

# Brentwood Borough Council Audit Update Report

Year ended 31 Month 2022  
12 March 2024



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Brentwood Borough Council  
Town Hall  
Ingrave Road  
Brentwood  
CM15 8AY

12 March 2024

Dear Audit and Scrutiny Committee Members

We are pleased to attach our Audit Update Report which summarises the work we have undertaken to date for the 2021/22 Council audit.

The report also considers the likely impact of Government proposals to clear the backlog in local audit and put the local audit system on a sustainable footing. The joint statement on the update to proposals to clear the backlog and embed timely audit recognises that timely, high-quality financial reporting and audit of local bodies is a vital part of our democratic system. Not only does it support good decision making by local bodies, by enabling them to plan effectively, make informed decisions and manage their services, it ensures transparency and accountability to local taxpayers. All stakeholders have a critical role to play in addressing the audit backlog.

The Audit and Scrutiny Committee, as the Council's body charged with governance, has an essential role in ensuring that it has assurance over both the quality of the draft financial statements prepared by management and the Council's wider arrangements to support the delivery of a timely and efficient audit. Where this is not done it will impact the level of resource needed to discharge our responsibilities. We will consider and report on the adequacy of the Council's external financial reporting arrangements and the effectiveness of the audit committee in fulfilling its role in those arrangements as part of our assessment of Value for Money arrangements, and consider the use of other statutory reporting powers to draw attention to weaknesses in those arrangements where we consider it necessary to do so.

This report is intended solely for the information and use of the Audit and Scrutiny Committee, and management, and is not intended to be and should not be used by anyone other than these specified parties. We welcome the opportunity to discuss this report with you on 6 March 2024 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

*E. Jackson*

Elizabeth Jackson

Partner, For and on behalf of Ernst & Young LLP

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## 2021/22 audit



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/managing-audit-quality/statement-of-responsibilities-of-auditors-and-audited-bodies/>). 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 July 2021)" issued by the PSAA (<https://www.psa.co.uk/managing-audit-quality/terms-of-appointment/terms-of-appointment-and-further-guidance-1-july-2021/>) 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 & Scrutiny Committee and management of Brentwood Borough Council in accordance with our engagement letter. Our work has been undertaken so that we might state to the Audit & Scrutiny 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 & Scrutiny 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.





# 01

## Context for the audit



# Context for 2022/23 and 2023/24

## Context for the 2022/23 and 2023/24 audits - Department for Levelling-up, Housing and Communities (DLUHC) and Financial Reporting Council (FRC) measures to address local audit delays

Timely, high-quality financial reporting and audit of local bodies is a vital part of our democratic system. It supports good decision making by local bodies and ensures transparency and accountability to local taxpayers. There is general agreement that the backlog in the publication of audited financial statements by local bodies has grown to an unacceptable level and there is a clear recognition that all stakeholders in the sector will need to work together to address this. DLUHC has worked collaboratively with the FRC, as incoming shadow system leader, and other system partners, to develop measures to clear the backlog. The proposals, which have been developed to maintain auditor independence and enable compliance with International Standards on Auditing (UK) (ISAs (UK)), consist of three phases:

- ▶ Phase 1: Reset involving clearing the backlog of historic audit opinions up to and including financial year 2022/23 by 30 September 2024.
- ▶ Phase 2: Recovery from Phase 1 in a way that does not cause a recurrence of the backlog by using backstop dates to allow assurance to be rebuilt over multiple audit cycles.
- ▶ Phase 3: Reform involving addressing systemic challenges in the local audit system and embedding timely financial reporting and audit.


