



Borough of Broxbourne  
Council

Annual Audit Letter for the year  
ended 31 March 2018

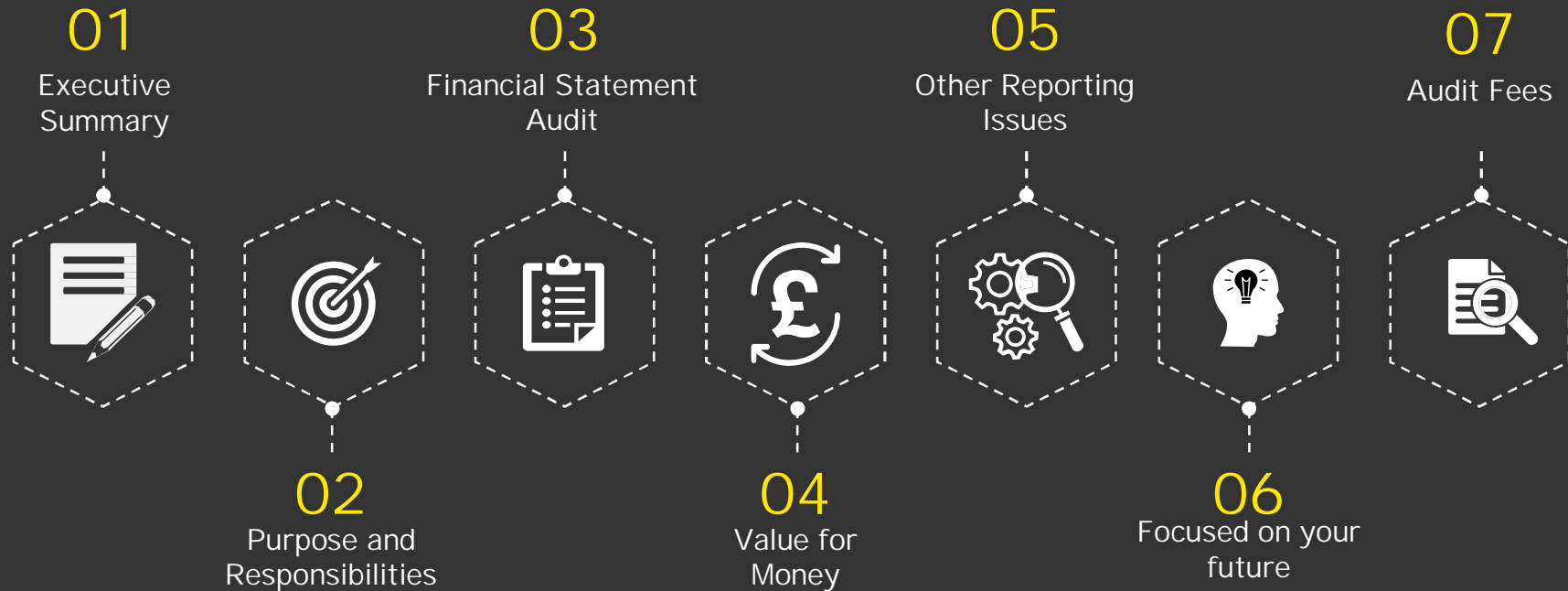
August 2018



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# Contents



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 Borough of Broxbourne 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
Opinion on the Council's: ▶ Financial statements	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
▶ Consistency of other information published with the financial statements	Other information published with the financial statements was consistent with the Annual Accounts
Concluding on the Council's arrangements for securing economy, efficiency and effectiveness	We concluded that you have put in place proper arrangements to secure value for money in your use of resources

Area of Work	Conclusion
Reports by exception:	
▶ 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
Reporting to the National Audit Office (NAO) on our review of the Council's Whole of Government Accounts return (WGA).	The Council is below the specified audit threshold of £500mn. Therefore, we did not perform any audit procedures on the consolidation pack.



## 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.	Audit Results Report was issued for Audit and Standards Committee 16 June 2018 Our final Audit Results Report was issued on 26 July 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 26 July 2018

We would like to take this opportunity to thank the Council's staff for their assistance during the course of our work.

