

Borough of
Broxbourne Council
Annual Audit Letter for the year
ended 31 March 2019

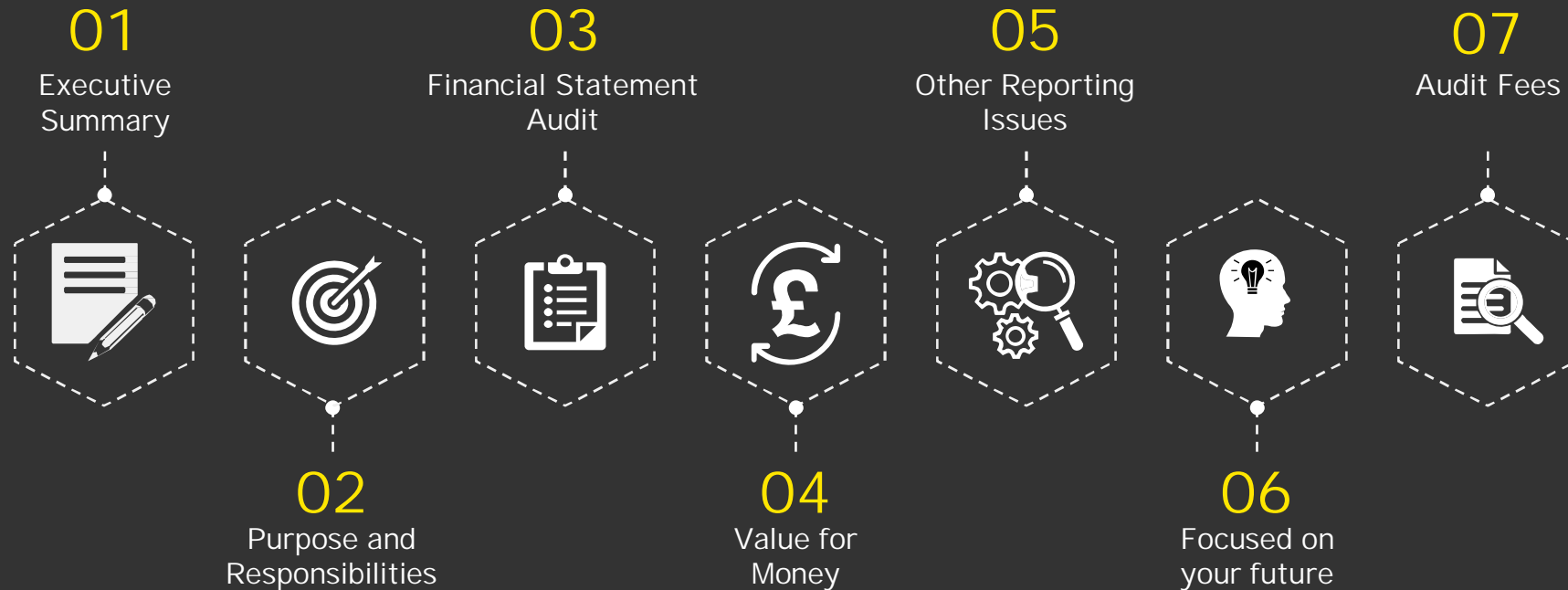
August 2019



EY

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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.psa.co.uk).

This 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 April 2018)' issued by PSAA set 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 and Terms of Appointment. 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 2019. 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 2019 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.

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 18 June 2019.
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 24 July 2019.

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

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 2018/19 Audit Results Report to the 18 June 2019 Audit 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 2018/19 audit work has been undertaken in accordance with the Audit Plan that we presented at the 21 March 2019 Audit Committee meeting and is conducted in accordance with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK), and other guidance issued by the National Audit Office.

As auditors we are responsible for:

- ▶ Expressing an opinion:
 - ▶ On the 2018/19 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 (AGS). 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

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 other guidance issued by the National Audit Office and issued an unqualified audit report on 24 July 2019. Our detailed findings were reported to the 18 June 2019 Audit Committee.

