

# Brentwood Borough Council Audit Results Report

Year ended 31 March 2021

27 June 2022



Building a better  
working world



Brentwood Borough Council

Dear Audit and Scrutiny Committee Members

We are pleased to attach our audit results report in relation to the audit of Brentwood Borough Council for 2020/2021 for presentation at the Audit and Scrutiny Committee on the 5<sup>th</sup> July 2022.

The audit is designed to express an opinion on the 2020/21 financial statements and address current statutory and regulatory requirements. This report contains our findings related to the areas of audit emphasis, our views on Brentwood Borough Council's accounting policies and judgements and material internal control findings. Each year sees further enhancements to the level of audit challenge and the quality of evidence required to achieve the robust professional scepticism that society expects. We thank the management team for supporting this process.

Our audit of the Council's 2020/2021 financial statements and assessment of value for money arrangements is substantially completed. Appendix B of our reports sets out the outstanding matters we are required to complete prior to issuing our statutory audit report. These include but are not limited to professional practice consultations on the appropriateness of the Council's going concern management assessment and disclosures and the level of audit materiality we have applied to our audit procedures to date. This is important because of the presence of a material uncertainty on the continuity of service provision in the audited 2019-2020 financial statements. There is also a national issue impacting on Local Government financial statements associated with the accounting for infrastructure assets. Details are set out on page 21 of this report. We need to obtain sufficient and appropriate evidence to conclude that the gross and net book value of the Council's infrastructure assets cannot be materially misstated. Until our audit is complete, there may be further matters arising and adjustments to the financial statements

However we are content that the Audit and Scrutiny Committee members at its meeting could approve a recommendation to delegate approval of the audited financial statements for issue to the Chief Financial Officer in consultation with the Chair of the Audit and Scrutiny Committee provided no other matters that arise from the 5<sup>th</sup> July 2022 are material in nature. Should there be further material adjustments to the financial statements or modification to our audit report, we will need to report the final results of our audit to the Audit and Scrutiny Committee before the financial statements are authorised for issue.

We would like to take this opportunity to thank the Council and finance team for their co-operation in challenging circumstances and highlight the positive working relationships that have been developed. We also want to highlight the positive progress made by Council over the past year which is evidenced by our draft audit opinion in section 03 which does not include any modification in respect of value for money or going concern.

This report is intended solely for the information and use of the Audit and Scrutiny Committee, other members of the Council and senior management. It is not intended to be and should not be used by anyone other than these specified parties.

Yours faithfully

Neil Harris, Associate Partner

For and on behalf of Ernst & Young LLP

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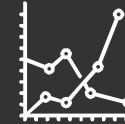
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Public Sector Audit Appointments Ltd (PSAA) issued the "Statement of responsibilities of auditors and audited bodies". It is available from the PSAA website (<https://www.psa.co.uk/audit-quality/statement-of-responsibilities/>). The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The "Terms of Appointment and further guidance (updated April 2018)" issued by the 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 in legislation, and covers matters of practice and procedure which are of a recurring nature.

This report is made solely to the General Purposes and Audit Committee and management of the Brentwood Borough Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the General Purposes and Audit Committee and management of the Brentwood Borough Council those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the General Purposes and Audit Committee and management of the Brentwood Borough Council for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.



# 01 Executive Summary

# Executive Summary

## Scope update

In our audit planning report dated 25<sup>th</sup> November 2021, we provided you with an overview of our audit scope and approach for the audit of the financial statements and value for money assessment. We carried out our audit in accordance with this plan, with the following exception:

Additional audit procedures as a result of Covid-19

Other changes in the entity and regulatory environment as a result of Covid-19 that have not resulted in an additional risk, but result in the following impacts on our audit strategy were as follows:

Information Produced by the Entity (IPE): We identified an increased risk around the completeness, accuracy, and appropriateness of information produced by the entity due to the inability of the audit team to verify original documents or re-run reports on-site from the Council'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
- Agreed IPE to scanned documents or other system screenshots.

## Status of the audit

Our audit work in respect of the Council opinion is in progress. Procedures required to complete before we can issue our opinion are listed in Appendix B.

In addition to the outstanding work in Appendix B, we will need to carry out the following closing procedures:

- Agreement of the final set of financial statements;
- Subsequent events review;
- Receipt of signed management representation letter; and
- Final Engagement Partner quality review procedures.

# Executive Summary

## Auditor responsibilities under the new Code of Audit Practice 2020

Under the Code of Audit Practice 2020 we are still required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness in its use of resources. The 2020 Code requires the auditor to design their work to provide them with sufficient assurance to enable them to report to the Council a commentary against specified reporting criteria (see below) on the arrangements the Council has in place to secure value for money through economic, efficient and effective use of its resources for the relevant period.

The specified reporting criteria are:

- Financial sustainability  
How the Council plans and manages its resources to ensure it can continue to deliver its services;
- Governance  
How the Council ensures that it makes informed decisions and properly manages its risks; and
- Improving economy, efficiency and effectiveness:  
How the Council uses information about its costs and performance to improve the way it manages and delivers its services.

## Status of the audit – Value for Money

In the Audit Plan dated 25 November 2021, we reported that we had yet to complete our value for money (VFM) risk assessment but that we had identified two risks of significant weakness in respect of the VFM criteria and communicated our planned procedures to you.

We have completed our VFM risk assessment and the planned procedures for the two risks of significant weakness identified and are satisfied that the Council does have the arrangements in place we would expect to see. We have also revisited our risk assessment on completion of the audit of the financial statements and have not identified any new risks of significant weakness in VFM arrangements. At the date of this report we have no matters to report by exception in the auditor's report (see Section 03). We plan to issue the VFM commentary shortly after issuing our audit opinion as part of issuing the Auditor's Annual Report.

## Audit differences

We have identified a number of audit differences throughout our audit work and details of these adjustments can be found in Section 04 of this report.

We have identified a limited number of minor audit disclosure differences in the financial statements, which have been adjusted by management.

## Executive Summary

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### Other reporting issues

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

We have not yet performed the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission, as at the date of this report the NAO have not issued their guidance to auditors. We expect the guidance from the NAO to confirm that the Council are below the expenditure threshold requiring detailed audit procedures.

### Control observations

At this stage, 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 and which is unknown to you. However, our work is still in progress and we will update you if we find any weaknesses in finalising the testing. We do note from our work to date that there have been more significant adjustments arising from our audit as set out in section 04 of our report as set out on pages 30 to 31 of this report. This is particularly prevalent in our audit of the Council's asset valuations and associated disclosures. The Council should consider whether there are any root causes that have led to these adjustments and any enhancements that would be required to the control environment for preparing the 2021-2022 accounts for audit.

### Independence

We have no issues to report.

Please refer to Section 08 for our update on independence.

# Executive Summary

## Areas of audit focus

In our Audit Plan we identified a number of key areas of focus for our audit of the financial report of Brentwood Borough Council. This report sets out our observations and status in relation to these areas, including our views on areas which might be conservative and areas where there is potential risk and exposure. Our consideration of these matters and others identified during the period is summarised within the "Areas of Audit Focus" section of this report.

