

Basildon Borough Council

Annual Audit Letter for the year ended 31 March 2017

August 2017

Ernst & Young LLP

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Public Sector Audit Appointments Ltd (PSAA) have issued a "Statement of responsibilities of auditors and audited bodies". It is available from the Chief Executive of each audited body and via the PSAA website (www.psa.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 (updated 23 February 2017)" 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 2017.

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 2017 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 Financial Statements.
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
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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.
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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 and presented at the 26 July 2017 Audit & Risk Committee
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 27 July 2017

In November 2017 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 2016/17 Audit Results Report to the 26 July 2017 Audit and 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 2016/17 audit work has been undertaken in accordance with the Audit Plan that we issued on 22 March 2017 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 2016/17 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 the 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 your 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 27 July 2017.

Our detailed findings were reported to the 26 July 2017 Audit and Risk Committee.

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 did not identify any material weaknesses in controls or evidence of material management override.</p> <p>We did not identify 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>
<p>Revenue and expenditure recognition</p> <p>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.</p> <p>We respond to this risk by reviewing and testing material revenue and expenditure streams and revenue cut-off at the year end.</p>	<p>Our testing did not reveal any material misstatements with respect to revenue and expenditure recognition.</p> <p>Overall our audit work did not identify any issues or unusual transactions which indicated that there had been any misreporting of the Council's financial position.</p>

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.

Financial Statement Presentation - CIES and EFA

Amendments have been made to the Code of Practice on Local Authority Accounting in the United Kingdom 2016-17 changing the way the financial statements are presented. The new reporting requirements impact the Comprehensive Income and Expenditure Statement (CIES) and the Movement in Reserves Statement (MiRS), and include the introduction of the new 'Expenditure and Funding Analysis' note as a result of the 'Telling the Story' review of the presentation of local authority financial statements.

The service analysis should be based on the organisational structure under which the Council operates. We expected this to reflect the Council's segmental analysis. This change in the code required a new structure for the primary statements, new notes and a full retrospective restatement of impacted primary statements.

We did not identify any material misstatements from our work on the Expenditure and Funding Analysis. The disclosures were deemed to be compliant with the Code of Practice.

We did not identify any instances of inappropriate judgements being applied. The Expenditure and Funding Analysis reflects the Council's organisational structure.

The restated comparative figures were agreed back to the Council's segmental analysis and supporting working papers, with no material issues noted.

Housing Management System

The Council has implemented a new IT system for recording its housing rent transactions from April 2016.

The change in system increases the risk of misstatement in the financial statements due to the migration of data from the old system which could cause data to be lost or omitted.

We did not identify any material misstatements resulting from the migration of data to the new housing rent IT system.

The parameters entered into the new system were in line with expectation.

The data reconciliations performed by Council management confirmed that the data transferred was complete and accurate.

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.

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	<p>We determined planning materiality to be £3.5 million, which is 2% of Gross Expenditure reported in the accounts of £174.5 million.</p> <p>We consider gross expenditure to be one of the principal considerations for stakeholders in assessing the financial performance of the Council.</p>
Reporting threshold	<p>We agreed with the Audit and Risk Committee that we would report to the Committee all audit differences in excess of £0.175 million.</p>

We also identified the following areas where misstatement at a level lower than our overall materiality level might influence the reader. For these areas we developed an audit strategy specific to these areas. The areas identified and audit strategy applied include:

- **Remuneration disclosures including any severance payments, exit packages and termination benefits:** Our audit strategy was to check the bandings reported in notes 14 and 15 of the financial statements, test the completeness of the disclosure and make sure that the disclosure was compliant with the Code. We sample checked transactions back to the payroll system and supporting documentation. No issues were noted.
- **Related party transactions:** Our audit strategy was to obtain and review declarations from senior officers and members of the Council for any material disclosures and make sure that the disclosure in note 23 was compliant with the Code. We carried out a sample check of Companies House searches on contracts from the Council's contract register to identify whether any key decision-makers in the Council had an interest in the company. We carried out a sample check of Companies House searches between decision-makers in the Council and companies to which they were linked, to test the completeness of the disclosure. We obtained confirmation that there were no related party transactions within the declarations made by Member's at committee meetings they attended. No issues were noted.
- **Members' allowances.** Our audit strategy was to test the completeness of the disclosure and make sure that the disclosure was compliant with the Code by sample checking transactions back to the payroll system and the Council's Constitution. No issues were noted.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations.

