



BASILDON BOROUGH COUNCIL

Annual Audit Letter

Year ended 31 March 2019

EXECUTIVE SUMMARY

Purpose of the Annual Audit Letter

This Annual Audit Letter summarises the key issues arising from the work that we have carried out in respect of the year ended 31 March 2019.

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 Council's financial statements; and
- Whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

BDO LLP

19 August 2019

Audit conclusions

Audit area	Conclusion
Financial statements	Unmodified opinion
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 31 July 2019, ahead of the national deadline of 31 July 2019.

FINANCIAL STATEMENTS

Audit opinion on the financial statements

We issued an unmodified audit opinion on the financial statements. This means that we consider that the financial statements:

- Give a true and fair view of the financial position and its income and expenditure for the year; and
- Have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting 2018/19.

Final materiality

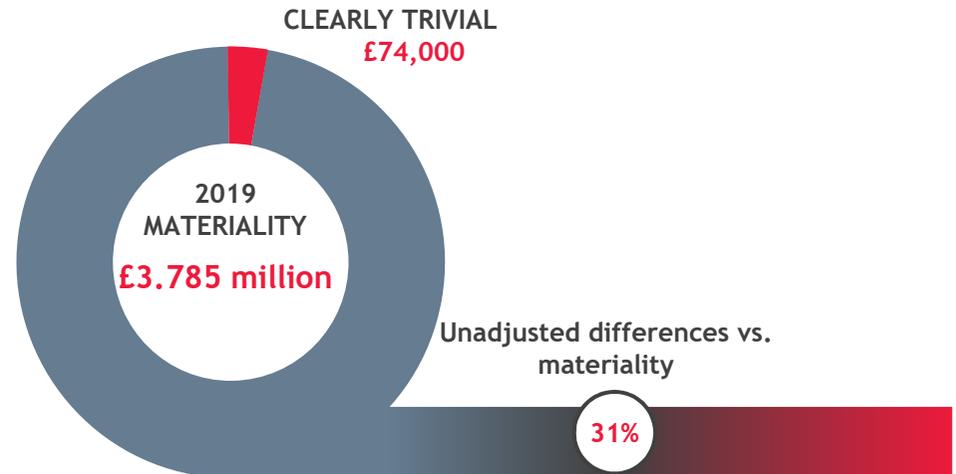
Materiality was calculated at £3.785 million based on a benchmark of 1.75% of gross expenditure.

Material misstatements

We did not identify any material misstatements.

Unadjusted audit differences

We identified audit adjustments that, if posted, would increase the net deficit on provision of services for the year by £1.192 million. After statutory adjustments to reserves, the impact of these audit differences on the General Fund would be £nil.



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	<p>We carried out the following planned audit procedures:</p> <p>Tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements.</p> <p>Reviewed accounting estimates for biases and evaluated whether the circumstances producing the bias, if any, represented a risk of material misstatement due to fraud.</p> <p>Obtained an understanding of the business rationale for significant transactions that were outside the normal course of business for the Council or that otherwise appeared to be unusual, if any.</p>	<p>We identified no evidence of systematic bias or management override in the processing of journal entries and other adjustments, or making of significant accounting estimates. We have not identified any unusual transactions or transactions that are outside the normal course of business for the Council.</p>

FINANCIAL STATEMENTS

Risk description	How the risk was addressed by our audit	Results
Valuation of land and buildings	<p>We carried out the following planned audit procedures:</p> <p>Reviewed the instructions provided to the valuers and the valuers' skills and expertise in order to determine if we can rely on the management experts.</p> <p>Checked whether the basis of valuation for assets valued in year is appropriate; in particular, we checked whether an instant build basis has been used for assets valued at depreciated replacement cost and that investment properties and surplus assets have been valued at 'highest and best use'.</p> <p>Reviewed the reasonableness of assumptions used in the valuation of non-current assets, the accuracy and completeness of the source data used by the valuers and the Council's critical assessment of the external valuers' conclusions.</p>	<p>We identified a misstatement caused by an error in the process of updating accounting records following revaluation. This was not caused by issues with valuation estimates. The error resulted in a £0.35m overstatement of both asset value and gain on revaluation, which the Council adjusted.</p> <p>No other issues were identified.</p>

FINANCIAL STATEMENTS

Risk description	How the risk was addressed by our audit	Results
Revenue recognition - grants with conditions	<p>We carried out the following planned audit procedures:</p> <p>Tested an increased sample of grants subject to conditions to confirm that all conditions had been met before the income was recognised in the CIES.</p>	<p>We found an agreement with a property developer for a contribution to be paid to the Council included a condition that the Council must use the funds within a specified timeframe for a specified purpose, or else the contribution was repayable. This condition remained unmet at the balance sheet date and in our view the contribution should have been treated as a receipt in advance liability of £0.843m. The Council recognised the contribution as income in the reporting period.</p> <p>We also found a contribution recognised as income in the reporting period, having previously been a receipt in advance liability, which did not have any conditions attached. The contribution of £0.167m should have been recognised as income in a previous year.</p> <p>These misstatements are non-material but above triviality. They are reported as unadjusted audit differences.</p> <p>No other issues were identified.</p>

FINANCIAL STATEMENTS

Risk description	How the risk was addressed by our audit	Results
Pension liability assumptions	<p>We carried out the following planned audit procedures:</p> <p>Agreed disclosures to the information provided by the pension fund actuary.</p> <p>Reviewed the reasonableness of assumptions used in the calculation against other local government actuaries and other observable data.</p> <p>Obtained assurance from the auditor of the pension fund over the controls for providing accurate membership data to the actuary.</p> <p>Checked whether any significant changes in membership data have been communicated to the actuary</p>	<p>No issues were identified by our audit procedures.</p> <p>As a result of a judgement in the supreme court (<i>Lord Chancellor v McCloud</i>), an adjusting event after the balance sheet date, the Council posted a £2.29m increase to its net pension liability during the audit period.</p>

USE OF RESOURCES

Audit conclusion on use of resources

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 risks that had the greatest effect on our audit strategy.

