

Brentwood Borough Council

Audit Committee Summary

For the year ended 31 March 2013

Audit results report – ISA 260

30 September 2013



Building a better
working world

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Executive Summary

Key findings

Audit results and other key matters

The Audit Commission's Code of Audit Practice (the Code) requires us to report to 'those charged with governance' on the work we have carried out to discharge our statutory audit responsibilities together with any governance issues identified.

This report summarises the findings from the 2012/13 audit. It includes the messages arising from our audit of your financial statements and the results of the work we have undertaken to assess your arrangements to secure value for money in your use of resources.

Financial Statements

- ▶ On 30 September 2013, we issued an unqualified opinion. Our audit demonstrates that the Council has prepared its financial statements well and this is reflected in the low number of issues to bring to your attention. We do note continued issues with the breakdown of valuation history of PPE.

Value for Money

- ▶ We concluded that you have made appropriate arrangements to secure economy, efficiency and effectiveness in your use of resources.

Whole of Government Accounts

- ▶ We issued an unqualified confirmation to the National Audit Office (NAO) regarding the Whole of Government Accounts submission.

Audit Certificate

- ▶ The audit certificate is issued to demonstrate that the full requirements of the Audit Commission's Code of Audit have been discharged for the relevant audit year. We will issue our audit certificate once our work on the Whole of Government Accounts has been completed.

Extent and purpose of our work

The Council's responsibilities

The Council is responsible for preparing and publishing its Statement of Accounts, accompanied by the Annual Governance Statement. In the Annual Governance Statement, the Council reports publicly 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 Council is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Purpose of our work

Our audit was designed to:

- ▶ Express an opinion on the 2012/13 financial statements
- Report on any exception on the governance statement or other information included in the foreword
- Consider and report any matters that prevent us being satisfied that the Council had put in place proper arrangements for securing economy, efficiency and effectiveness in the use of resources (the Value for Money conclusion)
- This report contains our findings related to the areas of audit emphasis, our views on the Council's accounting policies and judgments and material internal control findings.

This report is intended solely for the information and use of the Council. It is not intended to be and should not be used by anyone other than this specified parties.

Addressing audit risks

Significant Audit risks

We identified the following audit risks during the planning phase of our audit, and reported these to you in our Audit Plan. Here, we set out how we have gained audit assurance over those issues.

Audit Risk identified within our Audit Plan	Audit Procedures performed	Assurance gained and issues arising
Significant audit risks		
<p>Accounting for Fixed Assets. There have been material misstatements and other errors, identified in accounting for fixed assets in recent years. The Council hopes to overcome these with the implementation of a new Integrated Asset Management System (IAMS), which will be used to prepare the figures for the 2012/13 financial statements.</p> <p>If the Council's new asset management system is not accurate there is a risk that the fixed asset disclosures will be materially misstated.</p> <p>In addition, the Council are changing their fixed asset valuer.</p>	<p>We reviewed:</p> <ul style="list-style-type: none"> •the Council's procedures for migrating fixed asset information on to the new IAMS •the controls operating in the IAMS •the completeness, accuracy and quality of the financial information from the IAMS to support balances in the accounts. •the Council's instructions to the valuer and review of the information from the valuer. 	<ul style="list-style-type: none"> •Our work identified a number of issues: •As a result of further analysis the council has been able to analyse fixed asset movements within an acceptable range. However, we have identified a judgemental reclassification error within the PPE note and have take this to the Summary of Audit Differences (SAD).
<p>Financial misreporting and revenue recognition. The Council's FMS ledger continues to create difficulties in producing cleansed and reliable information for each of the income and expenditure service lines with the Consolidated Income and Expenditure Statement and Housing Revenue Account. This has resulted in uncertainties in the accounts and significant time and resources being used to cleanse the data sufficiently from which to select a sample of income and expenditure transactions. In addition, the Council is operating within a challenging funding environment. This creates a significant risk of material misstatement for revenue recognition and misstatement of service income and expenditure lines. The Council receives significant grant funding. The recognition of this revenue is sometimes dependent on conditions being met.</p>	<p>We reviewed:</p> <ul style="list-style-type: none"> • the Council's work to cleanse the information held in the FMS ledger •the controls operating within the Council to ensure the year end financial position is accurately reported. •areas where significant judgement is required, such as provisions. •transactions before and after the year end <p>We also:</p> <ul style="list-style-type: none"> •substantively tested income, expenditure and recharges. •tested material adjustments made by journals •Substantively tested grant income 	<p>Our testing did not identify any significant issues. Assurance gained and no issues arising.,</p>