To support the further development and testing of the measures, consultations are taking place to receive further feedback and inform the decision on how to proceed. Specifically:

- ▶ DLUHC has launched a consultation on changes to the Accounts and Audit Regulations 2015 to insert statutory backstop dates for historic financial statements and for the financial years 2023/24 to 2027/28.
- ▶ The National Audit Office (NAO) has launched a consultation on amending the Code of Audit Practice to :
  - ▶ Require auditors to issue audit opinions according to statutory backstop data for historic audits, and place specific duties on auditors to co-operate during the handover period for the new PSAA contract for the appointment of local authority auditors covering the years 2023/24 to 2027/28.
  - ▶ Allow auditors to produce a single value for money commentary for the period up to 2022/23 and use statutory reporting powers to draw significant matters to the attention of councils and residents.
- ▶ The Chartered Institute of Public Finance and Accountancy (CIPFA) is expected to launch a consultation on temporary changes to the accounting code for preparation of the financial statements. The proposed temporary changes to the financial reporting framework have an impact on both how the financial statements are prepared and our audit procedures necessary to gain assurance.

As a result of the system wide implementation of backstop dates, we will likely disclaim the opinion on the Council's 2022/23 accounts. The proposed disclaimer of the Council's 2022/23 accounts will impact both the audit procedures we need to undertake to gain assurance on the 2023/24 financial statements and the form of our audit report in 2023/24 and subsequent years during the recovery phase.

The changes proposed by the consultations therefore will have a significant impact on both the scope of the 2023/24 audit and our assessment of risk. We will continue to provide updates to the Committee as required. We will highlight those areas where we consider it most likely that the proposed measures will impact our audit approach and scope as part of the Audit Planning Reports to the Audit and Scrutiny Committee.





# Context for 2022/23 and 2023/24

## Responsibilities of Council/Authority management and those charged with governance

For the planned measures to be successful and the current backlog to be addressed it is vital that all stakeholders properly discharge their responsibilities.

The Council's Section 151 Officer is responsible for preparing the statement of accounts in accordance with proper practices and confirming they give a true and fair view of the financial position at the reporting date and of its expenditure and income for the year ended 31 March 2024. To allow the audit to be completed on a timely and efficient basis it is essential that the financial statements are supported by high quality working papers and audit evidence and that Council resources are readily available to support the audit process, within agreed deadlines. The Audit and Scrutiny Committee, as the Council's body charged with governance, has an essential role in ensuring that it has assurance over both the quality of the draft financial statements prepared by management and the Council's wider arrangements to support the delivery of a timely and efficient audit. Where this is not done, we will:

- ▶ Consider and report on the adequacy of the Council's external financial reporting arrangements as part of our assessment of Value for Money arrangements.
- ▶ Consider the use of other statutory reporting powers to draw attention to weaknesses in Council financial reporting arrangements where we consider it necessary to do so.
- ▶ Seek a fee variation for the cost of additional resources needed to discharge our responsibilities.
- ▶ Impact the availability of audit resource available to complete the audit work in advance of any applicable backstop dates.



# 02 2021/22 audit



# Audit Progress - Statement of Accounts

## Status of the 2021/22 audit

Our audit work in respect of the Council opinion is substantially complete. However, review is still in progress and we are still in discussing with management or awaiting information from the Council for the following items:

- ▶ Going concern assessment with detailed cashflow setting out the cash inflows and outflows until the end of September 2025
- ▶ Group accounting boundary for Brentwood Development Partnership (BDP) and supporting evidence to confirm the arrangement in place between Seven Arches Investment Limited (the Council wholly owned company) and Morgan Sindall Investment Ltd. There are three assets owned by the Council that are prospects for development by BDP as at 31 March 2022 and we are awaiting information confirming the charges registered against the land and options included in the individual asset agreements to corroborate the valuation included in the draft accounts
- ▶ Valuation of a Council owned asset managed by SAIL - the Council is obtaining a new valuation of the asset
- ▶ Minimum Revenue Provision
- ▶ Prior period adjustment for Note 9 disclosure
- ▶ Expenditure testing
- ▶ IAS19 assurance letter from the auditor of Essex Pension Fund for the updated triennial valuation

In addition, the following items relating to the completion of our audit procedures will need to be completed as part of the final signing the audit report work:

- ▶ Final checks of the amended financial statements
- ▶ Receipt of the signed financial statements and signed letter of management representation
- ▶ Whole of Government Accounts.

## Audit differences identified to date

Our audit work to date has identified a number of misstatements in the draft 2021/22 financial statements. We have discussed these with management and a view to the final amendments being made to the financial statements will be determined once all misstatements are known. It is anticipated that further error will be identified and amendments required to the items in the above outstanding list.

