

# Brentwood Borough Council

## Audit and Scrutiny Committee Summary

For the year ended 31 March 2014

Audit Results Report – ISA (UK & Ireland) 260

*30 September 2014*



Building a better  
working world

Debbie Hanson, Director  
[dhanson@uk.ey.com](mailto:dhanson@uk.ey.com)

Christine Connolly, Senior Manager  
[cconnolly@uk.ey.com](mailto:cconnolly@uk.ey.com)

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# Executive summary

## *Key findings*

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### Audit results and other key matters

The Audit Commission's Code of Audit Practice (the Code) requires us to report to those charged with governance – the Audit and Scrutiny Committee - on the work we have carried out to discharge our statutory audit responsibilities together with any governance issues identified.

This report summarises the findings from the 2013/14 audit which is substantially complete. It includes the messages arising from our audit of your financial statements and the results of the work we have undertaken to assess your arrangements to secure value for money in your use of resources.

#### **Financial statements**

- ▶ As at 19 September 2014, subject to the completion of the outstanding work detailed on page 6, we expect to issue an unqualified opinion on the financial statements. Our audit results demonstrate, through the few matters we have to communicate, that the Council has prepared its financial statements adequately.

#### **Value for money**

- ▶ We expect to conclude that you have made appropriate arrangements to secure economy, efficiency and effectiveness in your use of resources.

#### **Whole of Government Accounts**

- ▶ We expect to issue an unqualified confirmation to the National Audit Office (NAO) regarding the Whole of Government Accounts submission.

#### **Audit certificate**

- ▶ The audit certificate is issued to demonstrate that the full requirements of the Audit Commission's Code of Audit Practice have been discharged for the relevant audit year. We expect to issue the audit certificate at the same time as the audit opinion.

# Extent and purpose of our work

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## The Council's responsibilities

The Council is responsible for preparing and publishing its Statement of Accounts, accompanied by the Annual Governance Statement. In the Annual Governance Statement, the Council reports publicly on the extent to which it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period.

The Council is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

## Purpose of our work

Our audit was designed to:

- Express an opinion on the 2013/14 financial statements
- Report on any exception on the governance statement or other information included in the foreword
- Consider and report any matters that prevent us being satisfied that the Council had put in place proper arrangements for securing economy, efficiency and effectiveness in the use of resources (the Value for Money conclusion)

In addition, this report contains our findings related to the areas of audit emphasis, our views on the Council's accounting policies and judgments and significant deficiencies in internal control.

As a component auditor, we also follow the group instructions and send to the National Audit Office our group assurance certificate, audit results report and auditor's report on the consolidation schedule.

This report is intended solely for the information and use of the Council. It is not intended to be and should not be used by anyone other than the specified party.

# Addressing audit risks

## Significant audit risks

We identified the following audit risks during the planning phase of our audit, and reported these to you in our Audit Plan. Here, we set out how we have gained audit assurance over those issues.

