Braintree District Council

Annual Audit Letter for the year ended 31 March 2017

September 2017

Ernst & Young LLP
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).

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.
Executive Summary
Executive Summary

We are required to issue an annual audit letter to Braintree District Council (the Council) following completion of our audit procedures for the year ended 31 March 2017.

Below are the results and conclusions on the significant areas of the audit process

<table>
<thead>
<tr>
<th>Area of Work</th>
<th>Conclusion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Opinion on the Council's</td>
<td>Unqualified – the financial statements give a true and fair view of the financial position of the Council as at 31 March 2017 and of its expenditure and income for the year then ended.</td>
</tr>
<tr>
<td>► Financial statements</td>
<td></td>
</tr>
<tr>
<td>► Consistency of other information published with the financial statements</td>
<td>Other information published with the financial statements was consistent with the Annual Accounts.</td>
</tr>
<tr>
<td>Concluding on the Council’s arrangements for securing economy, efficiency and effectiveness</td>
<td>We concluded that you have put in place proper arrangements to secure value for money in your use of resources.</td>
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<table>
<thead>
<tr>
<th>Area of Work</th>
<th>Conclusion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reports by exception:</td>
<td></td>
</tr>
<tr>
<td>► Consistency of Governance Statement</td>
<td>The Governance Statement was consistent with our understanding of the Council.</td>
</tr>
<tr>
<td>► Public interest report</td>
<td>We had no matters to report in the public interest.</td>
</tr>
<tr>
<td>► Written recommendations to the Council, which should be copied to the Secretary of State</td>
<td>We had no matters to report.</td>
</tr>
<tr>
<td>► Other actions taken in relation to our responsibilities under the Local Audit and Accountability Act 2014</td>
<td>We had no matters to report.</td>
</tr>
<tr>
<td>Area of Work</td>
<td>Conclusion</td>
</tr>
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<td>------------------------------------------------------------------------------</td>
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</tr>
<tr>
<td>Reporting to the National Audit Office (NAO) on our review of the Council’s Whole of Government Accounts return (WGA).</td>
<td>We had no matters to report&lt;br&gt;The Council is below the specified audit threshold of £350 million. Therefore, we did not perform any audit procedures on the consolidation pack.</td>
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As a result of the above we have also:

<table>
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<tr>
<th>Area of Work</th>
<th>Conclusion</th>
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<tbody>
<tr>
<td>Issued a report to those charged with governance of the Council communicating significant findings resulting from our audit.</td>
<td>Our Audit Results Report was presented to the Governance Committee 6 September 2017</td>
</tr>
<tr>
<td>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.</td>
<td>Our certificate was issued on 8 September 2017</td>
</tr>
</tbody>
</table>

In November 2017 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.

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Kevin Suter  
For and on behalf of Ernst & Young LLP
Purpose
Purpose

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 2016-17 Audit Results Report to the 6 September 2017 Governance 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
Responsibilities

Responsibilities of the Appointed Auditor

Our 2016/17 audit work has been undertaken in accordance with the Audit Plan that we issued on 22 March 2017 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 2016/17 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 thy 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 you Whole of Government Accounts return. The Council is below the specified audit threshold of £350 million. 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.
Financial Statement Audit

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 8 September 2017.

Our detailed findings were reported to the 6 September Governance Committee.

We would like to take the opportunity to thank the Council for the support and help provided to the audit team and the quality and timeliness of the working papers provided.

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

<table>
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<tr>
<th>Significant Risk</th>
<th>Conclusion</th>
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<tbody>
<tr>
<td>Management override of controls</td>
<td>• We tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in preparing the financial statements;</td>
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<td></td>
<td>• We reviewed accounting estimates for evidence of management bias with particular emphasis on Property, Plant and Equipment and accruals; and</td>
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<tr>
<td></td>
<td>• We evaluated the business rationale for any significant unusual transactions.</td>
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</table>

We did not identify any material weaknesses in controls or evidence of material management override.
We did not identify any instances of inappropriate judgements being applied.
We did not identify any other transactions during our audit which appeared unusual or outside the Council's normal course of business.
Revenue and expenditure recognition
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.

We respond to this risk by reviewing and testing material revenue and expenditure streams and revenue cut-off at the year end.

For local authorities the potential for the incorrect classification of revenue spend as capital is a particular area where there is a risk of management override. We therefore review capital expenditure on property, plant and equipment to ensure it meets the relevant accounting requirements to be capitalised.

We tested the additions to the Property, Plant and Equipment balance to ensure that they are properly classified as capital expenditure.

Our testing did not reveal any material misstatements with respect to revenue and expenditure recognition, and did not identify any expenditure which had been inappropriately capitalised.

Overall our audit work did not identify any issues or unusual transactions which indicated that there had been any misreporting of the Council’s financial position.