The Council published draft financial statements by the deadline of 31 May 2022. However, upon detailed review of the draft financial statements before the audit commenced four adjustments with a net amendment of £1.867m to the CIES and Balance Sheet were identified. We have audited the revised draft financial statements and carried out a reconciliation of the two versions to ensure we verified all amendments made.

To date, we have identified the following misstatements over the SAD level of £54k:

- ▶ seven misstatements that management is deciding whether to correct as individually they are below the materiality level of £1.09m, although cumulatively these do lead to a material misstatement; and
- ▶ three misstatements that will be adjusted as they are individually greater than the materiality level.





# Audit Progress - Statement of Accounts

## Audit differences identified to date (continued)

The three audit differences in the financial statements which management have agreed to amend are:

- ▶ Classification of cash and cash equivalents as short term investments totalling £8.001m
- ▶ Valuation of a consolidated SAIL asset being overstated by £1.38m
- ▶ Valuation of an investment property overstated by £3.097m

In addition, our audit work has identified a number of disclosure amendments required to the draft financial statements. These will be made by management in the final version of the accounts.

## Control Environment

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 identified a few matters we want to draw your attention and will report in detail in the Audit Results Report:

- ▶ Challenge of the external valuation report by management as part of the accounts preparation for the PPE note
- ▶ Documenting managements judgement around the group reporting boundary
- ▶ Fixed Asset Register - reconciliation of the register to the draft note in the accounts needs to be improved

## Independence

We have no issues we need to bring to your attention subject to completion of our audit procedures.

# Value for Money

## Council's responsibilities for value for money

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.

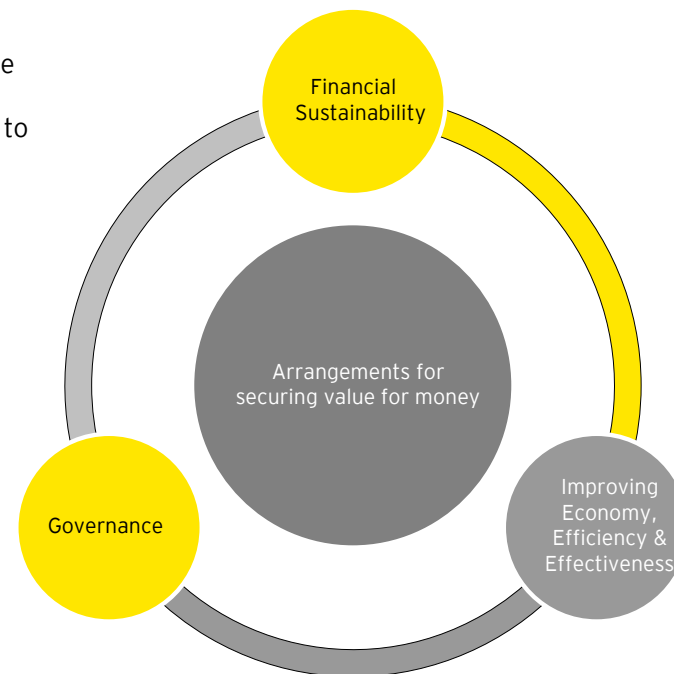
As part of the material published with the financial statements, the Council is required to bring together commentary on the governance framework and how this has operated during the period in a governance statement. In preparing the governance statement, the Council tailors the content to reflect its own individual circumstances, consistent with the requirements of the relevant accounting and reporting framework and having regard to any guidance issued in support of that framework. This includes a requirement to provide commentary on arrangements for securing value for money from the use of resources.

## Auditor Responsibilities

Under the NAO Code of Audit Practice 2020 we are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. The 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.
- ▶ 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.



Note: As set out in section 01 of this report, there was a live consultation from the NAO which closed on 7 March 2024 about the value for money approach in years up to and including 2022/23 and then from 2023/24. At this stage, we have not changed our approach to the value for money work as set out in the current Code.



