

Basildon Borough Council

Annual Audit Letter for the year ended 31 March 2015

October 2015

Ernst & Young LLP



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26 October 2015

Dear Members

Annual Audit Letter 2014-15

The purpose of this annual audit letter is to communicate the key issues arising from our work to the Members and external stakeholders, including members of the public.

We have already reported the detailed findings from our audit work in our 2014-15 Audit Results Report presented to the 22 July 2015 Audit and Risk Committee, representing those charged with governance. We do not repeat those findings here.

The matters reported here are those we consider most significant for Basildon Borough Council.

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

Yours sincerely

Debbie Hanson
Director
For and on behalf of Ernst & Young LLP
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Relevant parts of the Audit Commission Act 1998 are transitionally saved by the Local Audit and Accountability Act 2014 (Commencement No. 7, Transitional Provisions and Savings) Order 2015 for 2014-15 audits.

The Audit Commission's 'Statement of responsibilities of auditors and audited bodies' (Statement of responsibilities). It is available from the accountable officer 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 Annual Audit Letter 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.

1. Executive summary

Our 2014-15 audit work was undertaken in accordance with our Audit Plan issued in March 2015 and was conducted in accordance with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission.

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

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

As auditors we are responsible for:

- forming an opinion on the financial statements, and on the consistency of other information published with them
- reviewing and reporting by exception on the Council's AGS
- forming a conclusion on the arrangements the Council has to secure economy, efficiency and effectiveness in its use of resources
- undertaking any other work specified by the Audit Commission and the Code of Audit Practice.

Summarised below are the results of our work across all these areas:

Area of work	Result
Audit of the financial statements of Basildon Borough Council for the financial year ended 31 March 2015 in accordance with International Standards on Auditing (UK & Ireland)	On 31 July 2015 we issued an unqualified audit opinion on the Council's financial statements
Form a conclusion on the arrangements the Council has made for securing economy, efficiency and effectiveness in its use of resources	On 31 July 2015 we issued an unqualified value for money conclusion
Report to the National Audit Office on the accuracy of the consolidation pack the Council needs to prepare for the Whole of Government Accounts	The Council is below the specified audit threshold of £350 million. Therefore we did not perform any audit procedures on the consolidation pack.
Consider the completeness of disclosures on the Council's AGS, identify any inconsistencies with other information which we know about from our work and consider whether it complies with CIPFA/ SOLACE guidance	No issues to report
Consider whether we should make a report in the public interest on any matter coming to our notice in the course of the audit	No issues to report
Determine whether we need to take any other action in relation to our responsibilities under the Audit Commission Act	No issues to report

As a result of the above we have also:

Issued a report to those charged with governance of the Council communicating the significant findings from our audit.

Our Audit Results Report was presented to the Audit and Risk Committee on 22 July 2015.

Issued a certificate that we have completed the audit in accordance with the requirements of the Audit Commission Act 1998 and the Code of Practice issued by the Audit Commission.

We issued our certificate on 4 August 2015.

In December 2015, we will also issue a report to those charged with governance of the Council summarising the certification (of grant claims and returns) work we have undertaken.

2. Key findings

2.1 Financial statement audit

The Council's Statement of Accounts is an important tool to show both how the Council has used public money and how it can demonstrate its financial management and financial health.

We audited the Council's Statement of Accounts in line with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission and issued an unqualified audit report on 31 July 2015.

Our detailed findings were reported to the 22 July Audit and Risk Committee.

In our view, the quality of the process for producing the accounts, including the supporting working papers was good and the Council had prepared its financial statements well.

We identified a number of disclosure misstatements, which were amended in the audited accounts. There were no items that were material individually or in total to the accounts.

The main risks identified as part of our audit planning were:

Significant risk 1: Risk of management override

As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.

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.

We designed and performed appropriate audit procedures to obtain reasonable assurance that the financial statements as a whole are free of material misstatement.

Findings:

- ▶ We did not identify any material errors in our testing of journal entries or accounting estimates.
 - ▶ We did not identify any significant unusual transactions.
 - ▶ We did not identify any material errors in our testing of additions on property, plant and equipment.
-

Significant risk 2: Transfer of assets from the Housing Revenue Account to the General fund

The Council transferred their commercial property portfolio from the Housing Revenue Account to the General Fund. These comprised garages and shops which were no longer used for the housing purposes for which they were initially acquired.

This transfer required a revaluation of the assets to the relevant basis and material adjustments to be made to the financial statements to reflect this transfer.

Findings:

- ▶ We did not identify any material errors in the revaluation figures produced by the valuer and confirmed that an appropriate basis for valuation had been used.
 - ▶ We did not identify any material errors in our testing of the accounting transactions or review of compliance with the CIPFA Code of practice.
-

We have no other matters to report.

2.2 Value for money conclusion

As part of our work we must also conclude whether the Council has proper arrangements to secure economy, efficiency and effectiveness in the use of resources. This is known as our value for money conclusion.

In accordance with guidance issued by the Audit Commission, our 2014-15 value for money conclusion was based on two criteria. We consider whether the Council had proper arrangements in place for:

- ▶ securing financial resilience, and
- ▶ challenging how it secures economy, efficiency and effectiveness.

We issued an unqualified value for money conclusion on 31 July 2015.

We noted the following as part of our audit:

Arrangements to secure financial resilience: significant risk

We identified a significant risk in relation to the Council's arrangements to secure financial resilience regarding the level of reliance on future Government funding from areas such as Revenue Support Grant and the New Homes Bonus (NHB) in the Council's medium term financial strategy (MTFS). The MTFS currently includes £9.9 million of NHB over the period 2015/16 to 2017/18 to fund the base budget.