A close-up, shallow depth-of-field photograph of a stack of coins. The coins are stacked vertically, with some showing their edges and others showing their faces. 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".

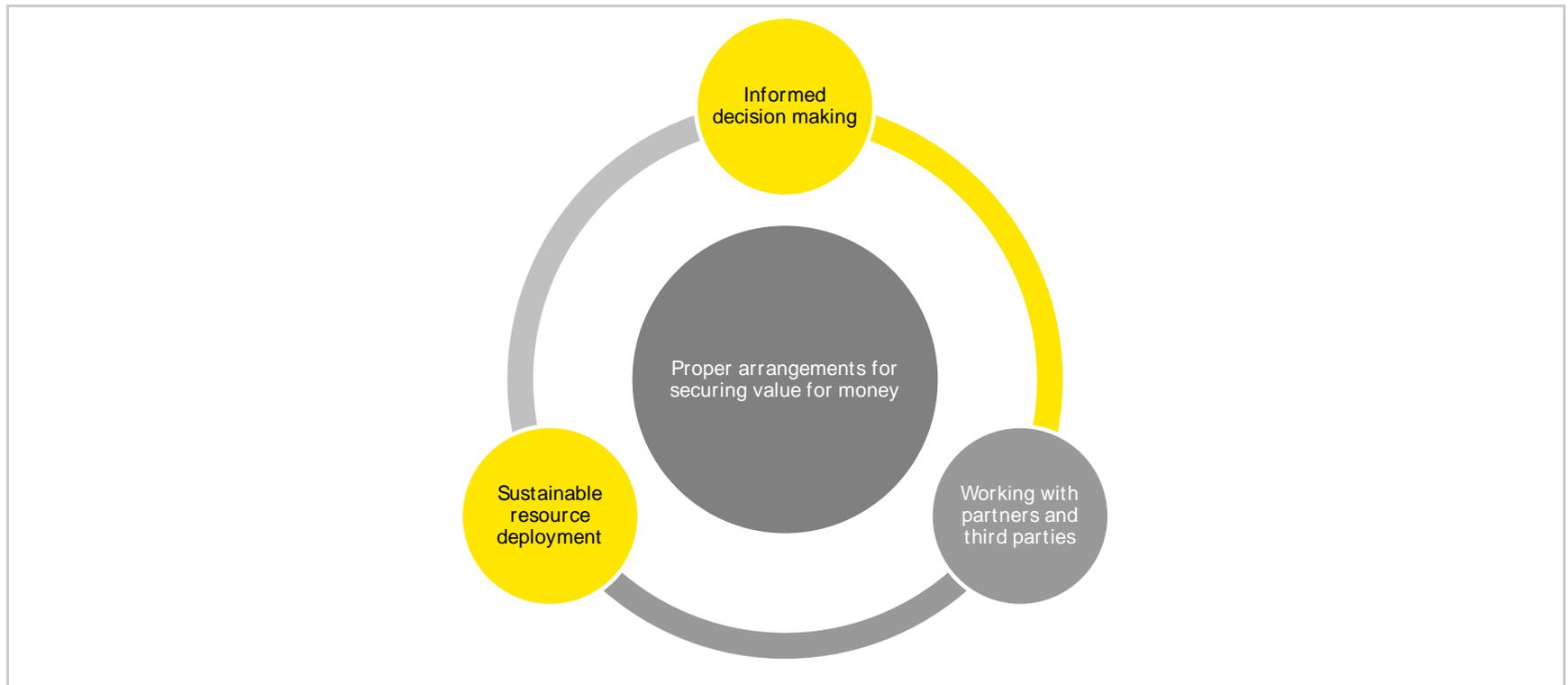
Value for Money

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 identified one significant risks in relation to these arrangements. The table below presents the findings of our work in response to this risk.

We have performed the procedures outlined in our audit plan. We did not identify any significant weaknesses in the Council’s arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

We therefore issued an unqualified value for money conclusion on 27 July 2017.