Significant Risk	Findings & Conclusions
Management Override: Misstatements due to fraud or error	Our audit work in respect of journal entries is currently being reviewed. Our audit work in respect of accounting estimates is still in progress as the PPE valuation work has not yet been concluded.
Incorrect classification of revenue spend classified as capital	Our work is in progress and we will update the committee verbally with the results of our sample testing.
Minimum revenue provision	Our MRP specialist has reviewed the Council's calculations and has raised queries with officers about the decisions taken in line with the guidance. We will update the committee verbally with the findings from the audit work.
Fraud in Revenue Recognition – rental income from commercial properties	The Council earned £0.8m rental income from investment properties in 2020/21. Our testing of this income is in progress.
Land & Building and Investment Property Valuation	<p>We have engaged our EY Real Estate (EYRE) Specialists to review a sample of asset valuations as well as undertaking testing by the audit team. There is one asset that we are still discussing with the Council and their valuer as the asset is outside of the valuation range determined by EYRE.</p> <p>As a result of the work performed to date, we have identified a number of amendments required to the financial statements. These are set out in section 04.</p>



# Executive Summary

## Areas of audit focus

Area of Audit Focus	Findings and Conclusions
Pensions Liability Valuation	<p>We have completed our work in relation to the Local Government Pension Scheme. This work is currently in Partner review.</p> <p>Under the revised ISA540 on estimates we are required to evidence that the actuary's model for calculating the estimate is correct and data has been entered correctly. Considering the nature of this requirement, we engaged our EY Pensions Specialists to recalculate the liability based on the assumptions and data in the IAS 19 report to confirm accuracy. No misstatements were identified as a result of this work.</p> <p>For the Local Government Pension Scheme we also liaise with the auditors of the Essex Pension Fund, the LGPS administering authority, to obtain assurances over the information supplied to the actuary in relation to the Brentwood Borough Council. The pension fund auditor did not report any differences that would impact on your financial statements.</p>
Going Concern	<p>Our review and challenge of management's going concern assessment is in progress as we are required to consult with our Professional Practice Department given the presence of a material uncertainty in the 2019-2020 financial statements.</p>
Group Accounts	<p>Our group accounts assessment is in progress. The assets have been reviewed by our EY real estate specialists (EYRE) as part of the PPE valuation testing and amendments have been made to the financial statements. We are currently waiting for a response from the auditor of SAIL.</p> <p>Our testing to date has identified amendments required to the financial statements to remove intra-group transactions.</p>
Accounting for covid 19 grants	<p>Our work is in progress and we will update the committee verbally with the results of our sample testing.</p>
Accounting for Property Acquisitions and leisure centres	<p>Our audit testing is complete and currently in Partner review. We have reviewed and challenged the accounting treatment proposed by management in the draft financial statements. This has resulted in an amendment of £89.1 million to the financial statements to reclassify the assets from Surplus Assets to Other Land and Buildings. The amendment is set out in section 04.</p> <p>This also resulted in a change of valuation basis and the Council obtained a new valuation for these assets which has been audited and challenged by EYRE. This work is in progress as one asset is outside of the EYRE range and we have requested a meeting with the valuer to understand the valuation basis.</p>

# Executive Summary

## Areas of audit focus

Area of Audit Focus	Findings and Conclusions
Valuation of Non Domestic Rates Appeals Provision	Our audit testing is complete and currently in Partner review. No misstatements were identified as a result of this work.

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.

Since our audit planning report, we have revisited our audit materiality based on the 2020-2021 financial statements. Our audit materiality is £1.034million, performance materiality level is £775,000 and our trivial level for reporting unadjusted audit difference is £51,000.

There are no matters, apart from those reported by management or disclosed in this report, which we believe should be brought to the attention of the Audit and Scrutiny Committee.



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## Areas of Audit Focus



# Areas of Audit Focus

## Significant risk \* Denotes fraud risk

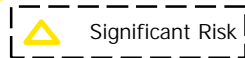
### Risk of misstatement due to fraud or error\*

#### 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 focused on aspects of the financial statements where management could inappropriately inflate income or understate expenditure, primarily:

- Material accounting estimates;
- Journal entries;
- Unusual transactions; and
- Arrangements in place at the Council.

#### What did we do?

- We tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in preparing the financial statements;
- 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 the effectiveness of management's controls designed to address the risk of fraud;
- We reviewed accounting estimates for evidence of management bias; and
- We evaluated the business rationale for any significant unusual transactions.

#### What are our conclusions?

Our audit testing is in progress. However, in our audit work to date:

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 through our work on journal entries.

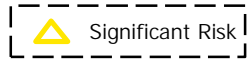
We did not identify any other transactions during our audit which appeared unusual or outside of the Council's normal course of business.



## Areas of Audit Focus

### Significant risk

#### Incorrect classification of revenue spend as capital\*



#### What is the risk?

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 financial position. A key way of improving the revenue position is through the inappropriate capitalisation of revenue expenditure.

Brentwood Borough Council has a significant fixed asset base and as a result has a significant level of capital additions totalling £6.2m for 2020/21. Therefore we have concluded there is a potential risk that revenue expenditure could be incorrectly classified as capital.

#### What judgements are we focused on?

We focused on additions to Property, Plant and Equipment, ensuring that all additions had been capitalised in accordance with IAS 16: Property, Plant and Equipment and CIPFA Code of Practice on Local Authority Accounting 2020/21,

#### What are our conclusions?

Our work in this area is in progress.

We selected a sample of additions transactions responsive to our significant risk. We will update the Committee verbally on our progress with this work.

#### What did we do?

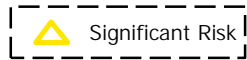
- Obtained a general ledger (GL) breakdown of capital additions in the year, reconciling to the Fixed Assets Register (FAR), and reviewed the GL descriptions to identify whether there are any potential transactional items that could be revenue in nature;
- Tested capital expenditure on property, plant and equipment to ensure it meets the relevant accounting requirements to be capitalised and additions are supported by source evidence; and
- Tested manual journals posted to capital additions from expenditure codes for all months.



## Areas of Audit Focus

# Significant risk

### Risk of Fraud in Revenue Recognition\*



#### What is the risk?

Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. For the year ended 31<sup>st</sup> March 21 the audit team has assessed that the risk of improper revenue recognition may manifest through the following income streams:

- Rental income from commercial properties

For the year ended 31<sup>st</sup> March 21 income from commercial properties totalled £0.8m and we consider there to be opportunity and incentive for improper revenue recognition that could be material to the financial statements.

#### What judgements are we focused on?

- We focused on income recognised in the year and obtained supporting evidence to assess whether the service provided occurred in 2020/21 and therefore meets the revenue recognition criteria.

#### What did we do?

- We selected a sample of rental income transactions from commercial properties and tested through to supporting evidence to confirm that the income had been recognised in the correct period.
- We obtained an understanding the Council's revenue recognition policy.
- We performed substantive analytical procedures, with a lower testing.
- As part of our journals testing we reviewed unusual manual journals that credited income throughout the year.

#### What are our conclusions?

Our testing of the commercial rental income is in progress and we will verbally update the committee.

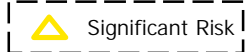
In our journals work to date, we did not identify any misstatements as a result of our unusual item review of journals.



# Areas of Audit Focus

## Significant risk

### Minimum Revenue Provision



#### 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.

We identify and respond to this risk on every audit engagement. This risk manifests itself in areas where management makes significant judgements that impact charges to the general fund balance. Local authorities are required to charge MRP to the General Fund in each financial year. The calculation of this charge is based on the Capital Financing Requirement. Local authorities have flexibility in how they calculate MRP, providing the calculation is 'prudent'. In calculating a prudent provision, local authorities are required to have regard to statutory guidance.

With significant increase in financing, there is a risk that provision is not prudent. As such we associate this risk with Minimum Revenue Provision.

#### What did we do?

We engaged with our specialist to review the Council's MRP calculation to determine that it had been appropriately calculated using the methods outlined in the revised statutory guidance.

We reviewed that the calculation of the Capital Financing Requirement was appropriate and consistent with other notes in the financial statements.

#### What are our conclusions?

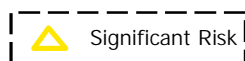
Our MRP specialist has reviewed the Council's calculations and has raised queries with officers about the decisions taken in line with the guidance. We will update the committee verbally with the findings from the audit work as at this stage we do not anticipate that the resolution in queries will result in a material adjustment to the Council's financial statements. In our Annual Audit Report, we will include our final findings and any further recommendations on the Council's accounting and policy for its Minimum Revenue Provision.



## Areas of Audit Focus

### Significant risk

#### Land & Building and Investment Property Valuation



#### What is the risk?

The Council's asset base is large when compared to local government bodies similar in size from a revenue budget perspective, with Other land and buildings (£38m), surplus assets (£92m) and investment properties (£70m) all being multiple times our materiality.

These assets represent a significant balance in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges. Material judgemental inputs and estimation techniques are required to calculate the year-end fixed assets balances held in the balance sheet.