Audit risk identified within our Audit Plan	Audit procedures performed	Assurance gained and issues arising
<b>Significant audit risks (including fraud risks)</b>		
<p><b>Localisation of business rates</b></p> <p>There have been significant changes in the arrangements for business rate arrangements from April 2013. The detailed accounting arrangements for the new arrangement are not yet clear and this therefore presents a risk in terms of the financial statements.</p> <p>One of the main changes is that individual councils now need to provide for rating appeals. This includes not only claims from 1 April 2013 but claims that relate to earlier periods. As appeals are made to the Valuation Office, Councils may not be aware of the level of claims. Councils may also find it difficult to obtain sufficient information to establish a reliable estimate.</p>	<p>We reviewed</p> <ul style="list-style-type: none"> <li>the detailed accounting for business rates to ensure the Council's accounts are materially accurate and compliant with the CIPFA Code of practice.</li> <li>the Councils provision for business rate appeals to ensure it has been calculated on a reasonable basis in line with IAS37. As part of this we ensured the provision is supported by appropriate evidence and that the level of estimation uncertainty is adequately disclosed in the accounts.</li> </ul>	<ul style="list-style-type: none"> <li>Our audit work confirmed that the accounting treatment adopted by the Council for business rates was appropriate and in compliance with the CIPFA Code of Practice.</li> <li>Our work on the provision is substantially complete. On the basis of the work completed to date, we are satisfied that the provision has been calculated on a reasonable basis in line with the requirements of IAS 37.</li> </ul>
<p><b>Accounting for fixed assets</b></p> <p>Fixed assets represent a significant balance in the Council's accounts and are an area that has been subject to material misstatements in the past. Poor record keeping and accounting processes have contributed to these errors. In 2012/13, the Council implemented a new Integrated Asset Management System (IAMS), which highlighted further issues when preparing the figures for the financial statements.</p> <p>The changes in the asset system and valuer in 2012/13, along with the history of errors in accounting for fixed assets, contributed to the errors identified in the 2012/13 accounts. The Council is appointing a new valuer again for 2013/14.</p> <p>The Council has outsourced the capital accounting function which it hopes will address these issues.</p>	<p>Our approach focused on:</p> <ul style="list-style-type: none"> <li>Management's arrangements to address the issues identified in prior years</li> <li>The controls operating in the IAMS.</li> <li>The completeness, accuracy and quality of the financial information produced from the IAMS to support balances in the accounts.</li> <li>The compliance of the accounting entries in relation to fixed assets with recommended accounting practice.</li> <li>The Council's instructions to the valuer and review of the information produced by the valuer.</li> <li>Detailed testing of fixed asset balances to ensure they are correctly stated</li> </ul>	<ul style="list-style-type: none"> <li>The majority of work has been completed in these areas. We are still resolving the prior year issues and, in discussion with Capita, we are coming close to a resolution.</li> <li>A new valuer was appointed this year. Late information received from the valuer resulted in material changes being made to the accounts to reflect movements in the values of a seven assets. The Council has amended the accounts for the three largest of these.</li> </ul>

# Addressing audit risks (continued)

## Significant audit risks

We identified the following audit risks during the planning phase of our audit, and reported these to you in our Audit Plan. Here, we set out how we have gained audit assurance over those issues.

Audit risk identified within our Audit Plan	Audit procedures performed	Assurance gained and issues arising
Significant audit risks (including fraud risks)		
<p><b>General ledger system change</b> The Council has changes its general ledger system from 1 April 2013 with a new reporting package and a new chart of accounts</p>	<p>Our approach focussed on:</p> <ul style="list-style-type: none"> <li>Ensuring all balances have been brought forward correctly at 1 April 2013.</li> <li>Testing the controls operating over the new system.</li> <li>Testing to ensure the new chart of accounts feeds through properly in to the financial statements.</li> </ul>	<ul style="list-style-type: none"> <li>Our audit work did not identify any issues and we were able to place reliance on the controls operating within the new system.</li> </ul>
<p><b>Management override</b> As identified in ISA (UK &amp; Ireland) 240, management is in a unique position to perpetrate fraud because of their ability to directly or indirectly manipulate accounting records 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. For local authorities the potential for the incorrect classification of revenue spend as capital is a particular area where there is a risk of management override.</p>	<ul style="list-style-type: none"> <li>Tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements;</li> <li>Reviewed accounting estimates for evidence of management bias;</li> <li>Evaluated the business rationale for any significant unusual transactions; and</li> <li>We reviewed capital expenditure on property, plant and equipment to ensure it met the relevant accounting requirements to be capitalised.</li> </ul>	<ul style="list-style-type: none"> <li>We did not identify any material instances of fraud or error.</li> </ul>

# Addressing audit risks

## *Other audit risks*

We identified the following audit risks during the planning phase of our audit, and reported these to you in our Audit Plan. Here, we set out how we have gained audit assurance over those issues.

