transactions have been recorded in the accounting records and [all material transactions, events and conditions] are reflected in the financial statements, including those related to the COVID-19 pandemic.
- We have made available to you all minutes of the meetings of the Group and Audit committees held through the year to the most recent meeting on the following date: *[list date]*.
- We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Group and 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 year end. These transactions have been appropriately accounted for and disclosed in the financial statements.
- We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
- We have disclosed to you, and the Group and 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.
- From 1 April 2019 through the date of this letter we have disclosed to you any unauthorized access to our information technology systems that either occurred or to the best of our knowledge is reasonably likely to have occurred based on our investigation, including of reports submitted to us by third parties (including regulatory agencies, law enforcement agencies and security consultants), to the extent that such unauthorized access to our information technology systems is reasonably likely to have a material impact to the financial statements, in each case or in the aggregate.

D. Liabilities and Contingencies

- All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately

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reflected in the financial statements.

- We have informed you of all outstanding and possible litigation and claims, ~~whether or not~~ they have been discussed with legal counsel.
- We have recorded and/or disclosed, as appropriate, all liabilities related to litigation and claims, both actual and contingent in Note 40 and have disclosed confirm that we have not given any guarantees to third parties.

E. Subsequent Events

- As outlined in Note 6 to the financial statements, there have been no events, including events related to the COVID-19 pandemic, subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto

F. Other information

- We acknowledge our responsibility for the preparation of the other information. The other information comprises the Narrative Statement and Annual Governance Statement.
- We confirm that the content contained within the other information is consistent with the financial statements.

G. Going Concern

Note 1 [X] to the financial statements discloses all the matters of which we are aware that are relevant to the Group and Council's ability to continue as a going concern, including significant conditions and events, our plans for future action, and the feasibility of those plans.

H. Ownership of Assets

- Except for assets capitalised under finance leases, the Group and Council has satisfactory title to all assets appearing in the balance sheet, and there are no liens or encumbrances on the Group and Council's assets, nor has any asset been pledged as collaterals. All assets to which the Group and Council has satisfactory title appear in the balance sheet.
- All agreements and options to buy back assets previously sold have been properly recorded and adequately disclosed in the financial statements.
- We have no plans to abandon lines of product or other plans or intentions that will result in any excess or obsolete inventory, and no inventory is stated at an amount in excess of net realisable value.
- There are no formal or informal compensating balance arrangements with any of our cash and investment accounts.

I. Reserves

- We have properly recorded or disclosed in the financial statements the useable and unusable reserves.

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Management representation letter (continued)

Management Rep Letter

J. Contingent Liabilities

We are unaware of any violations or possible violations of laws or regulations the effects of which should be considered for disclosure in the financial statements or as the basis of recording a contingent loss (other than those disclosed or accrued in the financial statements).

We are unaware of any known or probable instances of non-compliance with the requirements of regulatory or governmental authorities, including their financial reporting requirements, and there have been no communications from regulatory agencies or government representatives concerning investigations or allegations of non-compliance, except as follows:

- (1) Matters of routine, normal, recurring nature (e.g., examinations by bank and insurance examiners, examinations by taxing authorities none of which involves any allegations of non-compliance with laws or regulations that should be considered for disclosure in the financial statements or as a basis for recording a loss contingency.

K. Use of the Work of a Specialist

1. We agree with the findings of the specialists that we engaged to evaluate the valuation of land and building assets and investment property and the IAS19 actuarial valuations of pension liabilities 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.

L. Estimates

When we have identified following estimates as significant or higher risk:

- i. Pension Liability
 - ii. Property, Plant & Equipment / Investment Properties – Valuation and Impairment
 - iii. Provision for impairment of receivables
 - iv. NDR Appeals Provision
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 CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.
 2. We confirm that the significant assumptions used in making the valuation of land, buildings and investment properties estimate appropriately reflect our intent and ability to continue to provide services on behalf of the entity.
 3. We confirm that the disclosures made in the financial statements with respect to the accounting estimates are complete, including the effects of the COVID-19 pandemic and made in accordance with provide a valuation for these assets in

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accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

4. We confirm that no adjustments are required to the accounting estimates and disclosures in the financial statements due to subsequent events, including due to the COVID-19 pandemic.

M. 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.

N. Group audits

1. There are no significant restrictions on our ability to distribute the retained profits of the Group because of statutory, contractual, exchange control or other restrictions other than those indicated in the Group financial statements.
2. Necessary adjustments have been made to eliminate all material intra-group unrealised profits on transactions amongst Council, subsidiary undertakings and associated undertakings.

Yours faithfully,

Jacqueline Van Mellaerts
Director of Corporate Resources

x
Chair of Audit & Scrutiny Committee

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Appendix D - Reflections from the Redmond review

