



BASILDON BOROUGH COUNCIL

Annual Audit Letter

Year ended 31 March 2020

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EXECUTIVE SUMMARY

Purpose of the Annual Audit Letter

This Annual Audit Letter summarises the key issues arising from the work that we carried out in respect of the year ended 31 March 2020.

It is addressed to the Council but is also intended to communicate the key findings we have identified to key external stakeholders and members of the public.

Responsibilities of auditors and the Council

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business and that public money is safeguarded and properly accounted for.

Our responsibility is to plan and carry out an audit that meets the requirements of the National Audit Office's (NAO's) Code of Audit Practice (the Code). Under the Code, we are required to report:

- Our opinion on the financial statements; and
- Whether the Council have made proper arrangements for securing economy, efficiency and effectiveness in their use of resources.

BDO LLP

10 January 2020

Audit conclusions

Audit area	Conclusion
Financial statements	Unmodified opinion, with an emphasis of matter in respect of the valuation of land and buildings and the valuation of the Council's share of pooled property assets within the Essex pension fund, due to material uncertainty reported by the valuers of these assets.
Use of resources	Unmodified conclusion.

We recognise the value of your co-operation and support and would like to take this opportunity to express our appreciation for the assistance and co-operation provided during the audit.

We issued our audit opinion on the financial statements and use of resources conclusion on 26 November 2020, ahead of the national deadline of 30 November 2020.

FINANCIAL STATEMENTS

Audit conclusion

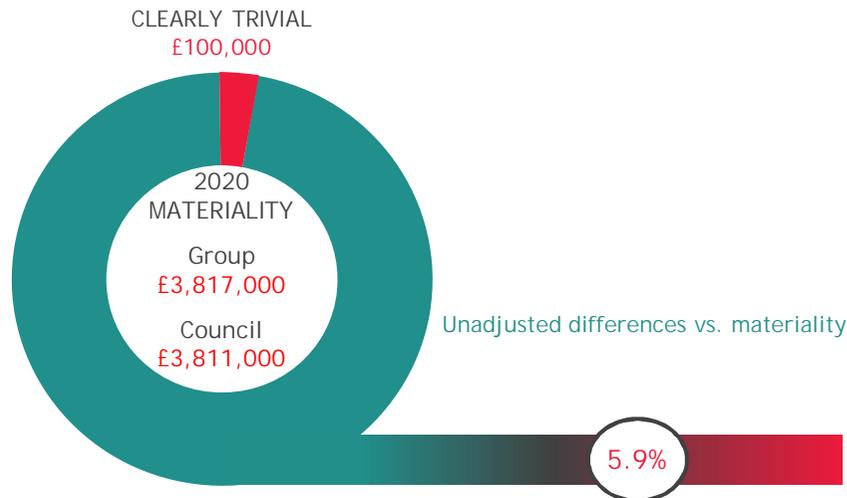
We issued our audit report on 26 November 2020.

We issued an unmodified audit opinion on the financial statements. This means that we consider that the financial statements of the group and Council as a single entity:

- Give a true and fair view of the financial position and income and expenditure for the year
- Have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Council Accounting 2019/20.

Final materiality

Final materiality was calculated at £3,817,000 for the group accounts and £3,811,000 for the Council's standalone accounts, both based on a benchmark of 2% of gross expenditure.



Material and misstatements

Our audit did not identify any material misstatements.

However, one significant adjusted misstatement was identified:

- Monies issued to subsidiaries amounting to £3.498m was reported in the Council's standalone accounts as a long term investment. This should have been classified as a loan to subsidiaries as administrative delay meant subsidiaries had no obligation to issue the Council with equity instruments at the reporting date. The investment completed in the following period, so the loan should be reported as short-term and additional disclosure is required because no interest was charged on the loan.

The Council has amended its financial statements for this issue, which has no impact on the provision of services for the year.

Unadjusted audit differences

Our audit identified two unadjusted estimated audit differences which, if corrected, would increase the deficit on the provision of services for the year of £32m by £0.23m and would increase net assets of £746.56m by £0.06m. These audit differences related to the valuation of non-current assets and are explained on page 6. There would be no impact on the general fund reserve balance.

We reported these audit differences and the Audit and Risk Committee accepted management's decision to not amend the financial statements because the impact was not material.

FINANCIAL STATEMENTS

We set out below the risks that had the greatest effect on our audit strategy, the allocation of resources in the audit, and the direction of the efforts of the audit team.

Risk description	How the risk was addressed by our audit	Results
Management override of controls Auditing standards presume that management is in a unique position to perpetrate fraud by overriding controls	We carried out the following planned audit procedures: <ul style="list-style-type: none">• Reviewed and verified journal entries made in the year, agreeing journals to supporting documentation. We determined key risk characteristics to filter the population of journals. We used our IT team to assist with the journal extraction• Reviewed estimates and judgements applied by management in the financial statements to assess their appropriateness and the existence of any systematic bias• Reviewed unadjusted audit differences for indications of bias or deliberate misstatement.	We used BDO's data analytics software to review journals posted throughout the year and during the financial reporting close process for characteristics considered to be unusual. The review identified 5 journals that were potentially duplicated and 6 manual journals posted with descriptions containing characteristics that required closer assessment. These journals were tested to source documentation with no issues noted. We reviewed management judgements and decisions in making significant accounting estimates in the current year's financial statements and completed a retrospective review of estimates in the prior year's financial statements. This review covered the valuation of land and buildings, depreciation, income and expenditure accruals and provisions. No instances of management bias were identified. Our audit work did not identify any issues.