#### What did we do?

Our approach focussed on:

- Considerations of the work performed by the external valuers, including the adequacy of the scope of work performed, professional capabilities and the results of their work;
- Using our own experts to:
  - Review the methodology and assumptions used by the valuer;
  - Sample test key asset information used by the valuers in performing their valuation (e.g. floor plans to support valuations based on price per square metre);
  - Investigate any significant variations.
- Consideration of the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code for Property, Plant and Equipment, and annually for Investment Property.
- Assessing the classification of asset and, the valuation basis that is assigned as a result and any material increases or impairments that arise during the year;
- Reviewing assets that are not subject to valuation in 2020/21 to confirm the remaining asset base is not materially misstated;
- Testing accounting entries, ensuring these have been correctly processed in the financial statements; and
- Reviewing appropriateness of the relevant accounting policies.

#### What are our conclusions?

We have engaged our EY Real Estate (EYRE) Specialists to review a sample of asset valuations as well as undertaking testing by the audit team. There is one asset that we are still discussing with the Council and their valuer as the asset is outside of the valuation range determined by EYRE. This is the Childerditch Industrial Park acquired in February 2021 for £57.25million. During the course of the audit, the valuation of the industrial park has already seen a reduction in its fair value from £76.410million to £62.957million. We have remaining questions on the assumptions for net yield and allowance for purchasers costs, and because of this the current valuation expressed by management's expert is still outside of our current acceptable range of between £57-£61million.

As a result of the work performed to date, we have identified a number of other amendments required to the financial statements for asset valuations. These are set out in section 04.



# Audit risks

## Other areas of audit focus

What is the area of focus?	What did we do?	What are our conclusion?
<p><b>Pension Liability Valuation</b></p> <p>The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding the Local Government Pension Scheme (LGPS) in which it is an admitted body.</p> <p>The Council's current pension fund deficit is a highly material and sensitive item and the Code requires that this liability be disclosed on the Council's balance sheet.</p> <p>The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the administering body.</p> <p>As with other Councils, accounting for this scheme involves significant estimation and judgement and due to the nature, volume and size of the transactions we consider this to be a higher inherent risk.</p>	<ul style="list-style-type: none"> <li>Assessed the conclusions drawn on the work of the actuary, Barnett Waddingham, by the Consulting Actuary, PWC, who are commissioned by the National Audit Office, including the use of our own specialists;</li> <li>Reviewed and testing the accounting entries and disclosures made within the Council's financial statements in relation to IAS 19; and</li> <li>Liaised with the auditors of Essex Pension Fund, the LGPS administering authority, to obtain assurances over the information supplied to the actuary in relation to the Council.</li> </ul>	<p>We have completed our review of the actuary, accounting entries and disclosures and have not identified any issues. This work is currently in Partner review.</p> <p>Under the revised ISA540 on estimates we are required to evidence that the actuary's model for calculating the estimate is correct and data has been entered correctly. Considering the nature of this requirement, we have engaged our EY Pensions Specialists to recalculate the liability based on the assumptions and data in the IAS 19 report to confirm accuracy. Using this model we have been able to independently reconcile our roll forward with the figures produced by the actuary as at the disclosure date to a difference of less than 1% of the figure for the liabilities. Having implemented the above checks, it is our view that the figures for the Scheme's liability for the disclosures as at 31 March 2021 are acceptable.</p> <p>For the Local Government Pension Scheme we also liaise with the auditors of the Essex Pension Fund, the LGPS administering authority, to obtain assurances over the information supplied to the actuary in relation to the Brentwood Borough Council. The pension fund auditor did not report any differences that would impact on your financial statements.</p>
<p><b>Accounting for property acquisitions and leisure centres</b></p> <p>We have identified following material transactions which involves judgement and accounting treatment could be challenging.</p> <ul style="list-style-type: none"> <li>Brentwood Leisure Trust, which operated the Council's leisure centre, went into liquidation. This resulted in the Council bringing the operation of the centre back in house during November 2020.</li> <li>The Council purchased £89.1m properties which are classified as surplus assets.</li> </ul>	<p>Our approach focussed on:</p> <ul style="list-style-type: none"> <li>Consideration of the Council's judgement on transactions and ensuring it complies with the accounting standards.</li> <li>For the properties purchased during the year, we linked to our significant risk on the valuation and VFM risks related to decision making process.</li> </ul>	<p>Our audit testing is complete and currently in Partner review. We have reviewed and challenged the accounting treatment proposed by management in the draft financial statements. This has resulted in an amendment of £89.1 million to the financial statements to reclassify the assets from Surplus Assets to Other Land and Buildings. The amendment is set out in section 04.</p> <p>This also resulted in a change of valuation basis and the Council obtained a new valuation for these assets which has been audited and challenged by EYRE. This work is in progress as one asset is outside of the EYRE range and we have requested a meeting with the valuer to understand the valuation basis. Further details of the valuation of the Childerditch Industrial Park are set on page 16.</p>

# Audit risks

## Other areas of audit focus

### What is the area of focus?

#### Accounting for Covid-19 related grant funding

The Council has received a significant level of government funding in relation to Covid-19. Whilst there is no change in the CIPFA Code or accounting standard (IFRS 15) in respect of accounting for grant funding, the emergency nature of some of the grants received and in some cases the lack of clarity on any associated restrictions and conditions, means that the Council will need to apply a greater degree of assessment and judgement to determine the appropriate accounting treatment in the 2020/21 statements.

#### 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.

### What did we do?

Our approach focussed on:

- Considering the Council's judgement on material grants received in relation to whether it is acting as:
  - An Agent, where it has determined that it is acting as an intermediary; or
  - A Principal, where the Council has determined that it is acting on its own behalf.
- Encouraging the finance team to provide its assessment of grant accounting well before it prepares the statements so that we can provide an early view on its proposed accounting treatment.

Our approach focussed on:

- Considering the work performed by the Council's valuers, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
- Engaging EY Real Estates to review the valuations of these specific assets;
- 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);
- Considering if there are any specific changes to assets that have occurred and that these have been communicated to the valuer;
- Testing 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 conclusion?

Our work is in progress and we will update the committee verbally with the results of our sample testing.

Our group accounts assessment is in progress.

One of the assets have been reviewed by EYRE as part of the PPE valuation testing and their review identified that the asset valuation by the Council's external valuer was £50k higher at £5.32 million than the top end of the EYRE range of £4.95 - £5.27 million. This difference is below our trivial reporting level and therefore no further work is required.

We are currently waiting for a response from the auditor of SAIL.

Our testing of the group accounts to date has identified amendments required to the financial statements to remove intra-group transactions.

## Audit risks

### Other areas of audit focus

#### What is the area of focus?

##### Going Concern

There is a presumption that the Council will continue as a going concern for the foreseeable future. However, the Council is required to carry out a going concern assessment that is proportionate to the risks it faces. In light of the continued impact of Covid-19 on the Council's day to day finances, its annual budget, its cashflow and its medium term financial strategy, there is a need for the Council to ensure its going concern assessment is thorough and appropriately comprehensive.

The Council is then required to ensure that its going concern disclosure within the statement of accounts adequately reflects its going concern assessment and in particular highlights any uncertainties it has identified.

In addition, the auditing standard in relation to going concern (ISA570) has been revised with effect for the 2020/21 accounts audit.

In 2019/20 we included a material uncertainty paragraph in our audit report highlighting the disclosure made by the Council in its financial statements on the basis of preparation of the accounts and the impact of C-19 on Council finance and its ability to continue as a going concern. This was not a modification to the audit report but reflected that a material uncertainty existed that may cast significant doubt on the Council's ability to continue providing the current level of services without an increase in planned income. The financial landscape for the Council remains highly challenging and it will again need to undertake a going concern assessment covering a period up to 12 months from the expected date of final authorisation.

#### What did we do?

Our approach focussed on:

- Challenging management's identification of events or conditions impacting going concern;
- Testing management's resulting assessment of going concern by evaluating supporting evidence.
- Reviewing the Council's cashflow forecast covering the foreseeable future, to ensure that it has sufficient liquidity to continue to operate as a going concern; and
- Challenging the disclosure made in the accounts in respect of going concern and any material uncertainties.
- Ensuring the Council's management assessment and disclosure is prepared at a group level to take account of the budget and cashflow assumptions from its ownership of SAIL.

