

# **Basildon Borough Council**

Annual Audit Letter for the year  
ended 31 March 2018

August 2018

The EY logo consists of the letters 'EY' in a bold, white, sans-serif font. A yellow triangle is positioned above the 'Y', pointing downwards towards the letters.

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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.psaa.co.uk](http://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 (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.



# 01 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 2018. Below are the results and conclusions on the significant areas of the audit process.

Area of Work	Conclusion
<b>Opinion on the Council's:</b>	Unqualified – the financial statements give a true and fair view of the financial position of the Council as at 31 March 2018 and of its expenditure and income for the year then ended
▶ Financial statements	
▶ Consistency of other information published with the financial statements	Other information published with the financial statements was consistent with the Annual Accounts
<b>Concluding on the Council's arrangements for securing economy, efficiency and effectiveness</b>	We concluded that you have put in place proper arrangements to secure value for money in your use of resources

Area of Work	Conclusion
<b>Reports by exception:</b>	
▶ 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
<b>Reporting to the National Audit Office (NAO) on our review of the Council's Whole of Government Accounts return (WGA).</b>	The Council is below the specified audit threshold of £500 million. Therefore, we did not perform any audit procedures on the consolidation pack. We had no matters to report.

## Executive Summary (cont'd)

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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 on 27 June 2018.
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 9 July 2018

In November 2018 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  
Associate Partner  
For and on behalf of Ernst & Young LLP



## 02 Purpose and Responsibilities

# Purpose and Responsibilities

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## 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 2017/18 Audit Results Report to the 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 of the Appointed Auditor

Our 2017/18 audit work has been undertaken in accordance with the Audit Plan that we issued in January 2018 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 2017/18 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 £500mn. 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.



03

## Financial Statement Audit



# Financial Statement Audit

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## 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 9 July 2018. Our detailed findings were reported to the 27<sup>th</sup> June 2018 Audit & Risk Committee.

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

Significant Risk	Conclusion
<b>Misstatements due to fraud or error</b>  The financial statements as a whole are not free of material misstatements whether caused by fraud or error.  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.	<p>We performed the following procedures:</p> <ul style="list-style-type: none"><li>• Wrote to the s151 officer, Chair of the Audit &amp; Risk Committee, Head of Internal Audit and Monitoring Officer in this regard and reviewed their responses.</li><li>• Documented our understanding of the controls relevant to this significant risk and considered they have been appropriately designed.</li><li>• Tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in preparing the financial statements.</li><li>• Reviewed accounting estimates for evidence of management bias.</li><li>• Evaluated the business rationale for any significant unusual transactions.</li></ul> <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>

# Financial Statement Audit (cont'd)

The key issues identified as part of our audit were as follows: (cont'd)

Significant Risk	Conclusion
<p><b>Risk of fraud in revenue and expenditure recognition</b></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>We performed the following procedures:</p> <ul style="list-style-type: none"> <li>▶ Documented our understanding of the controls relevant to this significant risk and confirmed they have been appropriately designed.</li> <li>▶ Obtained breakdown of capital additions in the year and reviewed the descriptions to identify any items that could be revenue in nature.</li> <li>▶ Amended our sample sizes when testing additions to reflect the existence of this risk. Agreed samples to source documentation to ensure the capital/revenue split was reasonable.</li> <li>▶ Designed journal procedures to identify and review adjustment manual journals that moved amounts from revenue codes to capital codes.</li> </ul> <p>Our testing did not identify any material misstatements from revenue and expenditure recognition.</p> <p>Overall our audit work did not identify any material issues or unusual transactions to indicate any misreporting of the Council's financial position.</p>
Other areas of audit focus	Conclusion
<p>Property, Plant and Equipment valuation</p>	<p>We considered the underlying assumptions made by the expert valuer and concluded that they were reasonable.</p> <p>Our testing did not identify any material misstatements from inappropriate judgements being applied to the property valuation estimates</p>
<p>Pension Liability</p>	<p>In order to produce their report the pension actuary takes data from earlier in the year, and estimates the value of the pension assets and liabilities as at the year-end.</p> <p>Our testing identified that the value of the Essex Pension Fund as at 31 March 2018 differed from the actuaries estimate, and we estimated Basildon Council's share of the variance to be material.</p> <p>The Council obtained an updated report from the actuary using the actual asset values, with a consequent upward adjustment of £4.1m to the net pension liability.</p>

## Financial Statement Audit (cont'd)

### 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 £3.57million (2016/17: £3.5 million), which is 2% of gross expenditure on provision of services reported in the accounts of £178.424 million, adjusted for other operating expenditure, interest, and pension costs.</p> <p>We consider gross expenditure on the provision of services to be one of the principal considerations for stakeholders in assessing the financial performance of the Council.</p>
Reporting threshold	We agreed with the Audit & Risk Committee that we would report to the Committee all audit differences in excess of £0.178 million (2016/17: £0.175 million)

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 in our testing.
- ▶ Related party transactions. Our audit strategy was to obtain and review declarations from senior officers and members of the Council and make sure that any resulting disclosures were compliant with the Code. No issues were noted in our testing.
- ▶ 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.

