Brentwood Borough Council

Auditor’s Annual Report
Year ended 31 March 2021

February 2023

Contents

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.psaa.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.

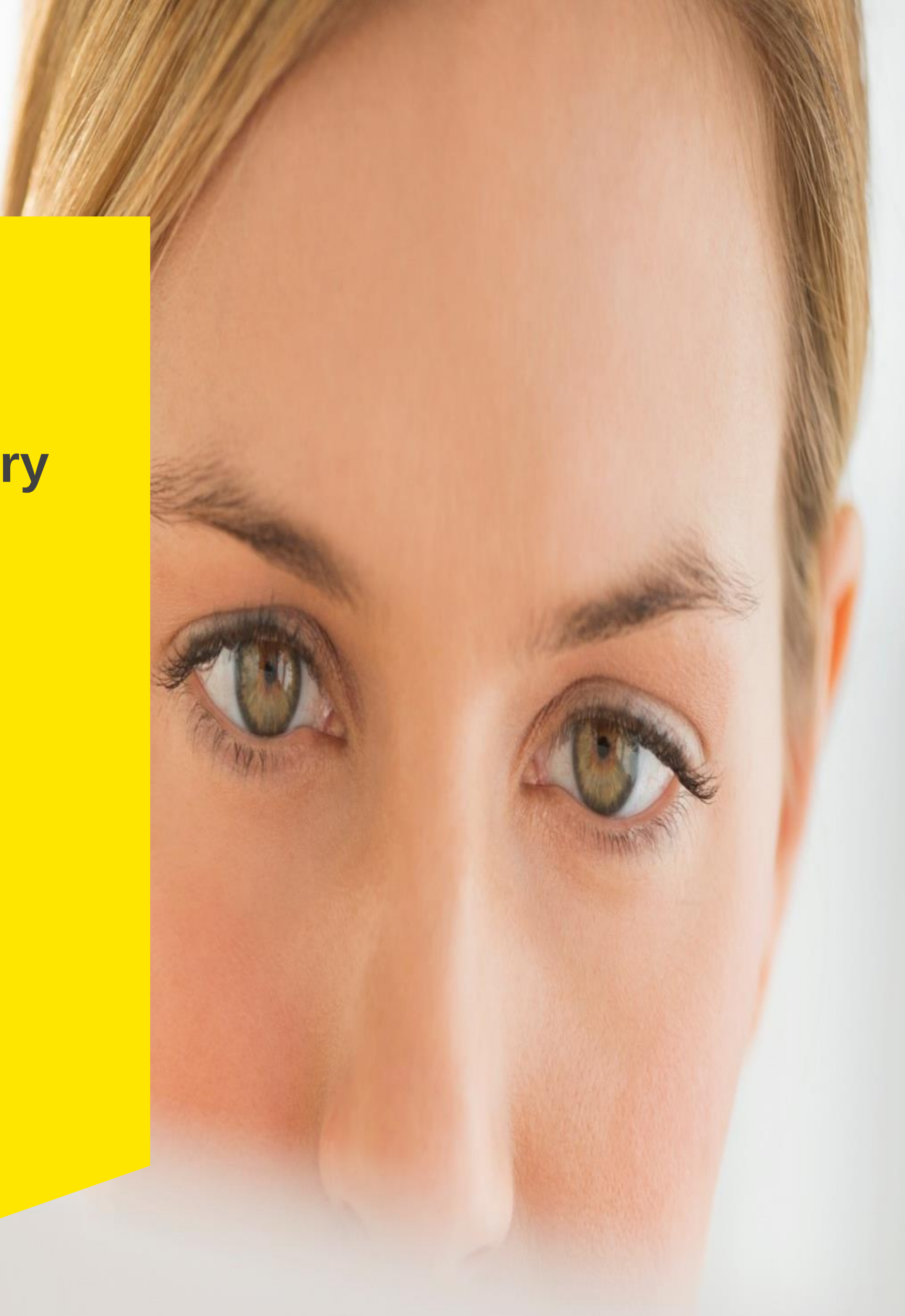
The "Terms of Appointment and further guidance (updated April 2018)" issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature.