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

Significant Risk	Conclusion
<p>Misstatements due to fraud or error</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) 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>	<p>We:</p> <ul style="list-style-type: none"> Inquired of management about risks of fraud and the controls put in place to address those risks. Understood the oversight given by those charged with governance of management's processes over fraud. Considered of the effectiveness of management's controls designed to address the risk of fraud. <p>Performed mandatory procedures regardless of specifically identified fraud risks, including:</p> <ul style="list-style-type: none"> Tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements Assessed accounting estimates for evidence of management bias, and Evaluated the business rationale for significant unusual transactions. <p>We have not identified any material weaknesses in controls or evidence of material management override.</p> <p>We have not identified 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

Significant Risk	Conclusion
<p>Misstatements due to fraud or error – capitalisation of revenue expenditure</p> <p>In considering how the risk of misstatements due to fraud or error may be presented, we concluded that this is primarily through management taking action to override controls and manipulate in year financial transactions that impact the medium to longer term projected financial position.</p> <p>A key way of improving the revenue position is through the inappropriate capitalisation of revenue expenditure. The Council has a significant fixed asset base and a material capital programme and therefore has the potential to materially impact the revenue position through inappropriate capitalisation.</p>	<p>We took a substantive approach to respond to this risk, undertaking the following procedures:</p> <ul style="list-style-type: none"> • Tested a sample of capital expenditure at a lower testing threshold, to verify that revenue costs had not been inappropriately capitalised; • Reviewed unusual journal pairings related to capital expenditure posted around the year-end i.e. where the debit is to capital expenditure and the credit to income and expenditure. <p>Our audit work did not identify any material issues or unusual transactions to indicate any misreporting of the Council's financial position through the inappropriate capitalisation of revenue expenditure.</p>
<p>Valuation of property, including investment properties</p> <p>The fair value of Property, Plant and Equipment (PPE) represent significant balances in the Council's accounts and are \subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.</p> <p>In assessing this risk, we considered the material valuations of operational and investment property held by the Council, the varied nature of these assets and the basis on which they are valued, including the need to apply judgement; and the fact that the Council had appointed a new valuer in 2018/19.</p>	<p>We took a substantive approach to respond to this risk, undertaking the following procedures:</p> <ul style="list-style-type: none"> • Assessed the competence and objectivity of the external and internal specialists used by the Council in the valuation of assets; • Ensured the valuers report reconciled to Council's fixed asset register; • Assessed the classification of assets, the valuation basis that was assigned and any material increases or impairments that arise during the year; • Assessed the work of the external and internal property valuers in respect of the property portfolio, consulting with the EY Real Estates team where appropriate. This included challenging the assumptions and methodology used to determine the resulting valuations of a sample of assets; • Considered the assets not revalued in year to assess the likelihood of material misstatement within the population. • Tested the accounting entries and disclosures made within the Council's financial statements to confirm these complied with relevant accounting standards and the Code.

Significant Risk	Conclusion
<p>Valuation of property including investment properties continued</p>	<p>We reported our findings in the Audit Results Report, making some recommendations:</p> <ul style="list-style-type: none"> Retention of documentary evidence of and rationale for some of the complex assumptions used in the valuations of assets included in the financial statements; Ensuring appropriate information is supplied to the external valuer including suitable footprints in terms of the building and the land associated with the building; For assets not subject to revaluation in the year, the Council should ensure there is a mechanism in place to ensure all assets are included in the rolling programme; Preparing a more granular impairment review to provide a rationale, where significant potential movements are identified, for the valuation of any asset classes not to be adjusted.
<p>Risk of fraud in revenue and expenditure recognition – rental income from commercial properties</p> <p>We evaluated which types of revenue and transactions may give rise to this risk and concluded that this as the rental income from commercial properties.</p> <p>In making this assessment, we have considered management's incentive to increase revenue due to budgetary pressures and the increased reliance on commercial property rental income as a source of financing for the council's operations.</p>	<p>We took a substantive approach to respond to this risk, undertaking the following procedures:</p> <ul style="list-style-type: none"> Reviewed the Council's revenue recognition policy; Reviewed the key controls related to commercial property income by walking through the revenue and debtors process; Obtained key commercial rental income contracts and understood the key obligations contained in these; Performed substantive analytical procedures: we developed an expectation of the level of commercial property income through our understanding of the key contracts, and of the key movements in the Council's commercial property portfolio; Undertook increased cut off testing to ensure income was recorded in the correct period, and Used our analytics to identify any unusual trends or spikes around year end in rental income. <p>Our audit work did not identify any material issues or unusual transactions to indicate any misreporting of the Authority's financial position through the inappropriate recognition of rental income from commercial rent income.</p>

Financial Statement Audit (cont'd)