#### What are our conclusion?

Our review and challenge of management's going concern assessment is in progress as we are required to consult with our Professional Practice Department given the presence of a material uncertainty in the 2019/2020 financial statements.

## Audit risks

### Other areas of audit focus

What is the area of focus?	What did we do?	What are our conclusion?
<p>Valuation of Non Domestic Rates Appeals Provision As at 31 March 2021, the Council's Non Domestic Rates Appeals Provision is valued at £1.2m. This is a high value estimate driven by external calculations and judgement.</p>	<p>Our approach focussed on:</p> <ul style="list-style-type: none"><li>• Agreeing data used to calculate the provision to reports received from the Valuations Office Agency;</li><li>• Confirming the appeals percentage provided for is reasonable, considering the government's baseline data for predicting business rates appeals;</li><li>• Re-performing calculations to confirm arithmetical correctness; and</li><li>• Comparing the level of appeals at 31 March 2021 and 31 March 2020 to assess the reasonableness of amounts provided for at year end.</li></ul>	<p>Our audit testing is complete and currently in Partner review. No misstatements were identified as a result of this work.</p>

## Audit risks

### Infrastructure Assets - What is the issue

An issue has been raised via the NAO's Local Government Technical Group that some Local Authorities are not writing out the gross cost and accumulated depreciation on Infrastructure Assets when a major part/component has been replaced or decommissioned. As a result Infrastructure Assets are materially overstated in the Balance Sheet at the 31 March 2021.

Asset registers do not tend to record infrastructure capital expenditure with sufficient detail and geographical specifics to enable the identification of prior cost of replaced parts/components and related accumulated depreciation. Therefore, it can be challenging to identify the cost and accumulated depreciation balances that need to be derecognised.

If parts/components have not been derecognised when replaced or decommissioned:

- a. For assets that have been fully depreciated, the gross cost of the asset and accumulated depreciation will be overstated in the Property, Plant and Equipment note to the Balance Sheet. This will be a matching error, so no impact on the Net Book Value reported on the balance sheet.
- b. For assets replaced or decommissioned ahead of their useful economic life (UEL), i.e. the asset is not fully depreciated and has a positive Net Book Value (NBV) at year end, the error will also impact the Balance Sheet, where asset values will be overstated.

The Gross Book Value (GBV) of Infrastructure Assets reported within the draft financial statements at the 31 March 2021 is £2.1 million with a Net Book Value of £1.7 million – both above our reported materiality level.

This matter is currently under consideration by CIPFA who have set up a Task & Finish Group to escalate a resolution following a consultation with the sector. However, the timeline to resolution is unknown currently.

#### Potential Ways Forward:

1. The Council is able to evidence full compliance with the CIPFA Code of Practice requirements for all additions to Infrastructure Assets and the appropriate de-recognition of the original asset or component of that asset alongside the derecognition of the associated accumulated depreciation. We have asked management for this assessment which will require full supporting evidence. At the current time, this assessment and evidence base would need to go back to the inception of International Financial Reporting Standards which was in the 2010/11 financial year. This will allow us to determine that there cannot be a material error, both quantitatively and qualitatively, in the GBV and NBV of the reported Infrastructure Asset balance at the 31 March 2021.
2. The Council wait for the outcome of the CIPFA Task & Finish Group work and any resultant updates to the CIPFA Code of Practice reporting requirements. The Council would then have to evidence compliance with any revised reporting requirements brought in by any such amendments.

We will not be able to issue our audit opinion until either of the above options is concluded.



# 03 Audit Report



# Audit Report

## Draft audit report – subject to outstanding matters at Appendix B

### Our opinion on the financial statements

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

##### Opinion

We have audited the financial statements Brentwood Borough Council for the year ended 31 March 2021 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;
- the related Authority notes 1 to 41 and the related Group notes 1 to 4;
- Housing Revenue Accounts Income and Expenditure Statement;
- Movement on the Housing Revenue Account and related notes 1 to 7;
- Collection Fund and the related notes 1 to 4; and
- Group disclosures.

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 2020/21.

In our opinion the financial statements:

- give a true and fair view of the financial position of the Brentwood Borough Council as at 31 March 2021 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 2020/21.

##### 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 group 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.

##### Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Corporate Director (Finance & Resources) use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the authority's ability to continue as a going concern for a period to the 31<sup>st</sup> July 2023.

Our responsibilities and the responsibilities of the Corporate Director (Finance & Resources) with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the authority's ability to continue as a going concern.



# Audit Report

## Draft audit report

### Our opinion on the financial statements

#### Other information

The other information comprises the information included in the Statement of Accounts 2020/21, other than the financial statements and our auditor's report thereon. The Corporate Director (Finance & Resources) is responsible for the other information contained within the narrative report.

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.

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 course of 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 themselves. 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.

#### 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;
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014;
- we are satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2021.

We have nothing to report in these respects.





# Audit Report

## Draft audit report

### Our opinion on the financial statements

#### Responsibility of the Corporate Director (Finance & Resources)

As explained more fully in the Statement of Corporate Director (Finance & Resources)' Responsibilities set out on page 14, the Corporate Director (Finance & Resources) 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 2020/21, and for being satisfied that they give a true and fair view and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Corporate Director (Finance & Resources) 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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.



# Audit Report

## Our opinion on the financial statements

We obtained an understanding of the legal and regulatory frameworks that are applicable to the Council determined that the most significant are:

- Local Government Act 1972,
- School Standards and Framework Act 1998,
- Local Government Finance Act 1988 (as amended by the Local Government Finance Act 1992),
- Transport Act 2000,
- Education Act 2002 and school Standards and Framework Act
- Local Government Act 2003,
- The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 as amended in 2018 and 2020,
- National Health Service Act 2006,
- Planning Act 2008 and the Community Infrastructure Levy Regulations 2010 (SI 2010/948),
- Business Rate Supplements Act 2009,
- The Local Government Finance Act 2012;
- The Local Audit and Accountability Act 2014, and
- The Accounts and Audit Regulations 2015.

In addition, the Council has to comply with laws and regulations in the areas of anti-bribery and corruption, data protection, employment Legislation, tax Legislation, general power of competence, procurement and health & safety.

- We understood how Brentwood Borough Council is complying with those frameworks by understanding the incentive, opportunities and motives for non-compliance, including inquiring of management, head of internal audit, those charged with governance any the monitoring officer and obtaining and reading documentation relating to the procedures in place to identify, evaluate and comply with laws and regulations, and whether they are aware of instances of non-compliance. We corroborated this through our reading of the Council's committee minutes, and other information. Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures had a focus on compliance with the accounting framework through obtaining sufficient audit evidence in line with the level of risk identified and with relevant legislation.

- We assessed the susceptibility of the Council's financial statements to material misstatement, including how fraud might occur by understanding the potential incentives and pressures for management to manipulate the financial statements, and performed procedures to understand the areas in which this would most likely arise. Based on our risk assessment procedures, we identified manipulation of reported financial performance (through improper recognition of revenue), inappropriate capitalisation of revenue expenditure, minimum revenue provision and management override of controls to be our fraud risks.
- To address our fraud risk around the manipulation of reported financial performance through improper recognition of revenue, we sample tested rental income from commercial property, challenged assumptions and corroborated the income to appropriate evidence. We also reviewed unusual manual journals that credited income throughout the year.
- To address our fraud risk of inappropriate capitalisation of revenue expenditure we tested the Council's capitalised expenditure to ensure the capitalisation criteria were properly met and the expenditure was genuine.
- To address our fraud risk of understatement of minimum revenue provision we engaged our specialist to review the Council's minimum revenue provision against the updated guidance.
- To address our fraud risk of management override of controls, we tested specific journal entries identified by applying risk criteria to the entire population of journals. For each journal selected, we tested specific transactions back to source documentation to confirm that the journals were authorised and accounted for appropriately.



