

Basildon Borough Council

Annual Audit Letter for the year ended 31 March 2016

October 2016

Ernst & Young LLP



Contents

Executive Summary	2
Purpose.....	5
Responsibilities.....	7
Financial Statement Audit	10
Value for Money	13
Other Reporting Issues.....	16
Focused on your future.....	19
Appendix A Audit Fees	21

In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued ‘Statement of responsibilities of auditors and audited bodies 2015-16’. It is available from the Chief Executive of each audited body and via the PSAA website (www.psaa.co.uk)

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 from 1 April 2015’ issued by 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 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.

A hand with white nail polish is writing on a document with a blue pen. In the background, there is a calculator, a laptop, and a white mug. A yellow rectangular box is overlaid on the left side of the image.

Executive Summary

Executive Summary

We are required to issue an annual audit letter to Basildon Borough Council (the Council) following completion of our audit procedures for the year ended 31 March 2016.

Below are the results and conclusions on the significant areas of the audit process.

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 2016 and of its expenditure and income for the year then ended
▶ Consistency of other information published with the financial statements	Other information published with the financial statements was consistent with the Annual Accounts
Concluding on the Council's arrangements for securing economy, efficiency and effectiveness	We concluded that you have put in place proper arrangements to secure value for money in your use of resources

Area of Work	Conclusion
Reports by exception: ▶ Consistency of Governance Statement	The Governance Statement was consistent with our understanding of the Council.
▶ Public interest report	We had no matters to report in the public interest.
▶ Written recommendations to the Council, which should be copied to the Secretary of State	We had no matters to report.
▶ Other actions taken in relation to our responsibilities under the Local Audit and Accountability Act 2014	We had no matters to report.

Area of Work	Conclusion
Reporting to the National Audit Office (NAO) on our review of the Council's Whole of Government Accounts return (WGA).	The Council is below the specified audit threshold of £350 million. Therefore, we did not perform any audit procedures on the consolidation pack.

As a result of the above we have also:

Area of Work	Conclusion
Issued a report to those charged with governance of the Council communicating significant findings resulting from our audit.	Our Audit Results Report was issued on 19 July 2016
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 2015 Code of Audit Practice.	Our certificate was issued on 29 July 2016

In December 2016 we will also issue a report to those charged with governance of the Council summarising the certification work we have undertaken.

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

Kevin Suter

Executive Director
For and on behalf of Ernst & Young LLP

Purpose



Purpose

The Purpose of this Letter

The purpose of this annual audit letter is to communicate to Members and external stakeholders, including members of the public, the key issues arising from our work, which we consider should be brought to the attention of the Council.

We have already reported the detailed findings from our audit work in our 2015/16 Audit Results Report to the 28 July 2016 Audit & Risk Committee, representing those charged with governance. We do not repeat those detailed findings in this letter. The matters reported here are the most significant for the Council.



Responsibilities

Responsibilities

Responsibilities of the Appointed Auditor

Our 2015/16 audit work has been undertaken in accordance with the Audit Plan that we issued on 3 March 2016 and is conducted in accordance with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office.

As auditors we are responsible for:

- ▶ Expressing an opinion:
 - ▶ On the 2015/16 financial statements; and
 - ▶ On the consistency of other information published with the financial statements.
- ▶ Forming a conclusion on the arrangements the Council has to secure economy, efficiency and effectiveness in its use of resources.
- ▶ Reporting by exception:
 - ▶ If the annual governance statement is misleading or not consistent with our understanding of the Council;
 - ▶ Any significant matters that are in the public interest;
 - ▶ Any written recommendations to the Council, which should be copied to the Secretary of State; and
 - ▶ If we have discharged our duties and responsibilities as established by thy Local Audit and Accountability Act 2014 and Code of Audit Practice.

Alongside our work on the financial statements, we also review and report to the National Audit Office (NAO) on you Whole of Government Accounts return. The Council is below the specified audit threshold of £350 million. Therefore, we did not perform any audit procedures on the return.

Responsibilities of the Council

The Council is responsible for preparing and publishing its statement of accounts accompanied by an Annual Governance Statement. 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 putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Financial Statement Audit



Financial Statement Audit

Key Issues

The Council's Statement of 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.

