

Basildon Borough Council

Year ending 31 March 2014

Annual Audit Letter

24 October 2014



Building a better
working world

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The Members
Basildon Council
The Basildon Centre
St. Martin's Square
Basildon
Essex SS14 1 DL

24 October 2014

Dear Members

Annual Audit Letter

The purpose of this Annual Audit Letter is to communicate to the Members of Basildon Council and external stakeholders, including members of the public, the key issues arising from our work, which we consider should be brought to their attention.

We have already reported the detailed findings from our audit work to those charged with governance of Basildon Council in the following report:

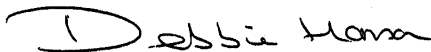
2013/14 Audit results report for Basildon Council

Issued 18 August 2014

The matters reported here are the most significant for the Authority.

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

Yours sincerely



Debbie Hanson
Director
For and behalf of Ernst & Young LLP
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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 Annual 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 2013/14 audit work has been undertaken in accordance with the Audit Plan we issued on 12 March 2014 and is 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 Authority is responsible for preparing and publishing its Statement of Accounts, accompanied by the Annual Governance Statement. In the Annual Governance Statement, the Authority reports publicly on an annual basis on the extent to which they comply with their own code of governance, including how they have monitored and evaluated the effectiveness of their governance arrangements in the year, and on any planned changes in the coming period. The Authority is also responsible for putting in place 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;
- ▶ reviewing the Annual Governance Statement;
- ▶ forming a conclusion on the arrangements that the Authority has in place to secure economy, efficiency and effectiveness in its use of resources; and
- ▶ undertaking any other work specified by the Audit Commission.

Summarised below are the conclusions from all elements of our work:

Audit the financial statements of Basildon Council for the financial year ended 31 March 2014 in accordance with International Standards on Auditing (UK & Ireland)	On 30 September 2014 we issued an unqualified audit opinion in respect of the Authority's financial statements.
Form a conclusion on the arrangements the Authority has made for securing economy, efficiency and effectiveness in its use of resources.	On 30 September 2014 we issued an unqualified value for money conclusion.
Issue a report to those charged with governance of the Authority (the Audit and Risk Committee) communicating significant findings resulting from our audit.	On 18 August 2014 we issued our report in respect of the Authority.
Report to the National Audit Office on the accuracy of the consolidation pack the Authority is required to prepare for the Whole of Government Accounts.	We reported our findings to the National Audit Office on 30 September 2014.
Consider the completeness of disclosures in the Authority's Annual Governance Statement, identify any inconsistencies with the other information of which we are aware from our work and consider whether it complies with CIPFA / SOLACE guidance.	No issues to report.
Consider whether, in the public interest, we should make a report on any matter coming to our notice in the course of the audit.	No issues to report
Determine whether any other action should be taken in relation to our responsibilities under the Audit Commission Act.	No issues to report

Issue 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.

Certificate issued on 30 September 2014.

Issue a report to those charged with governance of the Authority summarising the certification (of grants claims and returns) work that we have undertaken.

Work on the Authority's housing benefit claim is still ongoing. Our annual certification report in respect of the 2013/14 financial year will be issued to those charged with governance on completion of this work in December 2014.

2. Key findings

2.1 Financial statement audit

We audited the Authority'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. We issued an unqualified audit report on 30 September 2014.

In our view, through the few matters we have to communicate, the Council prepared its financial statements and supporting working papers well. We have not identified any misstatements, either corrected or uncorrected, that were individually or in aggregate material to the presentation and disclosures of the Authority's financial statements for the year ended 31 March 2014. The main issues identified as part of our audit were:

Significant risk 1: Consideration of the risk of fraud

ISA (UK&I) 240 requires that we plan our audit work to consider the risk of fraud. This includes consideration of the risk that management may override controls in order to manipulate the financial statements. For borough councils the potential for the incorrect classification of revenue spend as capital is a particular area where there is a risk of management override.

Our audit procedures and testing did not identify any instances of misstatement due to fraud and error.