This report is made solely to the Audit Committee and management of Brentwood Borough Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit Committee and management of 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 Audit Committee and management of 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.

Our Complaints Procedure – If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Hywel Ball, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

Section 1

Executive Summary



Executive Summary: Key conclusions from our 2020/21 audit

Area of work	Conclusion
Opinion on the Council's:	
Financial statements	Unqualified – the financial statements give a true and fair view of the financial position of the Council as at 31 March 2021 and of its expenditure and income for the year then ended. The financial statements have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21. We issued our auditor's report on 16 December 2022.
Going concern	We concluded that the Chief Financial Officer's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.
Consistency of the Statement of Accounts 2020/21 and other information published with the financial statements	Financial information in the Statement of Accounts 2020/21 and published with the financial statements was consistent with the audited accounts.

Area of work	Conclusion
Reports by exception:	
Value for money (VFM)	We had no matters to report by exception on the Council's VFM arrangements. We have included our VFM commentary in Section 04.
Consistency of the annual governance statement	We were satisfied that the annual governance statement was consistent with our understanding of the Council.
Public interest report and other auditor powers	We had no reason to use our auditor powers.

Executive Summary: Key conclusions from our 2020/21 audit

As a result of the work we carried out we have also:

Outcomes	Conclusion
Issued a report to those charged with governance of the Council communicating significant findings resulting from our audit.	We issued and presented our initial Audit Results Report to the Audit and Scrutiny Committee on 5 July 2022. As part of the closing procedures for the audit, we communicated the final findings from the 2020/21 audit to the Chair and Vice-Chair of the Audit and Scrutiny Committee on 16 December 2022.
Issued a certificate that we have completed the audit in accordance with the requirements of the Local Audit and Accountability Act 2014 and the National Audit Office's 2020 Code of Audit Practice.	We have performed the procedures required by the National Audit Office on the Whole of Government Accounts (WGA) submission. However, the rights and requirements of the NAO can extend beyond the revised thresholds of £2bn set by HM Treasury, which do not prejudice the rights of the NAO. As group auditor, the NAO WGA team will consider the revised HM Treasury thresholds alongside HM Treasury's developing analytical review controls and may require assurances from auditors of components who are below the HM Treasury thresholds. The change for 2020/21 is that in previous periods the existence of the HM Treasury thresholds has meant that in many instances the work that the NAO WGA team would have otherwise directed non-significant components to undertake in line with ISA 600 had already been carried out. The increase in HM Treasury's local government threshold means that there is a risk the NAO WGA team require some assurances from auditors of bodies below the new limit. Consequently, we cannot issue our certificate for 2020/21 until confirmation on the above-mentioned has been received from the NAO.

Fees

We carried out our audit of the Council's financial statements in line with PSAA Ltd's "Statement of Responsibilities of auditors and audited bodies" and "Terms of Appointment and further guidance (updated April 2018)". In order to meet regulatory and compliance audit requirements not present in the market at the time of our most recent bid to PSAA, we previously assessed the recurrent cost of additional requirements to carry out our audit and communicated this rebasing fee to the Council in 2019/20. Furthermore, as outlined in the Audit Results Report we were required to carry out additional audit procedures to address audit risks in relation to the rents overcharging issue, valuation of properties in property, plant & equipment and investment properties including addressing valuation differences identified, determining the appropriateness of the actuarial model design, reviewing the appropriateness of the Council's accounting of Covid-19 grants and infrastructure assets and appropriate disclosure of going concern.

Consequently, we intend to agree the associated rebasing fee and additional fee with the Interim Director of Resources, which will be presented to the Audit and Scrutiny Committee and to PSAA for determination. We include details of the proposed final audit fees in Appendix 1.

Executive Summary: Key conclusions from our 2020/21 audit

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

Elizabeth Jackson

Partner
For and on behalf of Ernst & Young LLP

Section 2

Purpose and responsibilities

Purpose and responsibilities

This report summarises our audit work on the 2020/21 financial statements.

Purpose

The purpose of the auditor’s annual report is to bring together all of the auditor’s work over the year. A core element of the report is the commentary on VFM arrangements, which aims to draw to the attention of the Council or the wider public relevant issues, recommendations arising from the audit and follow-up of recommendations issued previously, along with the auditor’s view as to whether they have been implemented satisfactorily.