# Audit Report

## Draft audit report

### Our opinion on the 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.

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 reporting criteria issued by the Comptroller and Auditor General (C&AG) in April 2021, as to whether the [name of body] had proper arrangements for financial sustainability, governance and improving economy, efficiency and effectiveness. The Comptroller and Auditor General determined these criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the 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 2021.

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, the 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.

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.

Certificate

Delay in 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 National Audit Office.



# Audit Report

## Draft audit report

### Our opinion on the financial statements

#### 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 Brentwood Borough Council and the Brentwood Borough Council'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  
XXX 2022



# 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.

## Summary of adjusted differences

To date, we highlight the following misstatements greater than £51k which have been corrected by management that were identified during the course of our audit. These were either matters arising from our audit procedures or where management identified amendments to the financial statements between the unaudited version in July 2021 and when the audit commenced in November 2021.

- Correction of intra-group adjustments - reclassification of £1.2m

In our testing we identified that the signage of intra-group adjustments which resulted in an amendment of £1.2m in the Group CIES:

- Commercial activity - £1.2m
- Protecting our environment £0.056m
- Delivering An Efficient & Effective Council £1.16m

We also identified that intra-group transactions totalling £0.885m affecting the Group Cashflow debtors/creditors were incorrectly included.

- Surplus assets – reclassification of £89.1m

We challenged managements judgement about the classification of the surplus assets in the 20/21 financial statements. In our view, these assets do not meet the definition of surplus assets and have been reclassified as Other Land and Buildings.

In addition, as part of the reclassification, management obtained a revised valuation for these assets to value them on an EUV basis as required by the CIPFA Code. This led to an increase in valuation for these assets of £1.065m as at 31 March 2021.

- Valuation of car park – understatement of £2.44m

Our testing of the valuation of William Hunter Way car park identified that the accounts were understated by £2.44m. Investment Properties and Revaluation Reserve have been amended to reflect the £2.44m value.

- Accounting treatment for Jubilee House deposit in the group accounts

Our testing identified that the Jubilee House deposit of £1.4m was incorrectly accounted for in the Group Cashflow as this should have been shown as an investment property and not debtor.

- Transposition error of £1.2m between Provisions and Receipts in Advance

Our testing identified a transposition error of £1.2m in the Group Balance Sheet. The provisions balance was understated and the receipts in advance balance was overstated by this amount.

- Bad debt provision of £0.148m double counted in the Group Cashflow

The bad debt provision of £0.148m was double counted and had to be removed from the debtors and other non-cash movements balances.

- National Non-Domestic Rates Income – prior year income disclosure of £13.1m

Our testing identified that the Central Government income value for 2019/20 was missing from the disclosure note. The amount that should have been disclosed is £13.1m.



## Audit Differences (continued)

### Summary of adjusted differences

- Capital Expenditure and Financing (note 10) – disclosure error of £0.118m

Our testing identified that £0.118m of S106 grants were missing from the Sources of Finance section of the note - Government Grants and Other Contributions line was understated by this amount.

- Capital Adjustment Account (CAA) – understatement of £6m for Brentwood leisure centre

Our review of Brentwood leisure centre acquisition in the year identified that the donated asset total of £6m was missing from the CAA. This understated the balance on the CAA by that amount at 31 March 2021. The Council discussed with us the appropriate accounting recognition for the Leisure Centre when it was brought back in-house from November 2020. A revaluation increase of £6million was recognised in the unaudited 2020-2021 financial statements. This has subsequently been reversed to recognise a donated/transferred asset entry of £6million.

- Collection Fund – disclosure error of £14.255m

Our testing of the Collection Fund identified that three amounts totalling £14.255m were incorrectly recorded in the Council Tax column of the Distribution of NDR Income section of the Statement. This was a disclosure error only.

Our audit also identified a limited number of minor disclosure misstatements which our team have highlighted to management for amendment. These have been corrected during the course of the audit and relate to disclosure and presentational matters in the accounts.

### Summary of unadjusted differences

Our audit work to date has not identified any amendments that management has declined to adjust.



05

## Value for Money





# Value for money

## The Council's responsibilities for value for money (VFM)

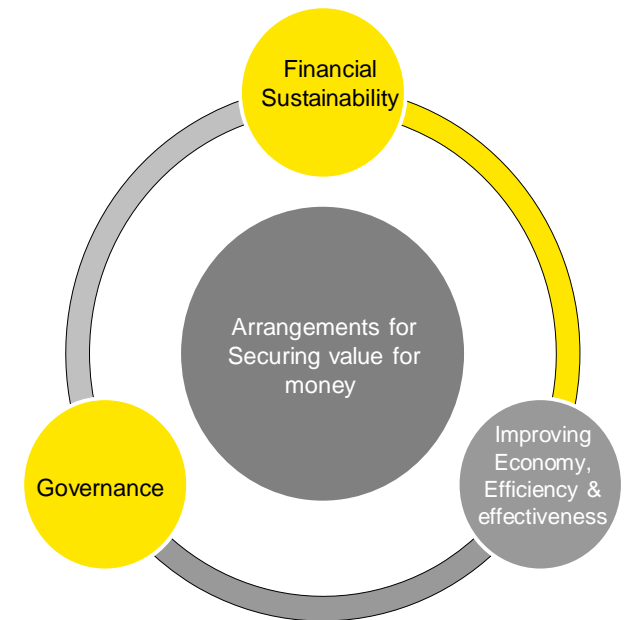
The Council is required to maintain an effective system of internal control that supports the achievement of its policies, aims and objectives while safeguarding and securing value for money from the public funds and other resources at its disposal.

As part of the material published with its financial statements, the Council is required to bring together commentary on its governance framework and how this has operated during the period in a governance statement. In preparing its governance statement, the Council tailors the content to reflect its own individual circumstances, consistent with the requirements set out in the CIPFA code of practice on local authority accounting. This includes a requirement to provide commentary on its arrangements for securing value for money from their use of resources.

## Risk assessment

We have previously reported, in our Audit Plan Addendum, the outcome of our assessment of the risk of significant weaknesses in the Council's VFM arrangements - that we had identified two significant risks in relation to financial resilience and the oversight and governance arrangements over the Council's subsidiary company, Severn Arches Investment Limited. We have revisited our risk assessment and have not identified any additional risks.

We have completed our planned procedures and are satisfied that the Council does have the arrangements in place we would expect to see. We have also revisited our risk assessment on completion of the audit of the financial statements and have not identified any new risks of significant weakness in VFM arrangements. We have no matters to report by exception in the auditor's report (see Section 03). We plan to issue the VFM commentary shortly after our audit opinion as part of issuing the Auditor's Annual Report.





## Responding to a risk of significant weakness in VFM arrangements

### What is the risk of significant weakness?

#### Financial Resilience

In 2019/20 we included a material uncertainty paragraph in our audit report highlighting the disclosure made by the Council in its financial statements on the basis of preparation of the accounts and the impact of C19 on Council finance and its ability to continue as a going concern. This was not a modification to the audit report but reflected that a material uncertainty existed that may cast significant doubt on the Council's ability to continue providing the current level of services without an increase in planned income.

The financial landscape for the Council remains highly challenging and it will again need to undertake a going concern assessment covering a period up to 12 months from the expected date of final authorisation. It will also need to make an appropriate disclosure in the financial statements.

As at 31 March 2021, the councils short and long term position increased significantly compared to prior year. The council also granted £60m loan to its subsidiary (SAIL), made decisions to bring leisure centre in house and invested in property worth £89m.

### What arrangements did this impact?

- Financial Sustainability - How the body identifies and manages risk to financial resilience.

### What did we do?

A review was carried out by our Corporate Finance team to assess the robustness of budget setting process, stress testing key assumptions underpinning the budget and reviewing the savings plans of the Council. The team also looked at the Council's ability to refinance its debt and its exposure to the high levels of borrowing.