Significant Risk	Conclusion
<p>Deploying resources in a sustainable manner</p> <p>The Council faces significant financial challenges over the next three years. While the budget for 2017-18 has been balanced, the phasing of reductions in government support and pressures on costs mean that the gap is £4.1 million in 2018-19 and £6.4 million in 2019-20. The Council is continuing to develop its MTFs and the budget gap will be addressed through the self-financing approach adopted by the Council as set out in the 2017- 18 budget report. Given the scale of the savings needed, there is a risk that savings plans to bridge this gap are not robust and/or achievable.</p> <p>In response to this risk our approach focused on the following:</p> <ul style="list-style-type: none"> • Assessing the adequacy of the Council’s budget setting process and robustness of any assumptions underpinning the medium term financial planning; • The options that are being evaluated to address the budget gap; and • Assessing the robustness of the Council’s savings plans and business cases and the likelihood of whether they can provide sufficient savings and efficiencies over the medium term. 	<p>The Council recognises it faces unprecedented financial pressures and that a fundamental change is required to the way it operates in order to future proof the Council’s operations. The Council has been put in place a robust and detailed strategy to address the budget gap, in the shape of the Future: Basildon programme.</p> <p>The two key initiatives at the centre of the Future: Basildon Programme are creating a self-financing Council and developing commercial arrangements. The work programmes associated with these initiatives are accelerating and the projected returns are encouraging.</p> <p>The Council’s budget setting process is deemed to be robust and detailed, with sensibly prudent assumptions applied to uncertain income streams and future expenditure.</p> <p>The Council is aware of the risks related to reductions in government funding including the NHB. In response to this risk sensible assumptions are made within the budget, regarding the trajectory of government funding in general and the NHB specifically, and the reserve levels set are reflective of this risk.</p> <p>The Council has built up a level of reserves that could be used to assist the transformation if necessary and could also be used to give the Council time to put in place alternative plans to achieve these savings.</p>



**Other Reporting
Issues**

Other Reporting Issues

Whole of Government Accounts

We performed the procedures required by the National Audit Office on the accuracy of the consolidation pack prepared by the Council for Whole of Government Accounts purposes. We had no issues to report.

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 2016/17 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 and Risk Committee on 26 July 2017. 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 adopted a fully substantive approach and have therefore not tested the operation of controls.

Our audit did not identify any controls issues to bring to the attention of the Audit and Risk Committee.

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
<p><i>Earlier deadline for production and audit of the financial statements from 2017/18</i></p>	<p>The Accounts and Audit Regulations 2015 introduced a significant change in statutory deadlines from the 2017/18 financial year. From that year the timetable for the preparation and approval of accounts will be brought forward with draft accounts needing to be prepared by 31 May and the publication of the audited accounts by 31 July.</p>	<p>The earlier deadline is already being achieved by the council, with a good set of quality accounts being prepared early. We would hope to bring the timetable forward even more.</p> <p>We are looking for volunteering Council's to commence the audit in May 2018 for which an initial high level discussion has indicated that this timeframe would be possible for Basildon.</p>
<p><i>Forthcoming changes to accounting standards:</i></p> <p><i>IFRS 9 Financial Instruments</i></p> <p><i>IFRS 15 Revenue from Contracts with Customers</i></p> <p><i>IFRS 16 Leases</i></p>	<p>Revised accounting standards are expected to be applicable for local authority accounts from the 2018/19 (IFRS 9 and IFRS15) and 2019/20 financial year (IFRS 16).</p> <p>Transitional arrangements are included within the accounting standard, however as the 2018/19 and 2019/20 Accounting Code of Practice for Local Authorities have yet to be issued it is unclear what the impact on local authority accounting will be and whether any accounting statutory overrides will be introduced to mitigate any impact.</p>	<p>Some initial thoughts on the approach to adopting IFRS 9 and IFRS 15 have been issued by CIPFA, but until the Code is issued and any statutory overrides are confirmed there remains some uncertainty.</p> <p>For IFRS 16, it is clear is that the Council will need to undertake a detailed exercise to classify all of its leases and therefore must ensure that all lease arrangements are fully documented</p> <p>The Council is awaiting clarification of the exact requirements before investing time in the above work.</p>

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ED None

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