FINANCIAL STATEMENTS

Risk description	How the risk was addressed by our audit	Results
<p>Revenue Recognition</p> <p>Auditing standards presume that income recognition presents a fraud risk.</p> <p>For the Council, we consider the risk of fraudulent revenue recognition to be in respect of the accuracy, completeness and existence of revenue grants which have conditions attached.</p>	<p>We carried out the following planned audit procedures:</p> <ul style="list-style-type: none">• Tested an increased sample of revenue and capital grants subject to conditions• Tested an increased sample of revenue and capital grant receipts in advance balances and grants transferred from receipts in advance to income during 2019/20• Tested an increased sample of cash receipts around year end to check income was recognised in the correct accounting period.	<p>The correct accounting treatment had been applied to grants dependent upon the status of conditions attached to the grant and procedures identified no issues.</p>

FINANCIAL STATEMENTS

Risk description	How the risk was addressed by our audit	Results
<p>Valuation of non-current assets</p> <p>The valuation of non-current assets is a significant risk as it involves a high degree of estimation uncertainty.</p>	<p>We carried out the following planned audit procedures:</p> <ul style="list-style-type: none"> Reviewed the instructions provided to the valuers and the valuers' skills and expertise in order to determine if we could rely on the management experts Confirmed that the basis of valuation for assets valued in year is appropriate based on their usage Reviewed accuracy and completeness of information provided to the valuers, such as rental agreements and sizes Reviewed assumptions used by the valuers and movements against relevant indices for similar classes of assets Investigated valuation movements outside of expectation Confirmed that assets not valued as at the balance sheet date remain materially correct. 	<p>From our review of the instructions provided to the valuers and our assessment of the expertise of the valuer, we satisfied ourselves that we could rely upon their work.</p> <p>We checked that the basis of the valuation for each asset was appropriate and looked at the assumptions and input data that informed the valuation. This process identified:</p> <ul style="list-style-type: none"> a misstatement resulting from a misunderstanding by the external valuer regarding the scope for desktop valuation of an asset part-demolished in-year. The error resulted in a £0.86m understatement of asset value and overstatement of loss on revaluation, which the Council adjusted; an estimated undervalue of Other Land & Buildings by £0.29m, which remained unadjusted due to its estimation nature and non-material value; an estimated overvalue of Investment Properties by £0.23m, which remained unadjusted due to its estimation nature and non-material value; 4 instances of errors arising in the asset register when importing revised values following revaluations. These errors were trivial in value, but the impact could have been greater, so management has agreed to implement control recommendations to prevent future occurrences. <p>Assets not subject to revaluation as at 31 March 2020 had been revalued on a sufficiently regular basis so as to ensure their carrying amount did not differ materially from that which would be determined at the end of the reporting period.</p> <p>The valuers included material uncertainty statements in their final valuation reports in light of circumstances arising due to coronavirus. We included an Emphasis of Matter in our audit report to highlight this increase in uncertainty.</p>

FINANCIAL STATEMENTS

Risk description	How the risk was addressed by our audit	Results
<p>Valuation of Pension Liability</p> <p>The valuation of the pension liability is a significant risk as it involves a high degree of estimation uncertainty</p>	<p>We carried out the following planned audit procedures:</p> <ul style="list-style-type: none">• Agreed the disclosures to the information provided by the pension fund actuary• Reviewed the competence of the management expert (actuary)• Reviewed the reasonableness of the assumptions used in the calculation against other local government actuaries and other observable data• Reviewed the controls in place for providing accurate membership data to the actuary• Contacted the pension fund auditor, requesting confirmation of the controls in place for providing accurate membership data to the actuary and testing of that data• Checked that any significant changes in membership data had been communicated to the actuary.	<p>No issues were identified by our audit procedures.</p> <p>The pension fund auditor confirmed in their assurance letter that the valuation of pooled property assets within the fund has been reported on the basis of 'material valuation uncertainty', in light of circumstances arising due to coronavirus. We included an Emphasis of Matter in our audit report to highlight this uncertainty.</p>

FINANCIAL STATEMENTS

Risk description	How the risk was addressed by our audit	Results
<p>Acquisition accounting</p> <p>The acquisition of company Acorn House Developments Ltd during the year was outside of the Council's normal activities and presents accounting requirements that may be unfamiliar</p>	<p>We carried out the following planned audit procedures:</p> <ul style="list-style-type: none"> • Developed an understanding of the transaction and the acquired company's activities, assets and liabilities • Reviewed the Council's accounting for the transaction in its single entity accounts and ensure consistency with the applicable reporting framework • Considered whether we require the completion of specific procedures for assurance over the acquired company's accounts, as a group component, and complete any such procedures required • Reviewed consolidation adjustments made in preparation of the group accounts. 	<p>No issues were identified by our audit procedures.</p> <p>The component auditor reported a material uncertainty regarding the going concern status of group components, including Acorn House. However, this was neither indicative of impairment of the Council's investment nor a risk to the Council's own going concern status.</p>

USE OF RESOURCES

Audit conclusion

We issued an unmodified conclusion on the Council’s arrangements for securing economy, efficiency and effectiveness in its use of resources. This means that we consider that in all significant respects, the Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

We set out below the risk that had the greatest effect on our audit strategy.