We audited the Council's Statement of Accounts in line with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office and issued an unqualified audit report on 29 July 2016.

Our detailed findings were reported to the 28 July 2016 Audit & Risk Committee.

The Council met the key statutory deadlines, with a good quality set of accounts and supporting working papers.

The key issues identified as part of our audit were as follows:

Significant Risk	Conclusion
<p>Management override of controls</p> <p>A risk present on all audits is that 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.</p> <p>Auditing standards require us to respond to this risk by testing the appropriateness of journals, testing accounting estimates for possible management bias and obtaining an understanding of the business rationale for any significant unusual transactions.</p>	<p>We carried out testing on journals processed during the year, including testing for:</p> <ul style="list-style-type: none">- references to senior staff in the description;- references to Council members in the description;- unusual account combinations; and- key words included in the description, or no description. <p>We consider the key accounting estimates to be the valuation of property, plant and equipment assets, and your pension liability. We considered the estimations to be reasonable.</p> <p>We have not identified any material weaknesses in controls or evidence of material management override.</p> <p>We have not identified any instances of inappropriate judgements being applied.</p> <p>We did not identify any other transactions during our audit which appeared unusual or outside the Council's normal course of business</p>

Revenue and expenditure recognition

Auditing standards also required us to presume that there is a risk that revenue and expenditure may be misstated due to improper recognition or manipulation.

We respond to this risk by reviewing and testing material revenue and expenditure streams and revenue cut-off at the year end.

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 therefore review capital expenditure on property, plant and equipment to ensure it meets the relevant accounting requirements to be capitalised.

Our testing did not reveal any material misstatements with respect to revenue and expenditure recognition.

Overall our audit work did not identify any material issues or unusual transactions which indicated that there had been any misreporting of the Council's financial position.

Our work on expenditure testing, accounting estimates and capital expenditure did not identify any further issues or matters for reporting.

Sempre Homes – Council House Building Company

In 2014-15, the Council established a wholly owned company limited by shares to develop, rent and dispose of homes throughout the borough.

The Council assessed this arrangement in line with accounting standards and concluded that group accounts were not required in 2014-15 on the basis of materiality.

However, transactions have taken place during 2015-16 and the Council has determined that Sempra Homes will be consolidated into its financial statements for 2015-16 and group accounts will be prepared.

We carried out the following procedures:

- Reviewed the accounting treatment of the transactions relating to Sempra and the consolidation of the group accounts;
- Engaged our internal technical team in reviewing disclosures and key assumptions; and
- Raised queries regarding the valuation and transfer of properties from the Council to the Company, the value of the investment, the consolidation of the core financial statements and the group relationship disclosures.

The Council satisfactorily answered all issues to provide material assurance over the accounting treatment and consolidation process.

A close-up, shallow depth-of-field photograph of a stack of coins. The coins are stacked vertically, with the edges of several coins visible. The lighting is warm, highlighting the metallic texture and the ridges on the edges. A bright yellow rectangular box is overlaid on the left side of the image, containing the text "Value for Money".