Addressing audit risks

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Significant audit risks		
<p>Single Status. The Council have not yet completed its single status review. Single status reviews were originally due to be completed by 1 April 2007. These review are currently ongoing.</p> <p>As such there is a potential for a material liability to be accumulating and increasing with the passing of each year. Any provisions will contain a subjective estimate of the potential liability. There may also be a longer term position with individuals or groups of staff appealing and the liabilities being difficult to quantify as they can relate to both past and present employees and are usually material.</p>	<p>We reviewed:</p> <ul style="list-style-type: none"> •the Council's response to the review •the accounting treatment of any liabilities identified •the reasonableness of any estimates made. 	<p>Assurance gained an no issues arising</p>

Addressing audit risks

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Other audit risks		
<p>Risk of misstatement due to fraud and error. Management has the primary responsibility to prevent and detect fraud. It is important that management, with the oversight of those charged with governance, has put in place a culture of ethical behaviour and a strong control environment that both deters and prevents fraud.</p> <p>Our responsibility is to plan and perform audits to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatements whether caused by error or fraud. As auditors, we approach each engagement with a questioning mind that accepts the possibility that a material misstatement due to fraud could occur, and design the appropriate procedures to consider such risk.</p>	<p>We:</p> <ul style="list-style-type: none"> •Considered fraud risks during the planning stages. •Enquired of management about risks of fraud and the controls put in place to address those risks. •Gained an understanding the oversight given by those charged with governance of management's processes over fraud. •Considered the effectiveness of management's controls designed to address the risk of fraud. •Determined an appropriate strategy to address those identified risks of fraud. •Performed mandatory procedures regardless of specifically identified fraud risks. •Considered the results of the National Fraud Initiative 	<ul style="list-style-type: none"> •Assurance gained and no issues arising.
<p>Prior year unadjusted errors. A number of errors and disclosures identified in the 2011/12 accounts where not adjusted. In particular relating to:</p> <ul style="list-style-type: none"> •Donated assets being taken to revaluation reserves •Treatment of DWP Housing Benefit claim year end balances •Unsupported assets in respect of rights and obligations •Accounting treatment of boundary change deferred liabilities under IAS 32 •Netting off material amounts for pension interest costs and expected returns. 	<p>We considered:</p> <ul style="list-style-type: none"> •the impact on the 2012/13 accounts •changes made to address the errors 	<ul style="list-style-type: none"> •All issues were resolved in year and assurance gained.

Financial Statements audit

Issues and errors arising from the audit

Uncorrected Errors

- We have identified an error within the draft financial statements, which management have chosen not to adjust.
- We request that the unrecorded misstatement be corrected or a rationale as to why it is not corrected be considered and approved by the Audit Committee and provided within the Letter or Representation
- Appendix 1 to this report sets out the uncorrected error.

Corrected Errors

- My audit identified a number of further errors which my team have highlighted to management for amendment. All of these have been adjusted during the course of our work.

Other Matters

- As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we are required to communicate to you significant findings from the audit and other matters that are significant to your oversight of the Council's financial reporting process including the following:
 - Qualitative aspects of your accounting practices;
 - Matters specifically required by other auditing standards to be communicated to those charged with governance. For example, issues about fraud, compliance with laws and regulations, external confirmations and related party transactions.
 - Other audit matters of governance interest

We have no matters we wish to report.