Responsibilities of the appointed auditor

We have undertaken our 2020/21 audit work in accordance with the Audit Plan that we issued on 7 December 2021 and updated planned work in the Audit Results Report issued on 5 July 2022. We have complied with the NAO's 2020 Code of Audit Practice, International Standards on Auditing (UK), and other guidance issued by the NAO.

As auditors we are responsible for:

Expressing an opinion on:

- The 2020/21 financial statements;
- Conclusions relating to going concern; and
- The consistency of other information published with the financial statements, including the annual report.

Reporting by exception:

- If the governance statement does not comply with relevant guidance or is not consistent with our understanding of the Council;
- If we identify a significant weakness in the Council’s arrangements in place to secure economy, efficiency and effectiveness in its use of resources; and
- Any significant matters that are in the public interest.

Responsibilities of the Council

The Council is responsible for preparing and publishing its financial statements and governance statement. It is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Section 3

Financial Statement Audit

Financial Statement Audit

We have issued an unqualified audit opinion on the Council's 2020/21 financial statements.

Key issues

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

On 16 December 2022, we issued an unqualified opinion on the financial statements. We issued and presented our initial Audit Results Report to the Audit Committee in June 2022. We communicated the final findings from the 2020/21 audit to the Chair and Vice-Chair of the Audit and Scrutiny Committee on 16 December 2022.

We outline below the key issues identified as part of our audit, reported against the significant risks and other areas of audit focus we included in our Audit Plan.

Significant risk	Conclusion
Misstatements due to fraud or error - management override of controls An ever present risk that management is in a unique position to commit 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 did not identify any material weaknesses in controls or evidence of material management override, instances of inappropriate judgements being applied; or any other transactions during our audit which appear unusual or outside the Council's normal course of business.
Inappropriate capitalisation of expenditure Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition. We have identified an opportunity and incentive to capitalise expenditure under the accounting framework, to remove it from the general fund.	Our sample testing of additions to PPE: • We identified one instance where capital had been included within the wrong financial year; • All costs were correctly classified as capital and included at the correct value; and • Did not identify any revenue items that were incorrectly classified as capital. Our data analytical procedures also did not identify any journal entries that incorrectly moved expenditure into capital codes.

Continued over.

Financial Statement Audit (continued)

Significant Risk	Conclusion
Minimum Revenue Provision (MRP) 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.	Our MRP specialist reviewed the Council's calculations and identified that MRP was understated by £640,000. This was treated as an unadjusted misstatement in the 2020/21 financial statements. We also identified differences in the Council's methodology for calculating MRP from the recommended guidance. This error impacts on the General Fund and management decided not to adjust in 2020/21 to give them time to review the findings and obtain expert advice about the view of our expert before making any adjustment to the 2021/22 accounts or the methodology they use to calculate MRP.
Land & Building and Investment Property Valuation 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, surplus assets and investment properties 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 asset balances held in the balance sheet	The audit team reviewed the revaluation of 16 properties selected from PPE. We also employed the use of our own expert, EY Real Estates (EYRE), to support the work in relation to the valuation of 5 of these properties. From our work performed, we identified an error in relation to Childerditch Industrial Park being overstated which led to the valuer reducing the valuation in line with that of EYRE. We were satisfied that the valuation of land and buildings in PPE and Investment Properties are materially fairly stated and appropriately disclosed.

Continued over.

Financial Statement Audit (continued)

In addition to the significant risks above, we also concluded on the following areas of audit focus.

Other area of audit focus	Conclusion
Pension Liability valuation The Council’s current pension fund deficit is a highly material sensitive item and the Code requires that this liability be disclosed on the Council’s balance sheet.	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.
Going concern disclosures The Council is required to carry out an assessment of its ability to continue as a going concern for the foreseeable future, being at least 12 months after the date of the approval of the financial statements. There is a risk that the Council’s financial statements do not adequately disclose the assessment made, the assumptions used and the relevant risks and challenges that have impacted the going concern period.	We reviewed management’s going concern assessment and consulted with Professional Practice Department and confirmed that management’s conclusion that the Council remains a going concern was based on reasonable and supportable assumptions. We also reviewed management’s going concern disclosure and confirmed it was sufficiently detailed, transparent and accurately reflects management’s underlying going concern assessment.
Accounting for property acquisitions and leisure centres We have identified following material transactions which involves judgement and accounting treatment could be challenging. • 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. • The Council purchased £89.1m properties which are classified as surplus assets.	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. 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. Following the amendment to the valuation, we were satisfied that the accounting for property acquisitions are fairly stated and appropriately disclosed.