Audit risk identified within our Audit Plan	Audit procedures performed	Assurance gained and issues arising
<b>Other audit risks</b>		
<p>The Council's single status review is complete and was effective from 1 October 2013. The Council is currently working through its remaining appeals and liabilities may continue to arise as a result of individual appeals. The Council has set aside reserves for these future costs. There is a risk that any provision or reserve may be materially misstated.</p>	<p>Our approach will focus on:</p> <ul style="list-style-type: none"><li>• Review of the Council's management of the single status review.</li><li>• The accounting treatment of any liabilities identified.</li><li>• Reviewing the reasonableness of any provisions made.</li></ul>	<ul style="list-style-type: none"><li>• The Council have completed their review of the single status and all necessary accounting entries and provisions have been correctly made.</li></ul>

# Financial statements audit

## *Issues and misstatements arising from the audit*

### Progress of our audit

- ▶ The following areas of our work programme remain to be completed as at 19 September. We will provide an update of progress at the Audit and Scrutiny Committee meeting:
  - ▶ PPE – valuations and allocations to unusable reserves
  - ▶ Completeness of the NNDR appeals provision
  - ▶ Payroll and housing rents control account reconciliations
  - ▶ Review of housing benefits testing and predictive analytical review
  - ▶ Receipt of a Letter of Representation
  - ▶ Director final review of audit work and financial statements
- ▶ Subject to the satisfactory resolution of the above items, we propose to issue an unqualified audit report on the financial statements.

### Uncorrected misstatements

- We have identified five misstatements within the draft financial statements, which management has chosen not to adjust

- We request that these uncorrected misstatements be corrected or a rationale as to why they are not corrected be considered and approved by the Audit and Scrutiny Committee and provided within the Letter of Representation.

- Appendix 1 to this report sets out the uncorrected misstatements.

- In addition there has been a change in accounting policy in respect of defined benefit pension schemes with effect from 1 April 2013. The changes are presentational and comparative amounts of £660k have not been restated in the accounts.

- The Council have included a disclosure note relating to a contingent liability for future NNDR appeals. The Council has provided for these items, and there is therefore no requirement for a contingent liability to be included within the financial statements as there is no significant level of uncertainty over obligation as a result of a past event, probability of outflow of economic benefits or the probable value of this.

### Corrected misstatements

- Our audit identified a number of further misstatements which our team have highlighted to management for amendment. All of these have been corrected during the course of our work. We consider a number of these misstatements to be significant and we set out the context and nature of them in Appendix 2 to this report.



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# Financial statements audit (continued)

## *Issues and misstatements arising from the audit*

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### Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we are required to communicate to you significant findings from the audit and other matters that are significant to your oversight of the Council's financial reporting process including the following:

- Qualitative aspects of your accounting practices; estimates and disclosures;
- Matters specifically required by other auditing standards to be communicated to those charged with governance. For example, issues about fraud, compliance with laws and regulations, external confirmations and related party transactions; and,
- Any significant difficulties encountered during the audit; and
- Other audit matters of governance interest.

We have no matters we wish to report.

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# Financial statements audit (continued)

## *Internal Control, Written Representations & Whole of Government Accounts*

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### Internal control

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

We have tested the controls of the Council only to the extent necessary for us to complete our audit. We are not expressing an opinion on the overall effectiveness of internal control.

We have reviewed the Annual Governance Statement and can confirm that:

- ▶ It complies with the requirements of CIPFA/SOLACE Delivering Good Governance in Local Government Framework; and
- ▶ It is consistent with other information that we are aware of from our audit of the financial statements.

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

### Request for written representations

We have requested a management representation letter to gain management's confirmation in relation to a number of matters.

In addition to the standard representations, we have requested the following specific representations:

- ▶ **Use of the work of an expert:** Due to the significant change in values of a number of assets, we have asked management to confirm they agree with the findings of the valuer.

### 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 are specified by the National Audit Office.

Brentwood are below the threshold and consequently we do not need to undertake detailed work. We are currently concluding on our review.

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# Arrangements to secure economy, efficiency and effectiveness

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*The Code of Audit Practice (2010) sets out our responsibility to satisfy ourselves that Brentwood Borough Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. In examining the Council's corporate performance management and financial management arrangements, we have regard to the following criteria and focus specified by the Audit Commission.*

## Criteria 1 - Arrangements for securing financial resilience

- ▶ *“Whether the Council has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future”*
- ▶ We did not identify any significant risks in relation to this criteria.
- ▶ We have completed our work in this area and plan to issue an unqualified value for money conclusion in relation to the Council's financial resilience. We do have some issues to report to those charged with Governance, as set out on the next page

## Criteria 2 - Arrangements for securing economy, efficiency and effectiveness

- ▶ *“Whether the Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.”*
- ▶ We did not identify any significant risks in relation to this criteria.
- ▶ We have completed our work in this area and we have no issues to report in relation to this criteria.