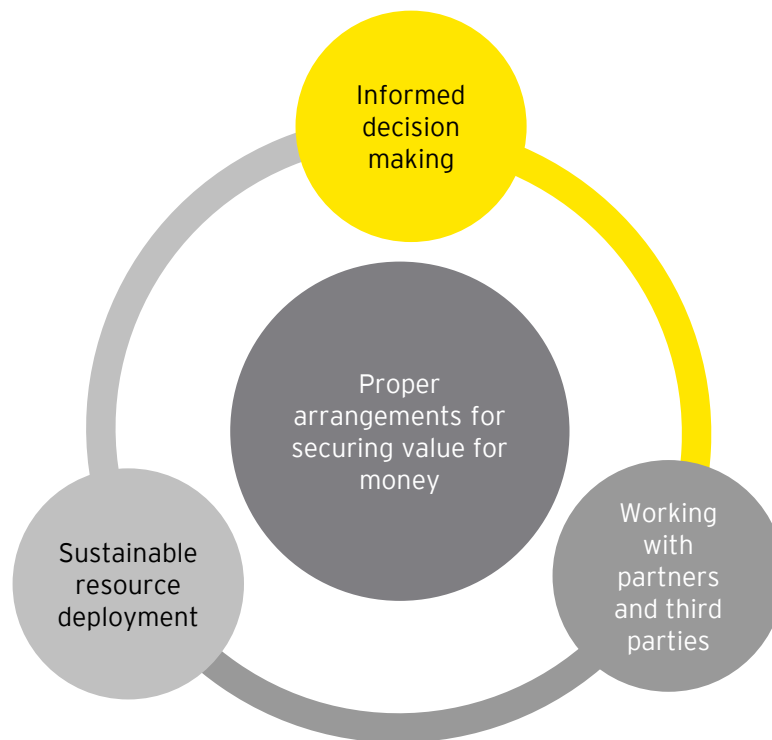


# 04 Value for Money

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

We 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 9 July 2018.

## Value for Money (cont'd)

Significant Risk	Conclusion
<p><b>Deploying resources in a sustainable manner</b></p> <p>The Council faces significant financial challenges as a result of phasing reductions in government support and pressures on costs. As reflected in the 2017/8 MTFS this has resulted in a budget gap of £4.1 million in 2018-19 and £6.4 million in 2019-20.</p> <p>The Council is continuing to develop its MTFS and budget gaps will be addressed through the transformation approach adopted by the Council as set out in the 2017-18 budget report.</p> <p>.</p> <p>In response to this risk our approach focused on the following:</p> <ul style="list-style-type: none"> <li>• Assessing the adequacy of the Council's budget setting process and robustness of any assumptions underpinning the medium term financial planning;</li> <li>• The options that are being evaluated to address the budget gap; and</li> <li>• 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.</li> </ul>	<p>Not unlike other councils, the Basildon Council recognises that it faces unprecedented financial pressures and that a fundamental change is required to the way it operates in order to ensure the longevity of the Council's operations. The Council has been put in place a robust and detailed strategy to address the budget gap, which includes the development of a Commercial Asset Acquisition Strategy with the focus to identify commercial property acquisition and investment objectives, including acquisition criteria, as well as the process by which an asset would be acquired. This will assist the Council in ensuring that it makes sound investment and commercial decisions in order to generate a financial return.</p> <p>We reviewed the Council's 2018/19 budget setting process, which we judged to be robust, with sensibly prudent assumptions applied to uncertain income streams and future expenditure. This has closed the budget gaps compared to the 2017/18 figures identified at the time of our planning.</p> <p>The Council is aware of the risks related to reductions in government funding including the New Homes Bonus (NHB). In response to this risk reasonable 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> <p>Overall, we judge the arrangements put in place to be sufficient.</p>



## 05 Other Reporting Issues



## Other Reporting Issues

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### Whole of Government Accounts

The Council is below the specified audit threshold of £500mn. 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.