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

Other Key Findings	Conclusion
<p>McCloud/Sargeant Case</p> <p>In our Audit Results Report, we reported that there was an outstanding issue to be resolved related to the pensions liability. Court of Appeal judgements were made in cases affecting judges' and firefighters' pension in relation to age discrimination arising from pension scheme transition arrangements. It was anticipated that this ruling will also apply to transition arrangements in the Local Government Pension Scheme (LGPS). We reported that the Government Actuary Department was providing an estimate of this impact and once finalised and that we needed to assess the implications for the liability disclosed in the financial statements.</p>	<p>Quantifying the impact of the judgement is complex as it will depend on a range of assumptions.</p> <p>The Council engaged their actuary to provide an estimated impact of this case on the liability. The revised estimate results in an increase of 0.04% of liabilities which equates to £47,000. This does not result in a material impact on the financial statements and no adjustment has been made.</p>
<p>Guaranteed minimum pension (GMP)</p> <p>GMP was accrued by members of LGPS between 6 April 1978 and 5 April 1997. The value of GMP is inherently unequal between males and females for a number of reasons, including a higher retirement age for men and GMP accruing at a faster rate for women. Overall equality of benefits was achieved for public service schemes through the interaction between scheme pensions and the Second State Pension. The introduction of the new Single State Pension in April 2016 brought uncertainty over the ongoing indexation of GMPs, which could lead to inequalities between men's and women's benefits.</p> <p>As an interim solution, GMP rules were changed so that the responsibility for ensuring GMPs kept pace with inflation passed in full to pension schemes themselves for members reaching state pension age between 6 April 2016 and 5 April 2021. This new responsibility leads to increased costs for schemes (including the LGPS) and hence scheme employers.</p>	<p>The Council engaged their actuary to provide an estimated impact of GMP indexation. The revised estimate results in an increase of 0.21% of liabilities which equates to £249,000. This does not result in a material impact on the financial statements and no adjustment has been made.</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 £1.32m (2017/18: £1.33m), which is 2% of gross revenue expenditure reported in the accounts of £66.4 million.</p> <p>We consider gross revenue expenditure 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 and Standards Committee that we would report to the Committee all audit differences in excess of £66k (2017/18: £69k).

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 where we have tested on a judgemental basis.
- ▶ Related party transactions where we have not applied a level of materiality but assessed the entire disclosure.

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

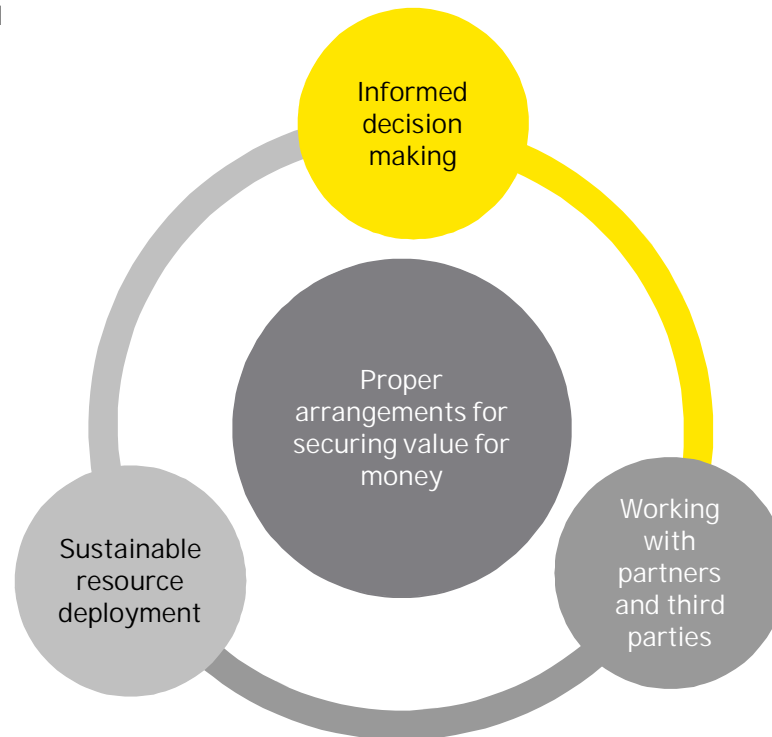


04 Value for Money

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness in 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 around these arrangements. The tables below present our findings in response to the risks in our Audit Planning Report.

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)

We issued an unqualified value for money conclusion on 24 July 2019.