Continued over.

Financial Statement Audit (continued)

Other area of audit focus	Conclusion
Accounting for Covid-19 related grant funding The Council received 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 2020/21.	We were satisfied that the accounting treatment adopted for Covid-19 related government grants accorded with the Council's assessment of whether it was acting as agent or principal, the underlying conditions of the grant and whether those conditions had been met.
Valuation of NNDR Appeals Provision Brentwood Borough Council's NNDR Appeal Provision was valued at £1.2m at 31 March 2021. This is a high value estimate driven by internal calculations and judgement.	We were satisfied that the accounting treatment adopted for provisions is appropriate and the calculations are accurate.
Group Accounts Seven Arches Investment Limited (SAIL), wholly owned investment company, has a significant investment properties base. Material judgemental inputs and estimation techniques are required to calculate the year-end Group investment properties balances held in the balance sheet. As the Group Investment properties base is significant, and the outputs from the valuer are subject to estimation, there is a higher inherent risk assets may be under/overstated or the associated accounting entries incorrectly posted. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of experts and assumptions underlying fair value estimates.	Our investment properties valuation testing covered the SAIL assets and our work concluded that the assets were materially fairly stated. Our review of the group accounts did not identify any material issues and we are satisfied that the figures included are accurately stated. There were a small number of amendments required to the consolidation of the subsidiaries for the final version of the accounts.

Audit differences

We identified a number of misstatements and disclosures errors which management corrected in the final version of the financial statements that we do not need to individually report to you.

We identified the following misstatements greater than the reporting threshold that have been corrected by management:

- Reclassification of £89.1m of Surplus Assets to Other Land and Buildings, with a revised valuation basis increasing these assets by £1.065m;
- £118k disclosure amendment for s106 grants missing from the Capital Expenditure and Financing note;
- £5m disclosure amendment between short and long term borrowing in the Group Balance Sheet. The long term debt balance was understated and the short term balance overstated so no impact on the total Net Assets;
- £573k adjusted misstatement in the Property, Plant and Equipment (PPE) note and Balance Sheets as an asset that was shown as transferring from Assets Under Construction (AUC) to Infrastructure during 2020/21 was still an AUC at year end as the capital works did not complete until 2021/22 financial year;
- £241k adjusted misstatement to Additions in the PPE note as these assets should have been shown as AUC; and
- £231k adjusted misstatement to council tax receivable total in the Collection Fund account as this figure was understated and the impairment of council tax debts was overstated.

Management also identified misstatements as part of their review of the accounts before the audit work began in November 2021 and corrected these in the final version. These were reported to the Audit and Scrutiny Committee by management and in our Audit Results Report.

We also identified two misstatements that management has declined to adjust in the final version accounts:

- Minimum revenue provision – our review of the MRP calculation has identified an understatement of £640k in the MRP charged since 2016/17. This adjustment would impact on the General Fund and management has requested additional time to review the findings and obtain expert advice about the view of our expert before making any adjustment to the accounts.
- Depreciation charge on infrastructure assets - £77k depreciation was not charged on some of the infrastructure assets that have a remaining useful life at the Balance Sheet date.

Our application of materiality

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

Item	Thresholds applied
Planning materiality	We determined planning materiality to be £1.034m as 2% of gross revenue expenditure reported in the accounts. We consider gross revenue expenditure to be one of the principal considerations for stakeholders in assessing the financial performance of the Council.
Reporting threshold	We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £51,000.

Section 4

Value for Money

Value for Money (VFM)

We did not identify any risks of significant weaknesses in the Council's VFM arrangements for 2020/21.