Andrew Brittain  
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 and Standards 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 on 2 March 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.



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## Financial Statement Audit



# 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 26 July 2018. Our detailed findings were reported to the 18 June 2018 Audit and Standards Committee.

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

Significant Risk	Conclusion
<p>Risk of Management Override</p> <p>The financial statements as a whole are not free of material misstatements whether caused by fraud or error.</p> <p>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>	<ul style="list-style-type: none"><li>• We obtained the responses we requested from management and those charged with governance to our enquiries and used these to inform our understanding of fraud risks. We noted that key elements of the entity level control framework that we would expect to see, especially arrangements for internal audit, and risk management, were in place.</li><li>• Our walkthrough testing included considering what controls are in place to address significant risks. We concluded that these are in large part year end processes including management review of the draft financial statements. We confirmed that these controls were in place, although our approach was not to rely on controls.</li><li>• Our work on the testing of accounting estimates has been completed and no significant issues identified.</li><li>• We did not identify any material cut-off issues at the period end date.</li><li>• We have not identified any material weaknesses in controls or evidence of material management override.</li><li>• We have not identified any instances of inappropriate judgements being applied.</li><li>• We did not identify any other transactions during our audit which appeared unusual or outside the Authority's normal course of business.</li></ul> <p>Overall, our audit work has not identified any material issues, inappropriate judgements or unusual transactions which indicate that there has been any misreporting of the Authority's financial position, that revenue or expenditure has been incorrectly recorded or that management has overridden control.</p>

## Financial Statement Audit (cont'd)

### Other Key Findings

#### Property, Plant and Equipment and Investment Property Valuations

Property, plant and equipment (PPE) and Investment Property (IP) represent significant balances in the Council's accounts and are subject to valuation changes, impairment reviews and/or depreciation charges.

Material judgemental inputs and estimation techniques are required to calculate the year-end PPE and IP balances held in the balance sheet.

As the Council's asset base is significant, and the outputs from the valuer are subject to estimation, there is a higher inherent risk PPE may be under/overstated or the associated accounting entries incorrectly posted.

ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of experts and assumptions underlying estimates.

### Conclusion

We challenged the assumptions made by the Authority's valuers and following completion of this work we engaged our own internal valuers to review three further assets in addition to the one planned in our original procedures.

Our internal valuers concluded that on these three assets, one was within the range, and two were outside.

The Council has increased the valuation of Investment Property by £800,000 to £75,427k.

We have identified a further £589,000 that the Council has decided not to adjust. This is recorded as a judgemental difference and set out within Section 4.

We have not identified any other issues in respect of Property, Plant and Equipment and Investment Property valuations.

#### Pension Liability Valuation

The Local Authority Accounting Code of Practice and IAS19 require 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 Council's current pension fund deficit is a highly material and sensitive item and the Code requires that this liability be disclosed on the Council's balance sheet.

The information disclosed is based on the IAS 19 report issued to the Council by the actuary. As with other councils, accounting for this scheme involves significant estimation and judgement and due to the nature, volume and size of the transactions we consider this to be a higher inherent risk.

The accounting entries and disclosures are in line with our expectations and the Code.

We have completed our IAS 19 procedures. A difference has been identified in respect of the Pension Liability. This was identified through the reporting of the Pension Fund Auditors and arose from a material difference in the actuary's projected total fund value as at 31 March 2018 and the reported value of the fund.

The estimate has increased the fund value by 1.5% and whilst this is within a reasonable range, the difference in Borough of Broxbourne's share of the 31 March fund value estimate and the projection to the year end is above our materiality level.

The Council agreed to update their estimate to reflect assumptions and data supporting the fund as at 31st March 2018 and the pension liability has been amended from £18,963k to £17,452k.

## Financial Statement Audit (cont'd)

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### 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	We determined planning materiality to be £1.3mn (2017: £1.3mn), which is 2% of Gross Expenditure reported in the accounts of £67.57 million. This comprises of gross expenditure on the provision of services, levies expenditure and interest payable. We have not changed the basis for calculation of materiality from the previous period. We consider gross expenditure to be one of the principal considerations for stakeholders in assessing the financial performance of the Council.
Reporting threshold	We agreed with the Audit and Standards Committee that we would report to the Committee all audit unadjusted differences in excess of £0.05mn (2017: £0.05mn)

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: Related party transactions. We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations.