## Other Reporting Issues (cont'd)

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### Objections Received

We did not receive any objections to the 2017/18 financial statements from members 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 27 June 2018. 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 have 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 & Risk Committee.



**06**

**Focused on your future**



## Focused on your future

The Code of Practice on Local Authority Accounting in the United Kingdom introduces the application of new accounting standards in future years. The impact on the Council is summarised in the table below.

Standard	Issue	Impact
<b>IFRS 9 Financial Instruments</b>	<p>Applicable for local authority accounts from the 2018/19 financial year and will change:</p> <ul style="list-style-type: none"><li>▶ How financial assets are classified and measured;</li><li>▶ How the impairment of financial assets are calculated; and</li><li>▶ The disclosure requirements for financial assets.</li></ul> <p>There are transitional arrangements within the standard and the 2018/19 Accounting Code of Practice for Local Authorities has now been issued, providing guidance on the application of IFRS 9. In advance of the Guidance Notes being issued, CIPFA have issued some provisional information providing detail on the impact on local authority accounting of IFRS 9, however the key outstanding issue is whether any accounting statutory overrides will be introduced to mitigate any impact.</p>	<p>Although the Code has now been issued, providing guidance on the application of the standard, along with other provisional information issued by CIPFA on the approach to adopting IFRS 9, until the Guidance Notes are issued and any statutory overrides are confirmed there remains some uncertainty.</p>
<b>IFRS 15 Revenue from Contracts with Customers</b>	<p>Applicable for local authority accounts from the 2018/19 financial year. This new standard deals with accounting for all contracts with customers except:</p> <ul style="list-style-type: none"><li>▶ Leases;</li><li>▶ Financial instruments;</li><li>▶ Insurance contracts; and</li><li>▶ For local authorities; Council Tax and NDR income.</li></ul> <p>The key requirements of the standard cover the identification of performance obligations under customer contracts and the linking of income to the meeting of those performance obligations.</p>	<p>As with IFRS 9, some provisional information on the approach to adopting IFRS 15 has been issued by CIPFA in advance of the Guidance Notes. Now that the Code has been issued, initial views have been confirmed; that due to the revenue streams of Local Authorities the impact of this standard is likely to be limited.</p> <p>The standard is far more likely to impact on Local Authority Trading Companies who will have material revenue streams arising from contracts with customers.</p>



## Focused on your future (cont'd)

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Standard	Issue	Impact
<b>IFRS 16 Leases</b>	<p>It is currently proposed that IFRS 16 will be applicable for local authority accounts from the 2019/20 financial year.</p> <p>Whilst the definition of a lease remains similar to the current leasing standard; IAS 17, for local authorities who lease a large number of assets the new standard will have a significant impact, with nearly all current leases being included on the balance sheet.</p> <p>There are transitional arrangements within the standard and although the 2019/20 Accounting Code of Practice for Local Authorities has yet to be issued, CIPFA have issued some limited provisional information which begins to clarify what the impact on local authority accounting will be. Whether any accounting statutory overrides will be introduced to mitigate any impact remains an outstanding issue.</p>	<p>Until the 2019/20 Accounting Code is issued and any statutory overrides are confirmed there remains some uncertainty in this area.</p> <p>However, what is clear is that the Council will need to undertake a detailed exercise to identify all of its leases and capture the relevant information for them. The Council must therefore ensure that all lease arrangements are fully documented.</p>

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07

Audit Fees

## Audit Fees

Our fee for 2017/18 is in line with the scale fee set by the PSAA and reported in our 27 June 2018 Annual Results Report.

Description	Final Fee 2017/18 £	Planned Fee 2017/18 £	Scale Fee 2017/18 £	Final Fee 2016/17 £
Total Audit Fee - Code work (Note 1)	<b>69,094</b>	<b>69,094</b>	<b>66,993</b>	68,593
Non-audit work - Grant claims (Housing Benefit Subsidy Certification)	TBC	20,847	20,847	24,845
Non-audit work - Pooling of housing capital receipts	TBC	3,000	N/a	3,000
<b>Total non-audit services</b>	<b>TBC</b>	<b>23,847</b>	<b>20,847</b>	<b>27,847</b>

### Note 1:

The 2017/18 planned fee included an estimated fee variation of £1,594 to reflect the fact that the Council produces group accounts based on prior year scoping.

The final fee for 2017/18 includes a further variation of £507 from the scale fee as a result of an MRP review undertaken.

These variations were agreed with management and the PSAA.

The final fee for the Pooling of Housing Capital Receipts and the Housing Benefit Subsidy certification will be confirmed upon completion by the 30 November deadline. We will report the final fee in our annual grant certification report.

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