Findings and issues

Internal Control, Written Representations & Whole of Government Accounts

Internal Control

It is the responsibility of the Council to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. My responsibility as your auditor is to consider whether the Council has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

We have tested the controls of the Council only to the extent necessary for me to complete my audit. We are not expressing an opinion on the overall effectiveness of internal control.

We have reviewed the Annual Governance Statement and can confirm that:

- ▶ it complies with the requirements of CIPFA/SOLACE Delivering Good Governance in Local Government Framework; and
- ▶ it is consistent with other information that we are aware of from our audit of the financial statements.

We have not identified any significant weakness in the design or operation of an internal control that might result in a material error in your financial statements of which you are not aware.

Request for written representations

We have received a management representation letter to gain management's confirmation in relation to a number of matters, for which we did not currently have sufficient audit evidence.

Whole of Government Accounts

Alongside our work on the financial statements, we also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of our review and the nature of my report are specified by the National Audit Office.

Arrangements to secure economy, efficiency and effectiveness

The Code of Audit Practice (2010) sets out our responsibility to satisfy ourselves that the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. In examining the Council's corporate performance management and financial management arrangements, we have regard to the following criteria and focus specified by the Audit Commission.

Criteria 1 - Arrangements for securing financial resilience

- ▶ *“Whether the Council has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future”*
- ▶ We did not identify any significant risks in relation to this criteria.
- ▶ We have no issues to report in relation to this criteria

Criteria 2 - Arrangements for securing economy, efficiency and effectiveness

- ▶ *“Whether the Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.”*
- ▶ We did not identify any significant risks in relation to this criteria.
- ▶ We have no issues to report in relation to this criteria

Independence & Audit Fees

Independence

- ▶ We confirm there are no changes in our assessment of independence since our confirmation in our Audit Plan dated March 2013.
- ▶ We complied with the Ethical Standards for Auditors and the requirements of the Audit Commission’s Code and Standing Guidance and 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 of regulatory and professional requirements.
- ▶ We confirm that we are not aware of any relationships that may affect the independence and objectivity of the firm that we are required by auditing and ethical standards to report to you.
- ▶ We consider that our independence in this context is a matter that should be reviewed by both you and ourselves. It is therefore important that you consider the facts of which you are aware and come to a view. If you wish to discuss any matters concerning our independence, we will be pleased to do so at the forthcoming meeting of the Audit Committee in September 2013.

- ▶ We confirm that we have met the reporting requirements to the Audit Committee, as ‘those charged with governance’ under International Standards on Auditing (ISA) 260. Our communication plan to meet these requirements were set out in our Audit Plan of April 2013.

Audit fees

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

	Proposed final fee 2012/13	Scale fee 2012/13	Variation comments
	£s	£s	
Total Audit Fee – Code work	Tbc	89,775	
Certification of claims and returns	54,400	54,400	

- ▶ Our final audit fee is likely to increase from the scale fee, subject to consultation with the Audit Commission. This reflects the additional work undertaken to resolve the issues on Fixed Assets.
- ▶ We confirm that we have not undertaken any non-audit work outside of the Audit Commission’s Audit Code requirements.

Appendix 1 - Unadjusted Audit Errors

The following adjustments, which are greater than our tolerable error, have been identified during the course of our audit.

These adjustments have not been made by management within the revised financial statements

Item of Account	Nature of Error	Error Type	Statement of Comprehensive Income & Expenditure		Balance Sheet	
			Debit	(Credit)	Debit	(Credit)
	Unadjusted position in respect of the differential starting positions in Technology Forge and the 11/12 accounts resulting in unsupported adjusting positions being taken through the accounts.	J	Debit	(Credit)	Debit	(Credit)
1. Capital Adjustment Account					475,000	
2. Revaluation Reserve						475,000
Balance sheet totals					0	0
Income effect of corrected adjustments					0	0
Cumulative effect of uncorrected misstatement					0	0

Key

- ▶ F – Factual error
- ▶ P – Projected error based on audit sample error and population extrapolation
- ▶ J – Judgemental error

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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 Audit Results Report 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.