Significant risk 2: Localisation of business rates

There have been significant changes in the arrangements for business rate arrangements from April 2013. The detailed accounting arrangements for the new arrangement were not clear at the time the Authority was preparing its accounts, and this therefore presented a risk in terms of the financial statements. One of the main changes is that individual local authorities now need to provide for rating appeals. This includes not only claims from 1 April 2013 but also claims that relate to earlier periods.

Our audit work confirmed that the accounting treatment adopted by the Authority for business rates was appropriate and complied with the CIPFA Code of Practice. The business rates appeals provision recognised by the Council was deemed to have been calculated on a reasonable basis in line with the requirements of the relevant international accounting standards (IAS 37).

Significant risk 3: Implementation of new payroll system

The Council implemented a new payroll system during the financial year 2013/14. This system produced the figures for the 2013/14 financial statements, including payroll expenditure, figures in the notes relating to members' allowances and officers' remuneration and transactions that feed into pension disclosures. These items are material entries in the financial statements. Data from the Council's previous payroll system were input to the new system, which used this information to calculate the relevant figures. Any errors in the transfer or input of this data, or the calculations performed by the new system could have resulted in material errors in the financial statements

We did not identify any material errors in the figures produced by the payroll system.

2.2 Value for money conclusion

We are required to carry out sufficient work to conclude on whether the Authority has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

In accordance with guidance issued by the Audit Commission, in 2013/14 our conclusion was based on two criteria:

- ▶ The organisation has proper arrangements in place for securing financial resilience; and
- ▶ The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

We issued an unqualified value for money conclusion on 30 September 2014. Our audit did not identify any significant matters.

We did however note that, along with many other local authorities, Basildon is facing significant financial challenges over the next three to four years. The Authority'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 Authority is clearly aware of the challenges it faces and has put in place a Programme of Transformation and Service Design to look at ways in which services can be provided more efficiently and effectively over the coming years. Good progress has already been made on identifying savings to bridge the budget gap of nearly £1 million in 2014/15.

Members need to be aware of the future financial pressures the Authority is facing and consider carefully the impact of any decisions they make on the ongoing sustainability of the Authority's financial position and its ability to maintain service levels in future years.

2.3 Whole of government accounts

We reported to the National Audit office on 30 September 2014 the results of our work performed in relation the accuracy of the consolidation pack the Authority is required to prepare for the whole of government accounts. We did not identify any areas of concern.

2.4 Annual governance statement

We are required to consider the completeness of disclosures in the Authority's Annual Governance Statement, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it complies with CIPFA / SOLACE guidance. We completed this work and did not identify any areas of concern.

2.5 Certification of grants claims and returns

We will issue the Annual Certification Report for 2013/14 in December 2014.

2.6 Audit fees

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

	Planned fee (£)	Scale fee (£)	Final (£)
Code audit work	88,424	88,424	* see note below
Certification of	22,274	22,274	** see note below

claims and returns			
Non code work	6,500	N/A	6,500

* Our actual fee is in line with the agreed fee for the main audit work. We will however need to charge an additional fee in relation to dealing with some elector correspondence we have received. We are in the process of discussing this with management now that the audit is complete. This additional fee has also not yet been agreed with the Audit Commission.

** Work on the certification of the housing benefits claim and return is not yet complete. We will report our final fee for the certification work in our report to be issued by 31 January 2015.

Non code work was carried out during 2013/14 at the request of the Authority on the Homes and Communities Agency Decent Homes Backlog Funding Claim for 2012/13.

3. Control themes and observations

As part of our audit of the financial statements, 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 of internal control we communicated to those charged with governance at the Authority, as required, significant deficiencies in internal control.

We found no material deficiencies in internal controls. We did identify some minor areas for improvement relating to the reconciliation of the payroll system to the general ledger and preparation of a debtor request form. These did not have any impact on the financial statements or our audit for 2013-14. Further details of the specific issues identified are included in our Audit Results Report.

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