Risk description	How the risk was addressed by our audit	Results
Sustainable finances	<p>We carried out the following planned audit procedures:</p> <p>Reviewed the assumptions used in the Medium Term Financial Strategy.</p> <p>Monitored the delivery of the budgeted savings in 2018/19 and the plans to reduce services costs and increase income from 2018/19.</p> <p>Reviewed the plan to close the budget gap in the coming years.</p>	<p>Our review of the Medium Term Financial Strategy (MTFS) assumptions identified that these adequately reflect inflation, pay awards and other known cost pressures. Assumptions around funding sources are reasonable and reflect published information and Government announcements where relevant.</p> <p>Subsequent to the updates to MTFS in January 2019, the Council has set a balanced budget for 2019/20. There is a budget gap of £2.9m over the four years to 2022/23, increasing to a cumulative £11.9 million gap by 2028/29. The Council continues to identify cost efficiencies and opportunities for revenue generation, but has sufficient usable reserves, which have continued an upward trajectory in 2018/19, to cover this shortfall if necessary.</p> <p>Whilst there is a recognised funding gap in the MTFS, we are satisfied that the Council has appropriate arrangements are in place to sustainably deploy resources in the medium term.</p>

USE OF RESOURCES

Risk description	How the risk was addressed by our audit	Results
<p>Informed decision making - Commercialisation</p>	<p>We carried out the following planned audit procedures:</p> <p>Reviewed the Council’s governance arrangements in respect of decisions to invest in commercial property outside of the borough.</p> <p>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.</p> <p>Reviewed ongoing monitoring of investment performance against planned outcomes.</p>	<p>Governance has been provided initially by the Commercial and Strategic Asset Acquisition Sub-Committee and subsequently the Commercial Asset Acquisition Board, created and trained to manage/oversee property investment commercially. Matters of Commercial Asset Acquisition Strategy pass through Corporate Resources Committee and Policy Oversight and Strategy Committee. We have seen evidence of the desired speed of governance through urgent meetings held and the effectiveness of governance where independent advisors have both been engaged and challenged, with difficult decisions made to withdraw from advanced stages of acquisition on receipt of new information.</p> <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, which are working effectively.</p> <p>Investment managers report to the Council regularly on performance, enabling the Council to plan, report and make decisions as required. Portfolio returns exceed the Council’s target of 2% after financing and management costs, which supports the effectiveness of decision making to date.</p> <p>We have seen no evidence of investment appraisal considering any opportunity costs of investing out-of-area. We have concluded that the council’s pursuit of investment returns is not at the expense of competing demands for additional spending within Basildon.</p> <ul style="list-style-type: none"> • Independent advisors are identifying investments that best meet the Council’s specific criteria, ultimately achieving positive outcomes for taxpayers by helping to maintain local services despite funding reductions, with returns that could not have been achieved locally • the Council continues to borrow below its capital financing requirement, with scope to invest locally should opportunities or need arise • equivalent occupied investments locally, with minimal capital outlay, would be unlikely to deliver enhanced economic benefit to the area. <p>We are satisfied that the Council has proper arrangements in place to make informed decisions with regards to its Commercial Asset Acquisition Strategy.</p>

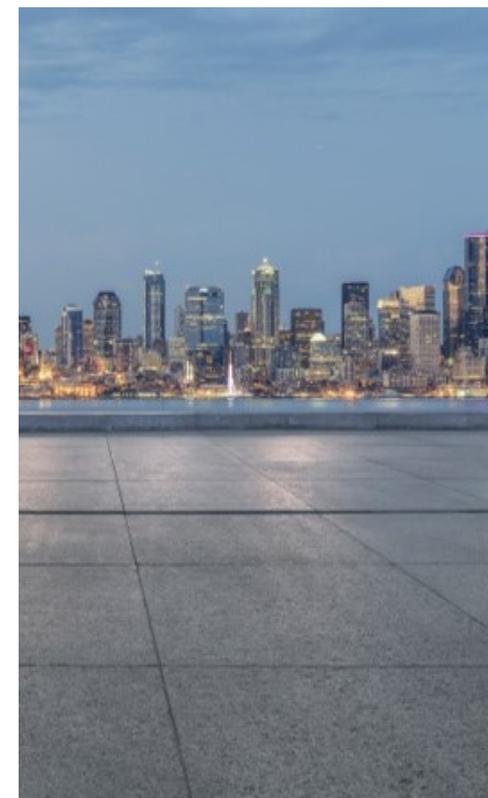
REPORTS ISSUED AND FEES

Fees summary

	2018/19 Final £	2018/19 Planned £
Audit fee - PSAA scale fee	51,585	51,585
Non-audit assurance services:		
Fees for reporting on government grants:		
• Housing benefits subsidy claim	TBC	12,800
• Pooling of housing capital receipts return	TBC	2,800
Total fees	TBC	67,185

Communication

Reports	Date	To whom
Audit plan	6 March 2019	Audit Committee
Audit completion report	24 July 2019	Audit 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 organisation and may not be quoted nor copied without our prior written consent. No responsibility to any third party is accepted.

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