Scope and risks

We have complied with the NAO's 2020 Code and the NAO's Auditor Guidance Note in respect of VFM. We presented our VFM risk assessment to the Auditand Scrutiny Committee in July 2022, which was based on a combination of our cumulative audit knowledge and experience, our review of Council and committee reports, meetings with the senior officers and evaluation of associated documentation through our regular engagement with management and the finance team. We reported that we had identified two risks of significant weaknesses in the Council's VFM arrangements for 2020/21 in relation to:

- Financial resilience; and
- Oversight and governance arrangements over the Council's subsidiary company, Seven Arches Investment Limited.

We had no matters to report by exception in the audit report.

Reporting

We completed our planned VFM arrangements work, including our work in relation to the risk of significant weakness and reported this in our Audit Results Report taken to the July 2022 Audit and Scrutiny Committee. We concluded that we had not identified any significant weaknesses in the Council's VFM arrangements. As a result, we had no matters to report by exception in the audit report on the financial statements.

Our VFM commentary highlights relevant issues for the Council and the wider public.

VFM Commentary

In accordance with the NAO's 2020 Code, we are required to report a commentary against three specified reporting criteria:

- 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.

Introduction and context

The 2020 Code confirms that the focus of our work should be on the arrangements that the audited body is expected to have in place, based on the relevant governance framework for the type of public sector body being audited, together with any other relevant guidance or requirements. Audited bodies are required to maintain a system of internal control that secures value for money from the funds available to them whilst supporting the achievement of their policies, aims and objectives. They are required to comment on the operation of their governance framework during the reporting period, including arrangements for securing value for money from their use of resources, in a governance statement.

We have previously reported the VFM work we have undertaken during the year including our risk assessment. The commentary below aims to provide a clear narrative that explains our judgements in relation to our findings and any associated local context.

The Council has had the arrangements we would expect to see to enable it to plan and manage its resources to ensure that it can continue to deliver its services.

For 2020/21, the significant impact that the Covid-19 pandemic has had on the Council has shaped decisions made, how services have been delivered and financial plans have necessarily had to be reconsidered and revised.

We have reflected these national and local contexts in our VFM commentary.

Financial sustainability

<u>How the body ensures that it identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds these into them</u>

Monthly budget monitoring reports are produced by finance. The Council uses Budgeting Tool Collaborative Planning function to produce these reports. Service Managers and Accountants feed forecasts into the system and reports are produced and presented to the Corporate Leadership Team (CLT) on a monthly basis. The Section 151 Officer is part of CLT and any slippages or pressures arising are discussed at the monthly extended CLT meeting. Corrective action can then be taken as appropriate to mitigate any variances. The monthly financial reporting dashboards provide sufficient information to make decisions on the financial position in a timely manner.

The Medium Term Financial Strategy (MTFS) is a live document. The Council keeps their MTFS position under constant review, to identify significant areas of concern that may impact their financial resilience in the future. Consideration is given to both the short term and medium term impact to understand what planning assumptions needs to be made which are evidenced based as opposed to risk based which similarly determine recurrent and non-recurrent planning assumptions.

Financial sustainability (continued)

The Council has had the arrangements we would expect to see to enable it to plan and manage its resources to ensure that it can continue to deliver its services.

How the body plans to bridge its funding gaps and identifies achievable savings

The Council's plans focus around income generation from its wholly owned subsidiary as well as lobbying government for greater transparency on the future funding. The draft MTFS was presented to the Policy, Resources and Economic Development (PRED) Committee in November 2022 and this included an indicative outturn report for 2022/23. This showed an anticipated £6k variance on the revised revenue budget and £115k to the original revenue budget.

The key assumptions to arrive at the financial forecasts for 2023/24 - 2025/26 are based on the assumptions set out with the Budget Guidelines Appendix reported to PRED committee on 13 July 2022. In addition to these assumptions, in year adjustments have been made to ensure budgets fairly reflect the cost of providing the current service to the borough and known pressures and savings. The Council is planning to maintain its minimum level of GF reserves of £2.5m and is predicting to have a year end balance at 31 March 2023 of £2.874m.