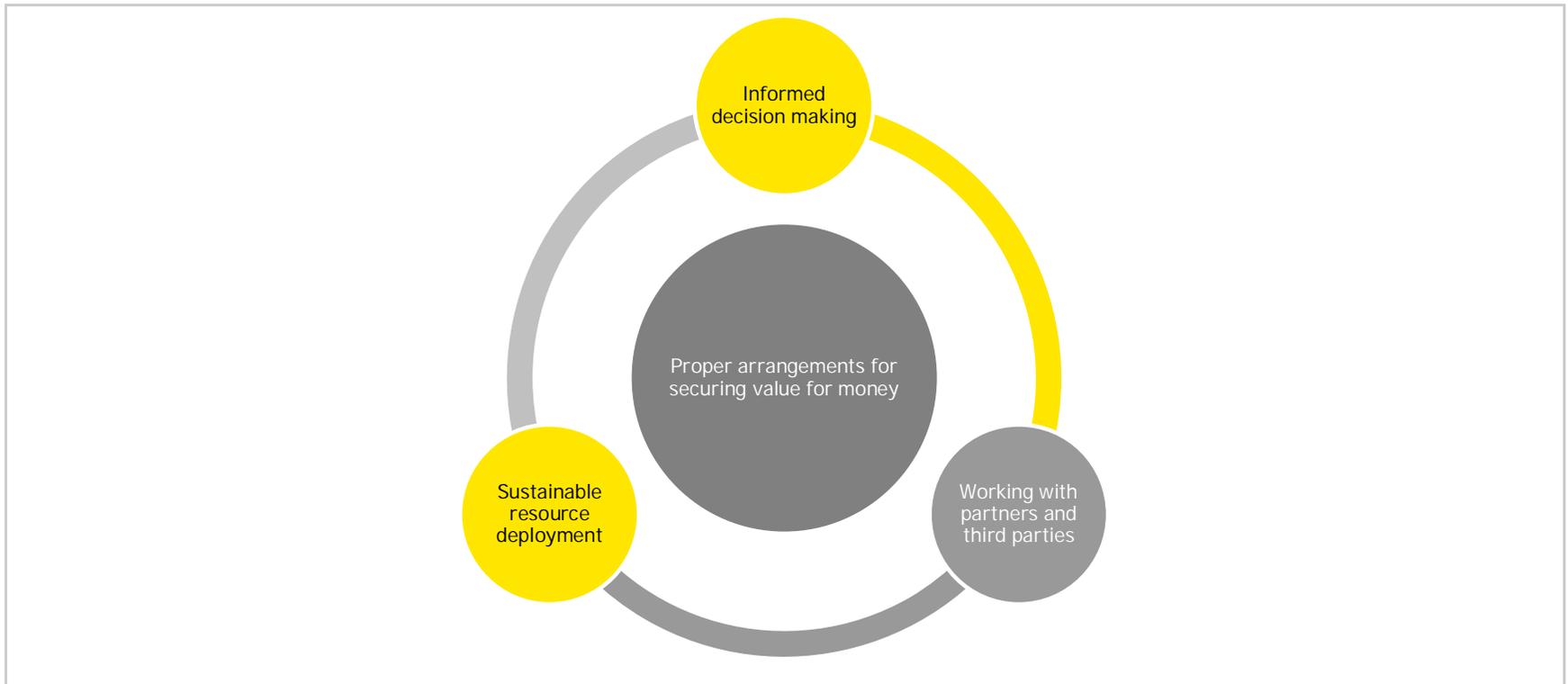
Value for Money

Value for Money

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. This is known as our value for money conclusion.

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- Take informed decisions;
- Deploy resources in a sustainable manner; and
- Work with partners and other third parties.



We issued an unqualified value for money conclusion on 29 July 2016.

Our audit did not identify any significant matters in relation to the Council's arrangements. We based our conclusions on the following key findings.

Key Findings

- The Council has an ongoing commercial and transformation programme which is embedded throughout the organisation. Members of staff are encouraged to submit their ideas as to how efficiencies could be made. The ideas are reviewed and the potential for delivery is assessed. £1.3 million is available from Invest to Save to fund the cost of transformation.
- The Council has launched the "Future:Basildon" programme to ensure that the Council is appropriately shaped to meet the challenges of the future. This plan has been shared with members of staff. Change will be delivered through a programme of six commissions and named service heads, or "commissioners", have been identified to lead each commission.
- The Council has set up a wholly-owned housing company, Sempra Homes Ltd, which commenced trading in 2015/16. It is expected that the Company will start to generate a return for the Council in the next 2 to 3 years. However, until the risks and rewards start to fully materialise, only a minimum level of income from the Company has been assumed in the Council's MTFS.
- Negotiations with DWP concerning occupation of the Council's offices were concluded late last year. Their occupation is expected to commence in November 2016 and it is anticipated this will generate in excess of £700k per annum income for the Council.
- The Council has assessed the impact of the proposed changes to the New Homes Bonus scheme and this has been factored into the budget and forward forecast. The budgeted number of properties for NHB for 2016/17 has already been surpassed, which means there is a degree of resilience should future numbers be lower than assumed or if the final scheme is more adverse than assumed, as some of that position is already achieved.
- The Council is undertaking a review of its assets to ensure they are fit for purpose and how they can be best used to meet strategic objectives. Reviews of sheltered schemes, day centres and community centres are already underway.
- The Council has engaged CIPFA to work with Corporate Finance to review the budget setting process and develop capacity within the organisation to deal with the financial challenges that lie ahead.
- The budget and forward forecast do not assume that the Council will benefit from growth in business rates. This is a reasonable approach due to the uncertainty in the provision for appeals, although can mask underlying growth. However, there remains a risk that the Council may fall into the safety net arrangements, in which it has to fund the first 7.5% of any shortfall against the base. The Council has established the Business Rates Equalisation Reserve to help manage this risk.
- The requirement to reduce rents by 1% each year from 2016/17 to 2019/20 has had a significant impact on the resources available to the HRA. This policy limits the extent to which the Council's ambitions in the provision of new dwellings, repayment of debt and the maintenance of existing dwellings to a high standard can be resourced. However, the Council is reviewing the impact to ensure the HRA remains sustainable.