## Planning and identifying risks of significant weakness in VFM arrangements

The NAO's guidance notes requires us to carry out a risk assessment which gathers sufficient evidence to enable us to document our evaluation of the Council arrangements, in order to enable us to draft a commentary under the three reporting criteria. This includes identifying and reporting on any significant weaknesses in those arrangements and making appropriate recommendations.

In considering the Council arrangements, we are required to consider:

- ▶ The Council's governance statement;
- ▶ Evidence that the Council's arrangements were in place during the reporting period;
- ▶ Evidence obtained from our work on the accounts;
- ▶ The work of inspectorates and other bodies; and
- ▶ Any other evidence source that we regard as necessary to facilitate the performance of our statutory duties.

We then consider whether there is evidence to suggest that there are significant weaknesses in arrangements. The NAO's guidance is clear that the assessment of what constitutes a significant weakness and the amount of additional audit work required to adequately respond to the risk of a significant weakness in arrangements is a matter of professional judgement. However, the NAO states that a weakness may be said to be significant if it:

- ▶ Exposes - or could reasonably be expected to expose - the Council to significant financial loss or risk;
- ▶ Leads to - or could reasonably be expected to lead to - significant impact on the quality or effectiveness of service or on the Council's reputation;
- ▶ Leads to - or could reasonably be expected to lead to - unlawful actions; or

Identifies a failure to take action to address a previously identified significant weakness, such as failure to implement or achieve planned progress on action/improvement plans.

- ▶ We should also be informed by a consideration of:
  - ▶ The magnitude of the issue in relation to the size of the Council;
  - ▶ Financial consequences in comparison to, for example, levels of income or expenditure, levels of reserves (where applicable), or impact on budgets or cashflow forecasts;
  - ▶ The impact of the weakness on the Council's reported performance;
  - ▶ Whether the issue has been identified by the Council's own internal arrangements and what corrective action has been taken or planned;
  - ▶ Whether any legal judgements have been made including judicial review;
  - ▶ Whether there has been any intervention by a regulator or Secretary of State;
  - ▶ Whether the weakness could be considered significant when assessed against the nature, visibility or sensitivity of the issue;
- ▶ The impact on delivery of services to local taxpayers; and
- ▶ The length of time the Council has had to respond to the issue.



# Value for Money

## Responding to identified risks of significant weakness

Where our planning work has identified a risk of significant weakness, the NAO's guidance requires us to consider what additional evidence is needed to determine whether there is a significant weakness in arrangements and undertake additional procedures as necessary, including where appropriate, challenge of management's assumptions. We are required to report our planned procedures to the audit committee.

## Reporting on VFM

Where we are not satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources the Code requires that we should refer to this by exception in the audit report on the financial statements.

In addition, the Code requires us to include the commentary on arrangements in the Auditor's Annual Report. The Code states that the commentary should be clear, readily understandable and highlight any issues we wish to draw to the Council's attention or the wider public. This should include details of any recommendations arising from the audit and follow-up of recommendations issued previously, along with our view as to whether they have been implemented satisfactorily.

## Status of our 2021/22 VFM work

We have substantially completed our VFM risk assessment work and are currently carrying out the detailed assessment procedures. At the date of this update report, our work so far has identified the following risks of significant weakness:

- ▶ All three VFM criteria: One Team arrangement with Rochford BC: The Council has invited the Local Government Association (LGA) in to the Council to carry out a LGA peer review of the arrangement, including the savings made to date, against the business case approved during 2021/22. We have discussed our concerns with management as the Council has advertised the post of s151 Officer on a number of occasions and has not yet been successful in recruiting a permanent officer. The interim s151 officer has extended their role until August 2024 but this is a statutory role that must have a named officer appointed.
- ▶ Financial sustainability: The Council continues to have high levels of borrowing to underpin its capital programme and the increased interest rates can have an impact on the revenue position for the repayment of interest and refinancing of borrowing. In addition, we are carrying out a review of the capital programme to determine that the borrowing is secured against appropriate schemes.
- ▶ Governance: Overview by management of Council owned subsidiary, SAIL, and the Limited Liability Partnership, Brentwood Development Partnership.



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