How the body plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities

The MTFS aligns to the Corporate Strategy and as part of budget setting process an annual review is carried out of the Corporate Strategy. The Corporate Strategy is the 'top level' document of the organisation to which all other strategies and policies are informed. The MTFS ensures that financial resources are allocated appropriately to deliver the strategic priorities and objectives of the Council.

Given the scale of challenge for 2022/23, given the size of the budget gap, each saving, efficiency and transformational opportunities were considered in detail against the Corporate Plan to ensure the Council did not have to make a policy or priority change.

The Council's approach is to continue to allocate resources to deliver the Corporate Plan in a strategic and sustainable manner. This is achieved through working with portfolio Cabinet Members and through robust challenge provided by the Policy, Resources and Economic Development (PRED) Committee. Given the financial uncertainty, allocating the appropriate resources to each service is important and one which Members need to consider against the range of commitments and promises and risks.

VFM Commentary

Financial sustainability (continued)

How the body ensures that its financial plan is consistent with other plans such as workforce, capital, investment, and other operational planning which may include working with other local public bodies as part of a wider system

The MTFS is constructed alongside the Capital & Investment Strategy with oversight by the Section 151 Officer. Regular monthly extended CLT meetings feed into the budget setting process. In addition, Annual Budget Challenge meetings are held with all services, which pre-covid were led by the Chief Executive. Since covid, the challenge meetings have been informal (for the 2022/23 budget) but the Council is reinstating these formal challenge meetings for the 2023/24 budget setting review.

The Council has had the arrangements we would expect to see to enable it to plan and manage its resources to ensure that it can continue to deliver its services.

How the body identifies and manages risks to financial resilience, e.g. unplanned changes in demand, including challenge of the assumptions underlying its plans.

Monthly reporting to CLT identifying key significant challenges and variances. Budget Assumptions report to PRED on an annual Basis at the July committee meeting.

The Council has also set up a wholly owned company, SAIL, to try and mitigate the risks of financial resilience by generating income from asset purchases and regeneration. This is reviewed on a regular basis by management and members.

Financial Sustainability: Response to risk of significant weakness in arrangements

Risk: 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.

Risk of significant weakness conclusion:
The Council had the arrangements in place we would expect to see to enable them to identify and properly manage the financial resilience risks.
The risk did not lead to a weakness in the financial sustainability arrangements in 2020/21.

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.

Conclusion

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 2020/21 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 2020/21 financial year on the proportion of short term borrowing it was exposed to; and

Financial Sustainability: Response to risk of significant weakness in arrangements

Risk: Financial Resilience

Conclusion (continued)

- 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 Councils 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.

Risk of significant weakness conclusion:
The Council had the arrangements in place we would expect to see to enable them to identify and properly manage the financial resilience risks.
The risk did not lead to a weakness in the financial sustainability arrangements in 2020/21.

We have not identified any significant weaknesses in the Council's arrangements.

However, we have made the following recommendation:

- **The Council needs to closely monitor and take appropriate action to mitigate the risk of high borrowing on its medium and longer term financial stability.**

Governance

How the body monitors and assesses risk and how the body gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud

The structures and processes are set out in the Annual Governance Statement. Risk is monitored both operationally and strategically across the Council. There is an overarching Risk and Insurance Strategy that is refreshed every two years. This sets the tone for all officers at the Council to follow for identifying and managing risk.

The risk management process is managed using spreadsheets on SharePoint where risk owners make amendments. The corporate risks are reported to the Audit and Scrutiny Committee quarterly and operational risks are monitored by Heads of Service on a regular basis as part of team meetings.

The BDO Internal Audit Plan covers Corporate Fraud arrangements and work carried out / findings are reported to the Audit and Scrutiny Committee.

The Council has had the arrangements we would expect to see to enable to make informed decisions and properly manage its risks.

How the body approaches and carries out its annual budget setting process

The Council prepares the annual budget assumptions paper which is reported to PRED committee in July. This sets out the budget guidelines and financial forecast for the next financial year (2023/24) and gives members an opportunity to challenge the assumptions underpinning the budget before they review and approve the MTFS. This process gives an early indication to the financial challenges being faced by the Council and gives time for mitigation to be put in place. The forecast also includes a forward look over the next 10 years at a high level so management and members can make medium to longer term decisions.