# Arrangements to secure economy, efficiency and effectiveness (continued)

## Financial resilience

Along with many other Council's, Brentwood is facing significant financial challenges over the next three to four years.

The Council's external funding sources are reducing and are subject to change and uncertainty in future years. Some of the main areas of uncertainty relate to:

- ▶ Future levels of business rates income
- ▶ Future funding through the New Homes Bonus
- ▶ Level of Government funding through the Revenue Support Grant (RSG) and Baseline Funding (business rates)

The Council is clearly aware of the challenges it faces and is continuing with its Transformation Programme. As part of the New Ways of Working approved in February 2013, a new Service Delivery Model was recognised, which underpins the Transformation Programme.

The Council and officers recognise the need to explore key opportunities in:

- Invest to save options
- Commercialisation and entrepreneurial activities
- Transformation

The Council has a strong track record of delivering savings and meeting its budget. Good progress has already been made on identifying savings to bridge the budget gap of around £0.86 million in 2016-17.

The Council's financial forecasts that have been reported to Members make clear the scale of the challenge being faced. Some of the key issues reported include:

- The Council has a cumulative budget gap of around £1.7 million over the next 3 years (to 2016-17) which will need to be bridged through savings and efficiencies or increased income.
- The Council has included up to £1.8 million of its New Homes Bonus funding as general financial support for the overall General Fund budget. However, this funding stream has not been confirmed beyond 2016-17. If this source of funding was removed, or significantly reduced from 2017-18, the Council would have an additional budget gap to address from 2017-18.
- In recent years, the Council has frozen its council tax and since 2011-12 has received an annual council tax freeze grant as a result. The Council is planning a 1.5% Council Tax reduction for 2014/15. Decisions relating to council tax increases, or decreases, have an ongoing impact on the Council's ability to raise revenue in future years due to the annual restrictions on the level of annual increases

In light of the future financial pressures the Council is facing, Members need to consider carefully the impact of any decisions regarding council tax levels or use reserves to support the Council's finances, on the ongoing sustainability of the Council's financial position and its ability to maintain service levels in future years.

# Independence and audit fees

## Independence

- ▶ We confirm there are no changes in our assessment of independence since our confirmation in our Audit Plan dated 17 February 2014.
- ▶ We complied with the Auditing Practices Board's Ethical Standards for Auditors and the requirements of the Audit Commission's Code of Audit Practice and Standing Guidance. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.
- ▶ We confirm that we are not aware of any relationships that may affect the independence and objectivity of the firm that we are required by auditing and ethical standards to report to you.
- ▶ We consider that our independence in this context is a matter that should be reviewed by both you and ourselves. It is therefore important that you consider the facts of which you are aware and come to a view.

If you wish to discuss any matters concerning our independence, we will be pleased to do so at the forthcoming meeting of the Audit and Scrutiny Committee on 30 September 2014.

- ▶ We confirm that we have met the reporting requirements to the Audit and Scrutiny Committee, as 'those charged with governance' under International Standards on Auditing (UK&I) 260. Our communication plan to meet these requirements were set out in our Audit Plan of 17 February 2014.

## Audit fees

The table below sets out the scale fee and our final proposed audit fees.

	Proposed final fee 2013-14	Scale fee 2013-14
	£s	£s
Total audit fee - Code work	89,775	89,775
Certification of claims and returns*	15,794	17,800
Non-audit work	0	0

- ▶ Our actual fee is in line with the agreed fee at this point in time, subject to the satisfactory clearance of the outstanding audit work.
- ▶ Our grants fee has reduced to reflect the removal of council tax Benefit from the housing benefit subsidy claim.
- ▶ We confirm that we have not undertaken any non-audit work outside of the Audit Commission's Audit Code requirements.

# Appendix 1 - Uncorrected audit misstatements

The following misstatements, which are greater than £50,000 have been identified during the course of our audit.

These items have not been corrected by management.