Risk description	How the risk was addressed by our audit	Results
<p>Sustainable finances</p> <p>The Council will need to deliver significant savings to maintain balanced budgets</p>	<p>We carried out the following planned audit procedures:</p> <ul style="list-style-type: none"> • Reviewed the assumptions used in the Medium Term Financial Strategy • Assessed the reasonableness of the assumptions applied in the MTFS • Monitored the delivery of the budgeted savings in 2019/20 and the plans to reduce service costs and increase income from 2019/20 • Reviewed the strategies to close the budget gap in the medium term, including assessment of the viability of plans to reduce services costs and increase income • Reviewed governance arrangements and outcomes delivered in relation to the commercial asset strategy • Held discussions held with key officers. 	<p>The Council set a balanced budget for 2020/21. There is a budget gap of £3.8m over the four years to 2023/24, increasing to a cumulative £13 million gap by 2029/30. The Council continues to identify cost efficiencies and opportunities for revenue generation but has sufficient usable reserves, which have continued an upward trajectory in 2019/20, to cover this shortfall if necessary.</p> <p>With the benefit of hindsight, the Council’s position also enables it to withstand the impact on its reserves anticipated due to Covid-19.</p> <p>We are satisfied that the Council has adequate arrangements for setting and monitoring financial budgets and forecasts. While there is a recognised funding gap in the medium term, we are satisfied that the Council is making appropriate arrangements to manage this in a way that will ensure it continues to remain financially sustainable.</p>

USE OF RESOURCES

Risk description	How the risk was addressed by our audit	Results
Commercialisation Decisions to invest out-of-area may have a consequential impact on the borough	We carried out the following planned audit procedures: <ul style="list-style-type: none">• Reviewed the Council's governance arrangements in respect of decisions to invest in commercial property outside of the borough• Confirmed that appropriate financial and non-financial information has been used to inform decision making, including business cases that support investing outside of the borough• Reviewed ongoing monitoring of investment performance against planned outcomes.	<p>Risk management arrangements specific to commercial property acquisitions are in place. The Council works closely with independent advisors to devise appropriate investment criteria and appraisal tools to assist with decision making. We obtained evidence of these arrangements working effectively during 2019/20, when the Council was presented with opportunities to further its portfolio and, following governance processes, decisions were made to not invest in the assets presented.</p> <p>Investment managers continue to report to the Council on performance regularly, enabling the Council to plan, report and make decisions as required.</p> <p>No issues were identified in respect of governance arrangements for decision making or ongoing monitoring of performance.</p>

REPORTS ISSUED AND FEES

Fees

	2019/20 Actual £	2019/20 Planned £	2018/19 Actual £
Audit fee			
• Code audit fee: consolidated Group and single-entity financial statements and use of resources	TBC	¹ 52,812	52,812
Non-audit assurance services			
Fees for reporting on government grants:			
• Housing benefits subsidy claim	TBC	² 18,045	18,045
• Pooling of housing capital receipts return	TBC	2,800	2,800
Total fees	TBC	73,657	73,657

¹The 2019/20 planned Code fee is the PSAA-published level. The Scale is largely based on the historical position from 2012/13 and so, whilst it has been adjusted from 2018/19 for additional group audit work, it does not reflect any of the changes in audit scope and depth linked to current audit requirements for property, plant and equipment, investment property or pensions liability valuation work, or additional procedures required in respect of the group component acquired during 2019/20. We proposed a recurring fee increase of £7,426 in respect of this is, which remains subject to approval by Public Sector Audit Appointments Limited. We also incurred additional costs during the 2019/20 audit related to specific matters that arose. The fee related to these matters has not yet been agreed with management.

²The planned housing benefit subsidy claim fee is a estimation based on additional work required in 2019/20 in response to issues identified from our work on the 2018/19 claim.

Communication

Communication	Date (to be) communicated	To whom
Audit Planning Report	29 January 2020	Audit and Risk Committee
Audit Completion report	29 July 2020	Audit and Risk Committee
Annual Audit Letter	(27 January 2021)	Audit and Risk Committee

FOR MORE INFORMATION:

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The matters raised in our report prepared in connection with the audit are those we believe should be brought to your attention. They do not purport to be a complete record of all matters arising. This report is prepared solely for the use of the company and may not be quoted nor copied without our prior written consent. No responsibility to any third party is accepted.

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