How the body ensures effective processes and systems are in place to ensure budgetary control; to communicate relevant, accurate and timely management information (including non-financial information where appropriate); supports its statutory financial reporting requirements; and ensures corrective action is taken where needed.

The Council has in place a performance framework which brings together financial, performance, risk and HR reporting. These four areas are reported to the CLT and then members. Before this happens, officers of the respective services review them to understand the interdependencies between the data and key messages. This process is overseen by the section 151 officer.

The Council has in place a budget monitoring timetable which is communicated to all budget managers and this includes the deadlines for entering their forecast

Governance (continued)

information and reporting requirements. Similarly, the performance team has in place a timetable for reporting of activity and performance indicators.

The work of Internal Audit is then pivotal to ensure the Council has a robust control framework within services. BDO reviews the financial planning and monitoring process on an annual basis. In July 2021 and 2022 IA reported to Audit and Scrutiny Committee that the assurance levels were 'Substantial / Substantial' which is their highest assurance rating awarded.

How the body ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency. This includes arrangements for effective challenge from those charged with governance/audit committee.

The Council has had the arrangements we would expect to see to enable to make informed decisions and properly manage its risks.

The Monitoring Officer is a member of the Corporate Leadership Team, where decision making reports are considered. Each report has a "Summary of Legal Implications" Section, where the relevant legislation is identified and the proposed decisions are considered in this context. The section 151 Officer meets with the Chair of Audit and Scrutiny Committee on a monthly basis to keep them up to date on any issues arising.

The Council also has a Scrutiny programme with appropriate working groups in place to ensure decisions are measured and considered before reports are presented to member committees for approval.

The Council has a wholly owned company, Seven Arches Investment Limited (SAIL) which it set up to manage three council owned assets via a lease arrangement and it holds five assets itself. The purpose of SAIL is to support the revenue budget of the Council by being an income generating vehicle. The Council loaned SAIL £60m in 2020/21 to purchase assets and needs a return from SAIL to make the loan interest payments.

How the body monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of officer or member behaviour (such as gifts and hospitality or declarations/conflicts of interests)

The Council has in place a Code of Conduct for members and officers which sets out the standards and behaviours expected. The Monitoring Officer is responsible for ensuring that standards are met.

Underlying the Codes, the Council has in place operational procedures for gifts and hospitality, conflicts of interest etc. which are reported through the HR system. Annual senior staff and member declarations forms are completed and reported in Statement of Accounts within related parties.

Governance: Response to risk of significant weakness in arrangements

Risk: Oversight and governance arrangements over the Council's subsidiary company

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.

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

Conclusion

We undertook 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 may 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 SAILs 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 SAILs 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.

Risk of significant weakness conclusion:

The Council had the arrangements we would expect to see to enable to make informed decisions and properly manage its risks.

The risk did not lead to a weakness in the governance arrangements in 2020/21.

Governance: Response to risk of significant weakness in arrangements

Risk: Oversight and governance arrangements over the Council's subsidiary company

Risk of significant weakness conclusion:

The Council had the arrangements we would expect to see to enable to make informed decisions and properly manage its risks.

The risk did not lead to a weakness in the governance arrangements in 2020/21.

Conclusion (continued)

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 it's 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.

We have not identified any significant weaknesses in the Council's arrangements.

However, we have made the following recommendation:

- **The Council needs to ensure that regular scrutiny of its subsidiaries continues at management and member level and any dips in financial performance of SAIL is understood and mitigated so there is limited impact on the Council's financial position.**

Improving economy, efficiency and effectiveness

How financial and performance information has been used to assess performance to identify areas for improvement.

The Corporate Leadership Team reviews monthly the financial and performance information of the Council. On a quarterly basis, performance indicators (PI's) are reported to Audit and Scrutiny Committee and there is regular budget monitoring reported to PRED Committee. Both CLT and members challenge the performance information and action is taken as appropriate by the service.

In addition, the Council has set up a sub-group of the Audit and Scrutiny Committee, the Performance Indicators and Formal Complaints Working Group, which reviews PIs in detail.