## Balance Sheet and Statement of Comprehensive Income and Expenditure

Item of Account	Nature	Type	Balance Sheet	Statement of Comprehensive Income & Expenditure
	Description	F, P, J	Debit/(Credit)	Debit/(Credit)
PPE Revaluation Reserve Capital Adjustment Account CIES - various service headings MiRS	Late valuation report received which identified 7 assets with changes in valuations. The Accounts were not amended for 4 of these assets.	F	£23,000 (£227,000) £204,000	£204,000 (204,000)
Revaluation Reserve Capital Adjustment Account	Issue brought forward from 2012/13 accounts of unadjusted position in respect of the differential starting positions for fixed assets in Technology Forge and the 11/12 accounts resulting in unsupported adjusting positions being taken through the accounts.	J	503,000 (£503,000)	
Penions Reserve Pensions Liability CIES - net defined benefit liability MiRS	Adjustment to the carrying amount of the Pension Reserve and Pension Liability accounts as a consequence of a revision to the IAS 19 statement provided by the Pension Fund administrator after the accounts had been prepared.	F	£309,000 (£309,000)	£309,000 (£309,000)

### Key

- ▶ F – Factual misstatement
- ▶ P – Projected misstatement based on audit sample error and population extrapolation
- ▶ J – Judgemental misstatement

# Appendix 1 - Uncorrected audit misstatements (continued)

## Balance Sheet and Statement of Comprehensive Income and Expenditure

Item of Account	Nature	Type	Balance Sheet	Statement of Comprehensive Income & Expenditure
	Description	F, P, J	Debit/(Credit)	Debit/(Credit)
Collection Fund: Council Tax receivable	Double-counting of Council Tax benefit within the collection fund relating to prior year which should be included in the general fund. Therefore council tax receivable has been overstated. To be adjusted in 2014/15. Brentwood share of the surplus reduction is £16,000.	F		138,000
Collection Fund: Surplus for the year				(£138,000)
Creditors HRA Expenditure	Testing of HRA expenditure identified one invoice of £910 which had been included twice. We have extrapolated across the entire population to calculate the potential total error.	P	94,000	(£94,000)
Cumulative effect of uncorrected misstatement			<b>£94,000</b>	<b>(£94,000)</b>

### Key

- ▶ F – Factual misstatement
- ▶ P – Projected misstatement based on audit sample error and population extrapolation
- ▶ J – Judgemental misstatement

# Appendix 2 - Corrected audit misstatements

- The following corrected misstatements, have been identified during the course of our audit and warrant communicating to you.
- These items have been corrected by management within the revised financial statements.

## Balance Sheet and Statement of Comprehensive Income and Expenditure

Item of Account	Nature	Type	Balance Sheet	Statement of Comprehensive Income & Expenditure
	Description	F, P, J	Debit/(Credit)	Debit/(Credit)
PPE	Late valuation report received which identified 7 assets with changes in valuations. The accounts were amended for 3 of these assets.	F	(£3,686,000)	
Revaluation Reserve			£901,000	
Capital Adjustment Account			£2,785,000	
CIES - various service headings				£2,785,000
MIRS				(£2,785,000)
Creditors	Amount cleared through the bank in March 2014, but not processed in the ledger until April 14. Timing error resulting in overstatement of creditors figure in the accounts	F	£1,325,000	
Cash			(£1,325,000)	
Cumulative effect of uncorrected misstatement			£0	£0

### Key

- ▶ F – Factual misstatement
- ▶ P – Projected misstatement based on audit sample error and population extrapolation
- ▶ J – Judgemental misstatement



## Ernst & Young LLP

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Ernst & Young LLP, 1 More London Place, London, SE1 2AF.

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In March 2010 the Audit Commission issued a revised version of the 'Statement of responsibilities of auditors and audited bodies' (Statement of responsibilities). It is available from the Chief Executive of each audited body and via the [Audit Commission's website](#).

The Statement of responsibilities serves as the formal terms of engagement between the Audit Commission's 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 Standing Guidance serves as our terms of appointment as auditors appointed by the Audit Commission. The Standing Guidance sets out additional requirements that auditors must comply with, over and above those set out in the Code of Audit Practice 2010 (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Audit Results Report is prepared in the context of the Statement of responsibilities. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

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