## Findings

As part of our final Annual Auditor's Report, we will provide officers and the Audit and Scrutiny Committee with the detailed findings from our assessment of the Council's financial resilience. We have reviewed the Council's arrangements for setting its base budget and medium term financial plan, and run stress tested scenarios using industry, socio-demographic and macro-economic indicators. We have assessed the Council's level of financial resilience risk against each of these indicators. In addition, we have also assessed the Council's arrangements for borrowing and debt repayment against its nearest neighbours. Finally we have considered the Council's management assessment for going concern (continuity of service provision) alongside its budget and cashflow forecasting until August 2023 should this work have pointed to any weaknesses in the Council's arrangements during the 2020-2021 financial year. We found that the Council's:

- Budget and medium term financial planning (its base case) is appropriate and reasonable to its circumstances.
- Borrowing and debt profile has been restructured to address the higher risks present during the 2020-2021 financial year on the proportion of short term borrowing it was exposed to.
- Ability to maintain continuity of service provision and minimum level of general fund reserves and balances is appropriate, in spite of having a medium term financial gap and do not pose a significant risk to the Council's financial resilience.

Our resilience indicator assessment identified two areas of higher financial resilience risk which the Council should continue to actively monitor and put in place further mitigating actions. The first is the risk that appears to be particularly concentrated towards contract Inflation, with a high portion of the Council's expenditure indicated to sit against 'running expenses.' Second and finally, the Council's debt and principle payments despite being restructured and actively managed still appear relatively high compared with national averages.



## Responding to a risk of significant weakness in VFM arrangements

What is the risk of significant weakness?	What arrangements did this impact?	What did we do?
<p>Exposure to commercial investments</p> <p>The council is investing significantly in commercial activities through its wholly owned subsidiary – SAIL. As at 31 March 2021, the council provided £60m of loans to SAIL and received rent of £168k through properties owned by the subsidiary.</p> <p>The council also formed partnership, called Brentwood Development Partnership. This is joint venture arrangement councils wholly owned subsidiary (SAIL) and Morgan Sindall. The exposure to SAIL and other commercial investment has a significant impact on the council’s future, as this is a key part of the council delivering balanced budgets going forward. There is a risk of significant weakness in the way the Council exercises appropriate governance and financial probity to understand and mitigate against the risks it could be exposed to from its increased commercial investments.</p>	<ul style="list-style-type: none"> <li>• Financial Sustainability</li> <li>• Improving Economy, Efficiency &amp; effectiveness</li> </ul>	<p>In order to address this risk we carried out a range of procedures including:</p> <ul style="list-style-type: none"> <li>• Forming an assessment of key financial challenges and issues relevant to the subsidiaries;</li> <li>• Reviewing current subsidiary governance approaches; and</li> <li>• Forming an assessment of the impact of socio-economic forecasts on subsidiary performance; and</li> <li>• Testing sensitivities driving income and expenditure.</li> </ul>

## Findings

As part of our final Annual Auditor’s Report, we will provide officers and the Audit and Scrutiny Committee with the detailed findings from our assessment of the Council’s arrangements for assessing its exposure to its commercial activities through SAIL. We have undertaken a detailed review of the how Council exercises appropriate oversight of the finances, governance and operations of SAIL and how it mitigates any risks and exposure this has on its financial resilience, governance and risk management arrangements. We have found that the Council:

- Exhibit many aspects of good practice in its governance arrangements with SAIL, including clear and distinct roles, responsibilities and alignment with strategic and business plans, goals. This also extends to joint venture governance through Brentwood Development Partnership.
- Have established processes which enable senior officers at the Council to exercise appropriate oversight of SAIL’s operational delivery programme.
- Have worked with SAIL to ensure there is diversification in the asset portfolio to respond to volatility seen in retail and leisure sectors before and following the Covid-19 pandemic.
- Understands the short, medium and long term risks to its exposure to SAIL and is reflected in its financial and risk management plans.

Given the development lifecycle of SAIL’s project and delivery programme, the Council needs to strengthen how it monitors and regularly reviews the financial risks, opportunities from these initiatives alongside scenario planning on the choices and alternatives it has to preserve its financial resilience. In FY20 and FY21, SAIL have reported operating losses and negative equity. Although this has been as a result of increased liabilities (via Council borrowing and lending to SAIL) for acquisitions and fair value adjustments to asset valuations, the current macro-economic environment necessitates a higher risk via inflationary pressures, supply chain constraints, delays and increased interest rates. As SAIL is changing its business focus to in-borough opportunities that are centred around development and regeneration, it may spend a high proportion of costs on construction labour and materials. In addition, the current SAIL portfolio returns that are reflected in its ten-year model assume full occupancy, with only a 1% contingency built-in. The Council should consider whether this contingency appropriately reflects the Coronavirus Act requirements which has suspended a landlord’s ability to take forfeiture action for business tenancies in England and Wales.



## 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 2020/21 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 2020/21 and published with the financial statements was consistent with the audited financial statements.

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

### Whole of Government Accounts

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.

We have not yet performed the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission, as at the date of this report the NAO have not issued their guidance to auditors.

We are expecting, based on prior year guidance, that the Council will not be above the reporting threshold set by NAO for gross expenditure and expect to have very limited procedures to perform over the Council's Whole of Government Accounts submission.

# Other reporting issues

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

### Other matters

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

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

We have reported in respect of going concern earlier in this report in Section 02. To date, we have no other matters to report.



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. To date, we have not identified any significant matters to report to you. As we conclude our audit, we will reflect on the final accounting adjustments (current list are set out in section 04) and determine if there are any additional matters to report, particularly if we determine there are areas where the Council could strengthen its systems of internal control to support the preparation of the 2021-2022 financial statements for audit.





08

Independence

## Independence

### 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 company, and its directors and senior management and its affiliates, including all services provided by us and our network to your company, its directors and 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<sup>st</sup> April 2020 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 following slide includes a summary of the fees that you have paid to us in the year ended 31<sup>st</sup> March 21 in line with the disclosures set out in FRC Ethical Standard and in statute. We confirm that none of the services listed below has been provided on a contingent fee basis. As at the date of this report, there are no future services which have been contracted and no written proposal to provide non-audit services has been submitted.

#### EY Transparency Report 2021

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 2021:

[EY UK 2021 Transparency Report | EY UK](#)

## Relationships, services and related threats and safeguards

### Services provided by Ernst & Young

Description	Proposed final fee 2020/21 £	Planned Fee 2020/21 £	Final Fee 2019/20 £
Total Fee – Code work	52,365	52,365	52,365
Changes in work required to address professional and regulatory requirements and scope associated with risk (see Note 1 on page 44)	-	-	2,800
Revised proposed scale fee			
Response to significant fraud risks, inherent risks and audit differences set out in section 04 (e.g. MRP, accounting for surplus assets, commercial income, incorrect capitalisation of revenue spend, Covid-19 grants)	TBC		
Property valuations significant risk including review of SAIL assets (including response to audit adjustments)	9,000 – 12,000	-	4,785
Covid-19 additional procedures, related material uncertainty	TBC	-	6,000
Group consolidation and audit procedures	2,000 – 3,500	-	1,932
VFM new arrangements	6,000 – 11,000	-	
Going concern assessment and disclosure	3,500		
Review of VFM risk by EY corporate finance/ VFM conclusion risks	16,000 – 18,000		3,000
Additional work on pensions liability (ISA240)	2,500	-	2,100
Total indicative Council audit fee	TBC		
Non-Audit fees - Certification work	0	0	0
Total Fees	TBC		72,982

All fees exclude VAT

## Relationships, services and related threats and safeguards

### Services provided by Ernst & Young

Note 1: The final fee for 2019/20 has been determined by PSAA. PSAA determined a fee variation of £20,617 which has been invoiced and settled by the Council. This approved fee variation represents 60% of the amount we submitted to PSAA for consideration (£34,575).

Note 2: For 2020/21 the scale fee has been re-assessed to take into account a number of risk factors which includes procedures performed to address the risk profile of commercial activity and new assets acquired by the Council in the year and additional work to address increase in Regulatory standards. Prior to the conclusion of our audit, we will discuss our proposed fee variation with management and our final submission will be subject to approval by PSAA Ltd. We will update the Audit and Scrutiny Committee of the final fee submission to PSAA Ltd and the amount which is subsequently determined. PSAA have also issued to Local Government bodies minimum additional fees that they would expect for changes to auditor's work on Value for Money arrangements and auditing accounting estimates. These minimum ranges have been shown on page 43.