To address this risk, we undertook a more detailed review of the Council's MTFS and the key assumptions within this including the levels of reserves. We also reviewed the Council's current plans to address the budget gap and considered the options that would be evaluated if funding, such as NHB, was no longer available in future years.

Findings:

As at June 2015, the Council had identified additional budget pressures which resulted in the cumulative budget gap over the next three years (2015-16 to 2017-18) increasing from the £7.1 million reported in the January MTFS to £8.9 million.

The Council has continued to take proactive steps to identify savings and income generation opportunities to bridge this gap and senior managers are currently concluding a review that is anticipated will contribute substantially to meeting the cumulative budget gap over this period.

An ongoing transformation agenda is in place which has identified a number areas in which efficiencies could be made. The Council's Total Budget Review will also identify areas of spend which can be subject to appropriate scrutiny and ultimately decisions on whether or not they should continue.

The Corporate Plan is also being reviewed and will in the future be outcomes based. This will necessitate the clear linkage of resources to outcomes, ensuring that resources follow priorities and activities that do not contribute to those priorities are appropriately challenged.

The Council is also looking at ways to secure long term regeneration benefits, which could provide additional income to the Council, for example through the NHB and non-domestic rates income. The construction of a new GP surgery in Wickford and the establishment of a Council-owned housing company, Sempra Homes, to support the delivery of new homes and economic development in the borough, are examples of such initiatives.

The Council has reserves set aside for the purpose of managing the risk during the period of transition to its new operating model. Reserves however can only be used once and are therefore not a sustainable solution to addressing the budget gap. The Council clearly recognises this.

On the basis of our work we have undertaken we have concluded that the Council's arrangements to secure financial resilience are adequate. Members should not however underestimate the size of the challenge the Council is facing and may need to make some difficult decisions to secure the Council's continued sound financial standing.

2.3 Whole of Government Accounts

We performed the procedures required by the National Audit Office. The Council is below the specified audit threshold of £350 million and therefore we were not required to audit the accuracy of the consolidation pack prepared by the Council for Whole of Government Accounts purposes.

2.4 Annual Governance Statement

We are required to consider the completeness of disclosures in the Council's AGS, identify any inconsistencies with the other information which we know about from our work, and consider whether it complies with relevant guidance.

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

2.5 Objections received

We did not receive any objections to the 2014-15 financial statements from members of the public.

2.6 Other powers and duties

We did not identify any issues during our audit that required us to use powers under the Audit Commission Act 1998, including reporting in the public interest.

2.7 Independence

We communicated our assessment of independence to the Audit and Risk Committee on 22 July 2015. In our professional judgement the firm is independent and the objectivity of the audit engagement director and audit staff has not been compromised within the meaning of regulatory and professional requirements

2.8 Certification of grant claims and returns

We have not yet completed our work on the certification of the claims and returns.

We are currently carrying out our work on the Housing Benefits subsidy claim and we expect to conclude our work by the deadline of 30 November 2015.

We will issue our Annual Certification report for 2014-15 in December 2015.

3. Control themes and observations

As part of our work, we obtained enough understanding of internal control to plan our audit and determine the nature, timing and extent of testing performed. We have not tested the individual system controls of the Council as we have adopted a fully substantive approach to our audit.

Although our audit was not designed to express an opinion on the effectiveness of internal control, we are required to tell the Council about any significant deficiencies in internal control we find during our audit.

We did not identify any significant deficiencies in the design of an internal control that might result in a material misstatement in the Council's financial statements.

4 Looking ahead

There are a number of changes in accounting and auditing requirements that could have a significant impact on the Council's arrangements for the production of its financial statements. We have outlined what we think are two of the main challenges below.

Description	Impact
<p>Highways Network Asset (formerly Transport Infrastructure Assets):</p> <p>The Invitation to Comment on the Code of Accounting Practice for 2016-17 sets out the requirements to account for Highways Network Asset under Depreciated Replacement Cost. This is a change from the existing requirement to account for these assets under Depreciated Historic Cost. This change is to be effective from 1 April 2016.</p> <p>This requirement is not only applicable to highways authorities, but to any local government bodies that have assets which fall into the definition. This could include, for example, footways and cycle ways, housing revenue accounts (HRA) infrastructure, unadopted roads on industrial or HRA estates, and street furniture.</p> <p>This may be a material change of accounting policy for the Council. It could also require changes to existing asset management systems and valuation procedures.</p>	<p>The Council should consider whether it holds any assets that would be classified as highways network assets and, if so, whether they have the necessary information to implement the changes in accounting for these assets from 1 April 2016.</p> <p>If the impact of this change in accounting policy is material, the Council would also need to restate the balances for these assets as at 1 April 2015.</p>
<p>Earlier deadline for production and audit of the financial statements from 2017-18</p> <p>The Accounts and Audit Regulations 2015 were laid before Parliament in February 2015. A key change in the regulations is that from the 2017-18 financial year the timetable for the preparation and approval of accounts will be brought forward.</p> <p>As a result, the Council will need to produce draft accounts by 31 May and these accounts will need to be audited by 31 July.</p>	<p>These changes provide challenges for both the preparers and the auditors of the financial statements.</p> <p>The Council prepared its accounts to this earlier deadline in 2014-15 and the audit opinion was issued by the 31 July. This places the Council in a good place to meet these earlier deadlines in future years as well.</p> <p>It will however be important that to maintain this accelerated closedown, the Council continues to review processes for the production and audit of the accounts, including areas such as the production of estimates, particularly in relation to pensions, the valuation of assets and the year end closure processes.</p>

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