Significant Risk	Conclusion
<p>Financial resilience – the Council’s medium term financial plan places an emphasis on self-sufficiency through, for example:</p> <ul style="list-style-type: none">• Continued investments in commercial properties• Increasing borrowing to support strategic objectives <p>As part of this strategy, the Council has purchased two new investment properties in 2018/19 with the primary purpose of generating investment income. The strategy presents challenges in terms of governance, financial and risk management as well as partnership working.</p>	<p>We have considered:</p> <ul style="list-style-type: none">• the due diligence undertaken by the Council in reaching decisions regarding commercial investment, including the governance, financial & risk management arrangements;• the robustness of the underlying assumptions and calculations of the 2018/19 purchases, including the linkage between the capital programme and revenue budgeting;• the effectiveness of in year monitoring of progress against efficiency targets; and• how the council is working with other bodies and partners to support its commercial investment strategy.• the level of reliance for future financial resilience on investment income and the risk assessment/sensitivity analysis the Council has undertaken. <p>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.</p>



05 Other Reporting Issues



Other Reporting Issues

Whole of Government Accounts

We are required to perform the procedures specified by the National Audit Office on the accuracy of the consolidation pack prepared by the Council for Whole of Government Accounts purposes.

The Council is below the specified audit threshold of £500mn. Therefore, we were not required to 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 2018/19 financial statements from members of the public.

Other Reporting Issues (cont'd)

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 Committee on 27 June 2019. 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 audit 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, in addition to those reported on page 10 above.



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 16 Leases	<p>It is currently proposed that IFRS 16 will be applicable for local authority accounts from the 2020/21 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 2020/21 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 2020/21 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>
IASB Conceptual Framework	<p>The revised IASB Conceptual Framework for Financial Reporting (Conceptual Framework) will be applicable for local authority accounts from the 2019/20 financial year.</p> <p>This introduces;</p> <ul style="list-style-type: none"> - new definitions of assets, liabilities, income and expenses - updates for the inclusion of the recognition process and criteria and new provisions on derecognition - enhanced guidance on accounting measurement bases - enhanced objectives for financial reporting and the qualitative aspects of financial information. <p>The conceptual frameworks is not in itself an accounting standard and as such it cannot be used to override or disapply the requirements of any applicable accounting standards.</p> <p>However, an understanding of concepts and principles can be helpful to preparers of local authority financial statements when considering the treatment of transactions or events where standards do not provide specific guidance, or where a choice of accounting policies is available.</p>	<p>It is not anticipated that this change to the Code will have a material impact on Local Authority financial statements.</p> <p>However, Authorities will need to undertake a review to determine whether current classifications and accounting remains valid under the revised definitions.</p>



07

Audit Fees

Audit Fees

Our fee for 2018/19 is in line with the scale fee set by the PSAA and reported in our Audit Results Report presented to the Audit Committee on 16 June 2019.

Description	Final Fee 2018/19 £	Planned Fee 2018/19 £	Scale Fee 2018/19 £	Final Fee 2017/18 £
Total Audit Fee – Code work	Note 1	47,921	36,137	64,758
Non-audit work – Housing subsidy grant claim	TBC Note 2	7,005 Note 2	n/a	Note 3

Note 1 – We are proposing a scale fee variation for the following:

- We have undertaken additional work in relation our significant risk – valuation of operational and investment properties, including engaging our valuation specialists. The proposed variation for this work is £4,500.
- We have undertaken additional work in relation to group accounts. The proposed variation for this work is £4,500.
- Additional work was also required for the issues reported above related to pensions. The proposed variation for this work is £1,500.
- We have discussed and these proposed variations with the Council. Any scale fee variation needs to be approved by PSAA.

Note 2 - From 2018/19, the Council is responsible for appointing their own reporting accountant to undertake the work on their claims in accordance with the instructions determined by the relevant grant paying body. The Council has appointed us to act as reporting accountants in relation to the housing subsidy claim. The fee is based on:

- £9,532 plus VAT for the baseline certification work
- £1,000 - £4,000 plus VAT for each set of extended (“40+”) testing.

The final fee therefore will be dependent on the level of extended testing required for the 2018/19 claim.

Note 3 – the scale fee for the 2017/18 housing subsidy work was £10,487. Based on additional work undertaken, we have agreed a variation to this fee of £6,195 with the Council and this has been approved by PSAA,

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EY-000070901-01 (UK) 07/18. CSG London.



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