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## Appendices

## Appendix A

# Required communications with the Audit & Scrutiny Committee

There are certain communications that we must provide to the Audit 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 planning report
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit planning report
Significant findings from the audit	<ul style="list-style-type: none"> <li>• Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures</li> <li>• Significant difficulties, if any, encountered during the audit</li> <li>• Significant matters, if any, arising from the audit that were discussed with management</li> <li>• Written representations that we are seeking</li> <li>• Expected modifications to the audit report</li> <li>• Other matters if any, significant to the oversight of the financial reporting process</li> </ul>	Audit results report

# 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"> <li>• Whether the events or conditions constitute a material uncertainty</li> <li>• Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements</li> <li>• The adequacy of related disclosures in the financial statements</li> </ul>	Audit results report
Misstatements	<ul style="list-style-type: none"> <li>• Uncorrected misstatements and their effect on our audit opinion</li> <li>• The effect of uncorrected misstatements related to prior periods</li> <li>• A request that any uncorrected misstatement be corrected</li> <li>• Material misstatements corrected by management</li> </ul>	Audit results report
Subsequent events	<ul style="list-style-type: none"> <li>• Enquiry of the Audit and Scrutiny Committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements.</li> </ul>	Audit results report
Fraud	<ul style="list-style-type: none"> <li>• Enquiries of the Audit and Scrutiny Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the Council</li> <li>• Any fraud that we have identified or information we have obtained that indicates that a fraud may exist</li> <li>• 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"> <li>a. Management;</li> <li>b. Employees who have significant roles in internal control; or</li> <li>c. Others where the fraud results in a material misstatement in the financial statements.</li> </ol> </li> <li>• The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected</li> <li>• Any other matters related to fraud, relevant to Audit and Scrutiny Committee responsibility.</li> </ul>	Audit results report

# 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 Council's related parties including, when applicable:</p> <ul style="list-style-type: none"> <li>• Non-disclosure by management</li> <li>• Inappropriate authorisation and approval of transactions</li> <li>• Disagreement over disclosures</li> <li>• Non-compliance with laws and regulations</li> <li>• Difficulty in identifying the party that ultimately controls the Council.</li> </ul>	Audit results report
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"> <li>• The principal threats</li> <li>• Safeguards adopted and their effectiveness</li> <li>• An overall assessment of threats and safeguards</li> <li>• Information about the general policies and process within the firm to maintain objectivity and independence</li> <li>• Communications whenever significant judgments are made about threats to objectivity and independence and the appropriateness of safeguards put in place.</li> <li>• Relationships between EY, the company and senior management, its affiliates and its connected parties</li> <li>• Services provided by EY that may reasonably bear on the auditors' objectivity and independence</li> <li>• Related safeguards</li> <li>• Fees charged by EY analysed into appropriate categories such as statutory audit fees, tax advisory fees, other non-audit service fees</li> <li>• A statement of compliance with the Ethical Standard, including any non-EY firms or external experts used in the audit</li> </ul>	<p>Audit planning report</p> <p>Audit results report</p>



# Appendix A

		Our Reporting to you
Required communications	What is reported?	When and where
	<ul style="list-style-type: none"> <li>• 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</li> <li>• Details of any contingent fee arrangements for non-audit services</li> <li>• Where EY has determined it is appropriate to apply more restrictive rules than permitted under the Ethical Standard</li> <li>• The General Purposes and Audit Committee should also be provided an opportunity to discuss matters affecting auditor independence</li> </ul>	
External confirmations	<ul style="list-style-type: none"> <li>• Management's refusal for us to request confirmations</li> <li>• Inability to obtain relevant and reliable audit evidence from other procedures.</li> </ul>	We have received all requested confirmations
Consideration of laws and regulations	<ul style="list-style-type: none"> <li>• 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</li> <li>• Enquiry of the audit committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the audit committee may be aware of</li> </ul>	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"> <li>• Significant deficiencies in internal controls identified during the audit.</li> </ul>	Audit results report




# Appendix A

		Our Reporting to you
Required communications	What is reported?	When and where
Group Audits	<ul style="list-style-type: none"> <li>An overview of the type of work to be performed on the financial information of the components</li> <li>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</li> <li>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</li> <li>Any limitations on the group audit, for example, where the group engagement team's access to information may have been restricted</li> <li>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.</li> </ul>	Audit planning report
Written representations we are requesting from management and/or those charged with governance	<ul style="list-style-type: none"> <li>Written representations we are requesting from management and/or those charged with governance</li> </ul>	Audit results report
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	<ul style="list-style-type: none"> <li>Material inconsistencies or misstatements of fact identified in other information which management has refused to revise</li> </ul>	Audit results report
Auditors report	<ul style="list-style-type: none"> <li>Any circumstances identified that affect the form and content of our auditor's report</li> </ul>	Audit results report
Fee Reporting	<ul style="list-style-type: none"> <li>Breakdown of fee information when the audit planning report is agreed</li> <li>Breakdown of fee information at the completion of the audit</li> <li>Any non-audit work</li> </ul>	Audit planning report Audit results report

## 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 audit procedures (including resolution of audit queries, finalisation sample testing, finalisation of audit documentation and review procedures)	List of audit procedures to conclude include: 1. PPE valuations , depreciation and linked reserves notes 2. Minimum revenue provision 3. Long term debtors impairment 4. Remaining elements of sample testing – PPE additions, grant income, expenditure, cash cut off, council tax & NDR debtors, unrecorded liabilities, short term creditors, HRA income. 5. Infrastructure assets 6. Financing and investment income 7. Other disclosure notes 8. Narrative Report 9. Group accounts	EY and Management
Completion of professional practice consultations	Given the presence of a going concern material uncertainty in the 2019-2020 financial statements, we need to conclude professional practice consultations on the appropriateness of the Council's management assessment and disclosures on going concern, audit materiality applied to our audit procedures. We also may need to consult our professional practice team on the audit procedures we have undertaken on the Council's accounting for infrastructure assets.	EY
Subsequent events review	Completion of subsequent events procedures to the date of signing the audit report	EY and Management
Management Representation Letter	Receipt of signed management representation letter.	Management
Agreement of Final set of Accounts	Agree all changes made to draft accounts are updated in the final set of accounts.	EY and Management
Final Review Procedures	Final quality review procedures of areas listed above by Engagement Partner.	EY

Until all our audit procedures are complete, we cannot confirm the final form of our audit opinion as new issues may emerge (including amendments to the financial statements) or we may not agree on final detailed disclosures in the financial statements. At this point no issues have emerged that would cause us to modify our opinion. A draft of the current opinion is included in Section 03.

## Draft Management representation letter

### Management Rep Letter

[To be prepared on the entity's letterhead]  
[Date]

Ernst & Young  
[Address]

This letter of representations is provided in connection with your audit of the consolidated and Council financial statements of Brentwood Borough Council ("the Group and Council") for the year ended 31 March 2021. 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 consolidated and Council financial statements give a true and fair view of the Group and Council financial position of Brentwood Borough Council as of 31 March 2021 and of its financial performance (or operations) and its cash flows for the year then ended in accordance with, for the Group CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

We understand that the purpose of your audit of our consolidated and Council financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing, 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 2020/21

2. We acknowledge, as members of management of the Group and Council, our responsibility for the fair presentation of the consolidated and Council financial statements. We believe the consolidated and Council 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 Group in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 and are free of material misstatements, including omissions. We have approved the consolidated and Council financial statements.

3. The significant accounting policies adopted in the preparation of the Group and Council financial statements are appropriately described in the Group and Council financial statements.

4. As members of management of the Group and Council, we believe that the Group and Council have 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 2020/21 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.

# Draft Management representation letter

## Management Rep Letter

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 and [council] financial statements taken as a whole. We have not corrected these differences identified and brought to our attention by the auditor because [specify]

6. We confirm the Group and Council does not have securities (debt or equity) listed on a recognized exchange.

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

1. We acknowledge that we are responsible for determining that the Group and Council's activities are conducted in accordance with laws and regulations and that we are responsible for identifying and addressing 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 consolidated and Council 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 or 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 consolidated or 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 or 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.