## 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 present the findings of our work in response to the risk identified.

We have 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.

## Value for Money (cont'd)

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Significant Risk	Conclusion
<p data-bbox="91 384 792 480">Significant in-year investment in retail premises in Grimsby The council purchased the Tesco retail site for investment purposes during 17/18.</p> <p data-bbox="91 533 792 616">This is a substantial asset and the purchase of such a significant investment asset is outside the council's normal course of business.</p> <p data-bbox="91 671 792 756">The site is therefore a significant project for the council which presents challenges in terms of governance, financial and risk management as well as partnership working.</p>	<p data-bbox="792 384 2148 440">Our review has focussed on reviewing the governance arrangements of the purchase of investment properties and we have concluded on the following:</p> <ul data-bbox="792 472 2148 644" style="list-style-type: none"><li data-bbox="792 472 2148 528">• The robustness of the underlying assumptions &amp; calculations of the purchase, including the linkage between the capital programme and revenue budgeting;</li><li data-bbox="792 528 2148 560">• Assessing the governance, financial &amp; risk management arrangements in place to support key decision making;</li><li data-bbox="792 560 2148 592">• The effectiveness of in year monitoring of progress against efficiency targets;</li><li data-bbox="792 592 2148 624">• The adequacy of the Council's process for identifying new investment properties;</li><li data-bbox="792 624 2148 644">• Understand how the council is working with other bodies and partners in relation to the project.</li></ul> <p data-bbox="792 671 2148 703">We have no matters to report.</p>

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We therefore issued an unqualified value for money conclusion on 26 July 2018



## 05 Other Reporting Issues



## Other Reporting Issues

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### Whole of Government Accounts

We performed the procedures required by the National Audit Office on the accuracy of the consolidation pack prepared by the Council for Whole of Government Accounts purposes. We had no issues to report.

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 and Standards Committee on 18 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 and Standards 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
IFRS 9 Financial Instruments	<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. However, what is clear is that the Council will have to:</p> <ul style="list-style-type: none"> <li>• Reclassify existing financial instrument assets</li> <li>• Re-measure and recalculate potential impairments of those assets; and</li> <li>• Prepare additional disclosure notes for material items.</li> </ul>
IFRS 15 Revenue from Contracts with Customers	<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>Now that the 2018/19 Accounting Code of Practice for Local Authorities has been issued it is becoming clear what the impact on local authority accounting will be. As the vast majority of revenue streams of Local Authorities fall outside the scope of IFRS 15, the impact of this standard is likely to be limited.</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. The Council will need to consider the impact of this on their own group accounts when that trading company is consolidated.</p>



## Focused on your future (cont'd)

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Standard	Issue	Impact
IFRS 16 Leases	<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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A close-up photograph of a person's hand reaching into a filing cabinet to touch a folder. The cabinet is filled with numerous folders of various colors (yellow, blue, white) and sizes, each containing stacks of papers. The background is a textured, light-colored wall.

## 07 Audit Fees

## Audit Fees

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Our fee for 2017/18 is based on the scale fee set by the PSAA and reflects our reporting in our 26 July 2018 Audit Results Report.

Description	Final Fee 2017/18 £	Planned Fee 2017-18 £	Scale Fee 2017/18 £	Final Fee 2016/17 £
Total Audit Fee – Code work	56,094	51,471	46,931	59,513
Total Audit Fee – Certification of claims and returns	TBC	TBC	10,487	18,374

2017/18 £4,540 charged in respect of completing group accounts for the consolidation of Badger Investment Ltd.

2017/18 £1,294 charged in respect of additional work in relation to the Value For Money Conclusion significant risk.

2017/18 £3,329 charged in respect of additional procedures relating to the valuation of Investment Property.

This fee is yet to be agreed by management, and is subject to approval by the PSAA.

We confirm we have not undertaken any non-audit work outside of the PSAA's requirements.

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