Other Financial Statement Risks

<table>
<thead>
<tr>
<th>Non-Current Assets</th>
<th>Conclusion</th>
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<tbody>
<tr>
<td>Property, Plant and Equipment represent a significant balance in the Council’s accounts and are subject to valuation changes, impairment reviews and depreciation charges. Material judgemental inputs and estimation techniques are required to calculate the year-end fixed assets balances held in the balance sheet. The Council engages an external expert valuer who applies a number of complex assumptions. Annually, assets are assessed to identify whether there is any indication of impairment. We did not identify any material issues in the valuation of assets within the Council’s accounts.</td>
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<tr>
<th>Pension Liability – IAS19</th>
<th>Conclusion</th>
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<tr>
<td>The Local Authority Accounting Code of Practice and International Accounting Standard 19 (IAS19) requires the Council to make extensive disclosures within its financial statements regarding the Local Government Pension Scheme (LGPS) in which it is an admitted body. The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the administering body (Essex County Council). Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf.</td>
<td></td>
</tr>
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</table>
We did not identify any issues for the 2016/17 accounts. Assumptions used by the actuary and adopted by the Council are considered to be generally acceptable. The sensitivities surrounding these assumptions have been correctly disclosed in Note 27 to the financial statements.

Financial statements presentation – Expenditure and funding analysis and Comprehensive income and expenditure statement

Amendments were made to the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 (the Code) changing the way the financial statements are presented. The new reporting requirements impacted the Comprehensive Income and Expenditure Statement (CIES) and the Movement in Reserves Statement (MiRS), and include the introduction of the new ‘Expenditure and Funding Analysis’ note as a result of the ‘Telling the Story’ review of the presentation of local authority financial statements.

This change required a full retrospective restatement of impacted primary statements. The restatement of the 2015/16 comparatives has required audit review which was performed in April 2017.

There were no other matters to report.

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.

<table>
<thead>
<tr>
<th>Item</th>
<th>Thresholds applied</th>
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<tbody>
<tr>
<td>Planning materiality</td>
<td>We determined planning materiality to be £1.522 million (2016: £1.519 million), which is 2% of Gross Expenditure reported in the accounts. We consider Gross Expenditure to be one of the principal considerations for stakeholders in assessing the financial performance of the Council.</td>
</tr>
<tr>
<td>Reporting threshold</td>
<td>We agreed with the Governance Committee that we would report to the Committee all audit differences in excess of £76k (2016: £75k)</td>
</tr>
</tbody>
</table>

We also identified areas where misstatement at a lower level than materiality might influence the reader and developed a specific audit strategy for them. They include:
• Remuneration disclosures – reduced materiality level of £5,000 applied in line with bandings disclosed; and
• Related party transactions, members’ allowances and exit packages - reduced materiality level applied equal to the reporting threshold.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations.
Value for Money
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 tables below present the findings of our work in response to the risks identified. We have performed the procedures outlined in our audit plan.

<table>
<thead>
<tr>
<th>Significant Risk</th>
<th>Conclusion</th>
</tr>
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<tbody>
<tr>
<td>Informed Decision Making – Essex Garden Communities Project</td>
<td>We have undertaken the procedures as set out in our audit strategy which have focused on:</td>
</tr>
<tr>
<td>Over the last 18 months the Council jointly with Essex County Council, Colchester Borough Council and Tendring District Council have developed proposals for Garden Communities in North Essex. The aim of the Garden communities approach is to identify an agreed strategic approach to the allocation and distribution of large scale housing led mixed use development, including employment opportunities and infrastructure provision. The Council has sourced a peer review performed by Lord Kerslake. The review looked at the current approach to delivering Garden Communities in North Essex. As a new and significant arrangement there may be risks relating to the governance and accounting arrangements for the establishment of the project that affect the Council.</td>
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</table>

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 8 September 2017.
Other Reporting Issues
Other Reporting Issues

Whole of Government Accounts
The Council is below the specified audit threshold of £350 million. 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.

Objections Received
We did not receive any objections to the 2016/17 financial statements from member 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 Governance Committee on 6 September 2017. 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 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. As we have adopted a fully substantive approach, we have therefore not tested the operation of controls. Although our audit was not designed to express an opinion on the effectiveness of internal control we are required to communicate significant deficiencies in internal control.

We did not identify any significant deficiencies in the design or operation of an internal control might result in a material misstatement in the financial statements.
Appendix A  Audit Fees

Our fee for 2016/17 is in line with the scale fee set by the PSAA and reported in our 2016/17 annual fee letter.

<table>
<thead>
<tr>
<th>Description</th>
<th>Final Fee 2015/16</th>
<th>Planned Fee 2016/17</th>
<th>Scale Fee 2016/17</th>
<th>Final Fee 2016/17</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Audit Fee – Code work</td>
<td>£59,756</td>
<td>£59,756</td>
<td>£59,756</td>
<td>£59,756</td>
</tr>
<tr>
<td>Total Audit Fee – Certification of claims and returns</td>
<td>£13,728</td>
<td>£13,778</td>
<td>£13,778</td>
<td>TBC</td>
</tr>
</tbody>
</table>

Our fee for the certification of grant claims is based on the indicative scale fee set by the PSAA. Our actual fee will be determined on completion of the Housing Benefit subsidy claim, due by 30 November 2017.

We confirm we have not undertaken any non-audit work outside of the PSAA’s requirements during the financial year 2016/17.