Other Reporting
Issues

Other Reporting Issues

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.

Annual Governance Statement

We are required to consider the completeness of disclosures in the Council's annual governance statement, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it is misleading.

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

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.

Written Recommendations

We have a duty under the Local Audit and Accountability Act 2014 to designate any audit recommendation as one that requires the Council to consider it at a public meeting and to decide what action to take in response.

We did not identify any issues which required us to issue a written recommendation.

Objections Received

We did not receive any objections to the 2015/16 financial statements from member of the public.

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.

Independence

We communicated our assessment of independence in our Audit Results Report to the Audit & Risk Committee on 28 July 2016. 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 regulatory and professional requirements.

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 had no such matters to bring to your attention.

A close-up photograph of a person's face as they look through a pair of black binoculars. The person's eyes are focused on the lenses, and their hands are visible holding the device. The background is a soft, out-of-focus white. A bright yellow rectangular box is overlaid on the left side of the image, containing the text "Focused on your future".

Focused on your
future

Focused on your future

Area	Issue	Impact
EU referendum	<p>Following the majority vote to end the UK’s membership of the European Union (EU) in the EU Referendum held on 23 June 2016 there is a heightened level of volatility in the financial markets and increased macroeconomic uncertainty in the UK. All three major rating agencies (S&P, Fitch and Moody’s) took action on the UK Sovereign credit rating and, following the rating action on the UK Government. For entities in the public sector, there is likely to be an impact on investment property valuations if confidence in the wider UK property market falls; and the valuation of defined benefit pension obligations may also be affected. It is too early to estimate the quantum of any impact of these issues, but there is likely to be significant ongoing uncertainty for a number of months while the UK renegotiates its relationships with the EU and other nations.</p>	<p>Many of the issues and challenges that face the UK public sector will continue to exist, not least because continued pressure on public finances will need responding to. Additionally it may well be that the challenges are increased if the expected economic impacts of the referendum and loss of EU grants outweigh the benefits of not having to contribute to the EU and require even more innovative solutions.</p> <p>We are committed to supporting our clients through this period, and to help identify the opportunities that will also arise. We will engage with you on the concerns and questions you may have, provide our insight at key points along the path, and provide any papers and analysis of the impact of the referendum on the Government and Public Sector market.</p>

Appendix A

Audit Fees



Appendix A Audit Fees

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

Description	Final Fee 2015/16 £	Planned Fee 2015/16 £	Scale Fee 2015/16 £
Total Audit Fee – Code work	68,593*	66,993	66,993
Total Audit Fee – Certification of claims and returns	16,094	16,094	16,094

Our final fee increased by £1,600 from the planned and scale fee, as these did not take into account the increased scope of work associated with the Council's consolidation of Sempra Homes. This increase is still subject to confirmation by the PSAA.

Our fee for the certification of grant claims is based on the indicative scale fee set by the PSAA. Our actual fee will be determined on completion of the Housing Benefit subsidy claim, by 30 November 2016

We confirm we have not undertaken any non-audit work outside of the PSAA's requirements.

EY | Assurance | Tax | Transactions | Advisory

Ernst & Young LLP

© Ernst & Young LLP. Published in the UK.
All Rights Reserved.

ED None

The UK firm Ernst & Young LLP is a limited liability partnership registered in England and Wales with registered number OC300001 and is a member firm of Ernst & Young Global Limited.

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

[ey.com](https://www.ey.com)