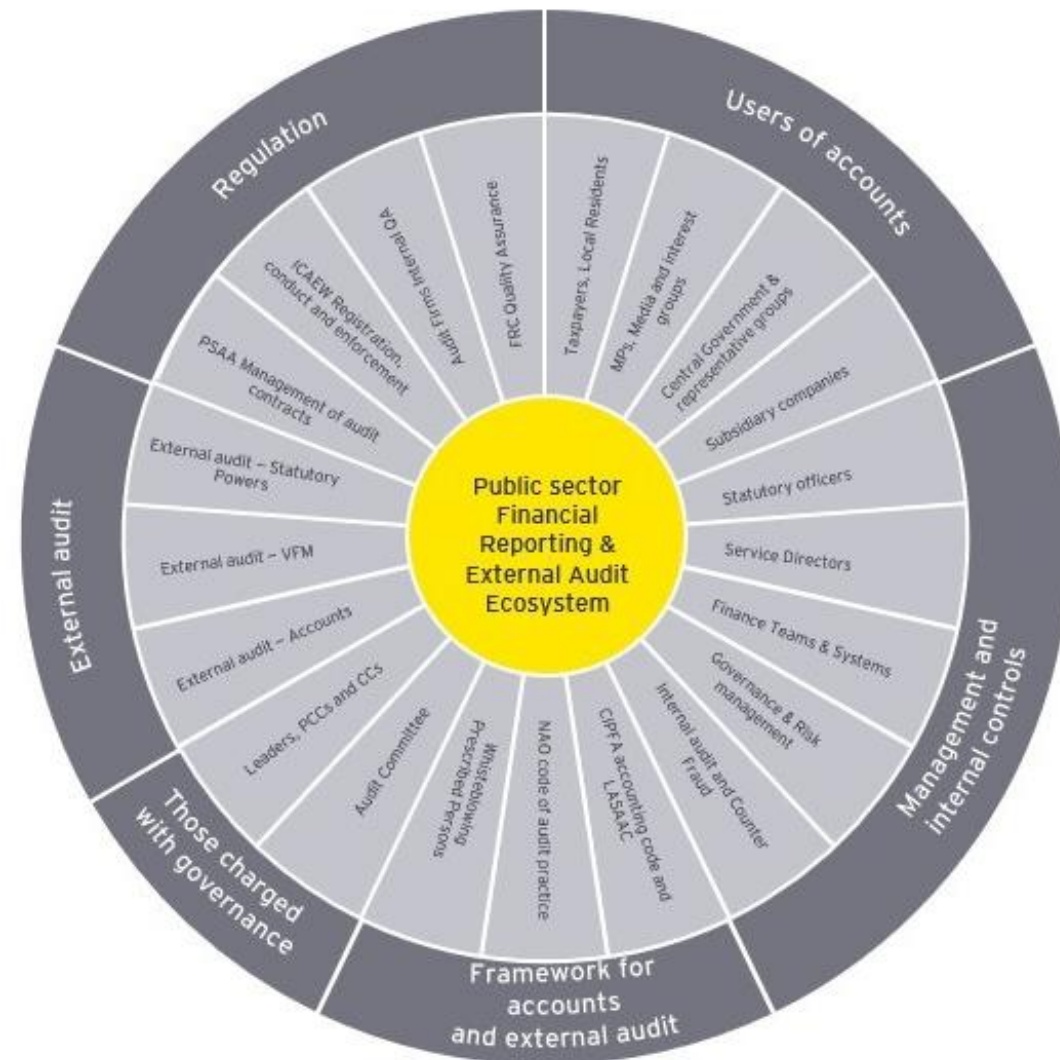
Independent Review into the Oversight of Local Audit and the Transparency of Local Authority Financial Reporting

Published on the 8th September 2020, Sir Tony Redmond's findings and recommendations from his independent review provides a significant opportunity to shape the future sustainability of local government financial reporting and auditing. We believe this will help ensure audit continues to meet the evolving needs of local authorities, the public, and the public interest.

Guiding principles for reform

We believe reforms should be guided by the following principles:

- Reforms should enhance, or at least should not create risks to, the quality of financial reporting and external audit.
- The importance of the multidisciplinary audit firm model, to enable local auditors to respond efficiently and effectively to the increased reporting complexity, risks and financial resilience pressures we have seen facing the public sector pre and post Covid-19.
- There should not be a two-tier system of generally accepted accounting and auditing standards between the public and corporate sectors.
- To be effective and sustainable, reforms need to focus on the public sector financial reporting and external audit ecosystem as a whole.



Appendix C - Reflections from the Redmond review

Taking our guiding principles, we broadly welcome the Redmond review and proposals, in particular:

Quality of financial reporting and external audit

- The recognition that all stakeholders in the ecosystem have a role to play to improve accountability, transparency and sustainability. This includes improving the effectiveness of Audit Committees, strengthening the training skills, capacity capability and attractiveness of the public sector finance and audit professions.
- His conclusion that the current procurement and fee structure does not support sustainable audit quality. We have provided you with our perspectives on how baseline audit fees need to change to take account of your risk profile, complexity as well as the regulatory and professional context which drive our audits.

Reforming the public sector financial reporting and external audit ecosystem

- Establishing the Office for Local Audit Regulation (OLAR), which provides a “system leader” and will bring clarity to the existing framework for local authority audit.
- The importance of MHCLG establishing a liaison committee of all key stakeholders to oversee reforms. To begin with MHCLG should take urgent action to implement primary legislation to establish OLAR, revise the timetable for financial reporting and revisit the procurement and fee structure for public sector audit.

Multidisciplinary audit firm model

- The importance of the auditors work to critically assess the financial resilience and viability of public sector bodies and his proposals on how this assessment could be enhanced within the NAOs code of audit practice.

Safeguarding professional accounting and auditing standards

- The need for CIPFA/LASAAC to revisit the accounting code and introduce summarised accounts. We agree that there is a need for more proportionality in the Code which also sets out the expectations of practitioners and auditors and how this could be applied in areas such as pensions and asset valuations. However, we believe that any future proposals on the accounting code should not create a two-tier system.

What are we doing in the meantime?

1. Planning for a 30 September financial reporting target date for 2020/2021 accounts, integrated with our NHS work.
2. Implementing the new NAO code and changes to our VFM conclusion work and reporting for 2020/2021 audits. We will also work with the NAO and other audit suppliers on any refinements to how auditors assess financial resilience.
3. Continuing to engage with and influence MHCLG, NAO, PSAA CIPFA/LASAAC, FRC and other key stakeholders on the actions required to implement the Redmond proposals as swiftly as possible and how these effectively align to the broader package of audit reforms which BIES will consult on later this year.

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