The Council has had the arrangements we would expect to see to enable it to use information about its costs and performance to improve the way it manages and delivers services.

How the body evaluates the services it provides to assess performance and identify areas for improvement

The main mechanism of evaluation of the service performance is through the work of Internal Audit (IA) which focuses on core areas of the Council and risk areas that need additional support or intervention. IA reports a progress update report to every Audit snd Scrutiny Committee. In addition, the Council reviews the Corporate Plan Objectives on an annual basis as part of the budget setting process.

The Council's working group for PI's challenges the performance of services and action is taken as appropriate.

How the body ensures it delivers its role within significant partnerships, engages with stakeholders it has identified, monitors performance against expectations, and ensures action is taken where necessary to improve

The Council has entered in to a partnership with Rochford DC for a shared Chief Executive and Corporate Management Team. The plans were challenged by members as part of the approved governance processes for making decisions. Pre-scrutiny of the decision to form a joint CLT was undertaken at Audit and Scrutiny Committee in January 2022.

The decision was then approved by the Ordinary Council meeting on 26 January 2022 and updates are presented to PRED Committee as to progress being made against the plans.

Improving economy, efficiency and effectiveness (continued)

How the body ensures that commissioning and procuring services is done in accordance with relevant legislation, professional standards and internal policies, and how the body assesses whether it is realising the expected benefits.

The Council has an internal dedicated Procurement Team which assists and advises commissioners on all procurement related matters, ensuring full compliance with the Council's Contract Procedure Rules (CPR's) which in turn ensures compliance with National legislation. The Council also has a strict ‘No PO, No Pay’ policy which acts as a barrier to ensure officers consider the requirements of CPR's prior to commitment.

The Procurement Strategy is available to all staff and the Financial Regulations are set out in the Constitution. The Procurement Officer and Monitoring Officer are responsible for ensuring compliance.

The Council has had the arrangements we would expect to see to enable it to use information about its costs and performance to improve the way it manages and delivers services.

Section 5

Other Reporting Issues

Other Reporting Issues

Governance Statement

We are required to consider the completeness of disclosures in the Council’s governance statement, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it complies with relevant guidance.

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

Whole of Government Accounts

We have performed the procedures required by the National Audit Office on the Whole of Government Accounts submission. However, the NAO WGA team will consider the revised HM Treasury thresholds alongside HM Treasury's developing analytical review controls and may determine assurances from auditors of components who are below these revised HM Treasury thresholds.

Report in the Public Interest

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

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

Other powers and duties

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

Control Themes and Observations

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

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

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. However, we have reported one deficiency in the reconciliation process between the Fixed Asset Register and General Ledger as there were differences between the systems in 2020/21.

Appendix A

Audit Fees

Audit Fees

Our final proposed fees for 2020/21 are set out in the table below:

Description	Final Proposed Fee 2020/21 £	Planned Fee 2020/21 £	Final Fee 2019/20 £
PSAA scale fee	52,365	52,365	52,365
Final 2020/21 scale fee variation determined by PSAA (Note 1)			20,617
Scale fee rebasing (Note 2)	36,001	36,001	-
In-year scale fee variation (Note 3)			
VFM risks	28,000	-	-
New ISA 540 & VFM work	8,500	-	-
Other scale fee variations	11,761	-	-
Total audit related fees	**136,627**	**88,366**	**72,982**

* this is our proposed figure that is to be submitted to the PSAA

Note 1 – The 2019/20 final fee includes a scale fee variation which has been determined by PSAA of £20,617 which is 60% of the £34,575 submitted to them for approval.

Note 2 - Given the number of significant risks and areas of audit focus that we highlighted in our audit plan as areas of additional work and in order to meet regulatory and compliance audit requirements not present in the market at the time of our most recent bid to PSAA, we undertook additional work at a fee of £36,001 to deliver the audit in 2020/21 which we expect to reoccur in subsequent years.

Note 3 - We have identified new and continuing risks for 2020/21 that are not within the scale fee. Additional work was required to address these risks and we will quantify the impact of these on the fee and discuss with management. This fee also includes the impact of amended auditing standards, and the changing requirements for our VFM responsibilities. PSAA has provided outline amounts to charge for the work required to address these latter areas.