### c. Information Provided and Completeness of Information and Transactions

1We 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.

## Draft Management representation letter

### Management Rep Letter

2. All material transactions have been recorded in the accounting records and all material transactions, events and conditions are reflected in the consolidated and Council] 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 committees (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the year to the most recent meeting on the following date: *[list date]*

3. 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 year 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 consolidated and Council financial statements.

4. We believe that the methods, significant assumptions and the data we used in making accounting estimates and related disclosures are appropriate and consistently applied to achieve recognition, measurement and disclosure that is in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

5. 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 consolidated and Council financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

6. From the date of our last management representation letter, being XX May 2021, 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

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the consolidated and Council financial statements.

2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.

3. We have recorded and/or disclosed, as appropriate, all liabilities related to litigation and claims, both actual and contingent, and have disclosed in Note XX to the consolidated and Council financial statements all guarantees that we have given to third parties.

#### E. Going Concern

1. Note XX to the consolidated and Council 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.

# Draft Management representation letter

## Management Rep Letter

### F. Subsequent Events

1. As described in Note 6 to the consolidated and Council financial statements, there have been no events, including events related to the COVID-19 pandemic, subsequent to year end which require adjustment of or disclosure in the consolidated and Council] financial statements or notes thereto.

### G. 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.

### . Other information

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises the narrative statement and the annual governance statement.
2. We confirm that the content contained within the other information is consistent with the financial statements.

### Ownership of Assets

1. Except for assets capitalised under finance leases the Group and Council has satisfactory title to all assets appearing in the balance sheet(s), and there are no liens or encumbrances on the Group and Council's assets, nor has any asset been pledged as collateral. All assets to which the Group and Council has satisfactory title appear in the balance sheet(s).
2. All agreements and options to buy back assets previously sold have been properly recorded and adequately disclosed in the consolidated and Council financial statements.

### Reserves

1. We have properly recorded or disclosed in the consolidated and Council] financial statements the useable and unusable reserves.

### Contingent Liabilities

1. We are unaware of any violations or possible violations of laws or regulations the effects of which should be considered for disclosure in the consolidated and Council financial statements or as the basis of recording a contingent loss.
2. 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:
  - 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 noncompliance with laws or regulations that should be considered for disclosure in the consolidated and Council financial statements or as a basis for recording a loss contingency.

# Draft Management representation letter

## Management Rep Letter

### Use of the Work of a Specialist

1. We agree with the findings of the specialists that we engaged to evaluate the *measurement and valuation of Property, defined benefit pension scheme and financial instruments* and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the consolidated and Council 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.

### Estimates

#### *Property Valuation*

1. We confirm that the significant judgments made in making property valuations] have taken into account all relevant information and the effects of the COVID-19 pandemic on asset values of which we are aware.
2. We believe that the selection or application of the methods, assumptions and data used by us have been consistently and appropriately applied or used in making property valuations.
3. We confirm that the significant assumptions used in making property valuations appropriately reflect our intent and ability to carry out *services* on behalf of the entity.
4. We confirm that the disclosures made in the consolidated and Council financial statements with respect to the accounting estimate(s), including those describing estimation uncertainty and the effects of the COVID-19 pandemic on , are complete and are reasonable in the context of CIPFA LASAAC Code of Practice on

5. We confirm that appropriate specialized skills or expertise has been applied in making property valuations.

6. We confirm that no adjustments are required to the accounting estimate(s) and disclosures in the consolidated and Council financial statements, including due to the COVID-19 pandemic.

### *Pension Liability*

1. We confirm that the significant judgments made in making the pension valuation have taken into account all relevant information of which we are aware.
2. We believe that the selection or application of the methods, assumptions and data used by us have been consistently and appropriately applied or used in estimating the pension liability.
3. We confirm that the significant assumptions used in determining the pension liability appropriately reflect our intent and ability to carry out *services* on behalf of the entity.
4. We confirm that the disclosures made in the consolidated and Council financial statements with respect to the accounting estimate(s), including those describing estimation uncertainty and the effects of the COVID-19 pandemic on , are complete and are reasonable in the context of CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21
5. We confirm that appropriate specialized skills or expertise has been applied in making property valuations.
6. We confirm that no adjustments are required to the accounting estimate(s) and disclosures in the consolidated and Council financial statements, including due to the COVID-19 pandemic.



# Draft Management representation letter

## Management Rep Letter

### Minimum Revenue Provision)

1. We confirm that the significant judgments made in estimating MRP have taken into account all relevant information of which we are aware.
2. We believe that the selection or application of the methods, assumptions and data used by us have been consistently and appropriately applied or used in estimating MRP.
3. We confirm that the significant assumptions used in determining provisions and MRP appropriately reflect our intent and ability to carry out services on behalf of the entity.
4. We confirm that the disclosures made in the consolidated and Council financial statements with respect to MRP, including those describing estimation uncertainty and the effects of the COVID-19 pandemic on, are complete and are reasonable in the context of CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.
5. We confirm that no adjustments are required to MRP and disclosures in the consolidated and Council financial statements, including due to the COVID-19 pandemic.

*Yours faithfully,*


\_\_\_\_\_  
(Chief Financial Officer/Corporate Director (Finance & Resources))

\_\_\_\_\_  
(Chair of the Audit and Scrutiny Committee)

## Appendix D

### Implementation of IFRS 16 Leases

In previous reports to the General Purposes & Audit Committee, we have highlighted the issue of new accounting standards and regulatory developments. IFRS 16 introduces a number of significant changes which go beyond accounting technicalities. For example, the changes have the potential to impact on procurement processes as more information becomes available on the real cost of leases. The key accounting impact is that assets and liabilities in relation to significant lease arrangements previously accounted for as operating leases will need to be recognised on the balance sheet. IFRS 16 requires all substantial leases to be accounted for using the acquisition approach, recognising the rights acquired to use an asset. The following table summarises some key areas officers should be progressing.

IFRS 16 theme	Summary of key measures 
Data collection	<p>Management should:</p> <ul style="list-style-type: none"> <li>Put in place a robust process to identify all arrangements that convey the right to control the use of an identified asset for a period of time. The adequacy of this process should be discussed with auditors.</li> <li>Classify all such leases into low value; short-term; peppercorn; portfolio and individual leases</li> <li>Identify, collect, log and check all significant data points that affect lease accounting including: the term of the lease; reasonably certain judgements on extension or termination; dates of rent reviews; variable payments; grandfathered decisions; non-lease components; and discount rate to be applied.</li> </ul>
Policy Choices	<p>The Council needs to agree on certain policy choices. In particular:</p> <ul style="list-style-type: none"> <li>Whether to adopt a portfolio approach</li> <li>What low value threshold to set and agree with auditors</li> <li>Which asset classes, if any, are management adopting the practical expedient in relation to non-lease components</li> <li>What is managements policy in relation to discount rates to be used?</li> </ul>
Code adaptations for the public sector	<p>Finance teams should understand the Code adaptations for the public sector. The Code contains general adaptations, (e.g. the definition of a lease); transitional interpretations (e.g. no restatement of prior periods) and adaptations that apply post transition (e.g. use of short-term lease exemption).</p>
Transitional accounting arrangements	<p>Finance teams should understand the accounting required on first implementation of IFRS 16. The main impact is on former operating leases where the authority is lessee. However, there can be implications for some finance leases where the Council is lessee; and potentially for sub-leases, where the Ccouncil is a lessor, that were operating leases under the old standard.</p>
Ongoing accounting arrangements	<p>Finance teams need to develop models to be able to properly account for initial recognition and subsequent measurement of right of use assets and associated liabilities. This is more complex than the previous standard due to more regular remeasurements and possible modifications after certain trigger events.</p>
Remeasurements and modifications	<p>Finance teams need to familiarise themselves with when the 'remeasurement' or 'modification' of a lease is required and what to do under each circumstance. A modification can lead to an additional lease being recognised. It is also important to know when remeasurements require a new discount rate is to be applied to the lease.</p>

EY | Assurance | Tax | Transactions | Advisory

#### About EY

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

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ED None

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