

Borough of Broxbourne Council Audit results report

Year ended 31 March 2020
2 November 2020



Private and Confidential

Borough of Broxbourne Council
Bishops College
Churchgate
Cheshunt
EN8 9XQ

2 November 2020

Dear Audit and Standards Committee Members

We are pleased to attach our audit results report for the forthcoming meeting of the Audit and Standards Committee. This report summarises our preliminary audit conclusion in relation to the audit of Borough of Broxbourne Council (the Authority) for 2019/20.

At the date of this report our audit of the Authority's accounts for the year ended 31 March 2020 is substantially complete. Subject to concluding the outstanding matters listed in our report, we anticipate issuing an unqualified audit opinion on the financial statements in the form at Section 3 of this report. As set out in section 1, the Covid-19 pandemic has impacted the statements and our audit opinion. We have no matters to report on your arrangements to secure economy, efficiency and effectiveness in your use of resources.

This report is intended solely for the use of the Audit and Standards Committee, other members of the Authority, and senior management. It should not be used for any other purpose or given to any other party without obtaining our written consent.

We would like to thank your staff for their help during the engagement given the additional pressures they have faced responding to the pandemic and working remotely.

We welcome the opportunity to discuss the contents of this report with you at the Audit and Standards Committee meeting on 11 November 2020.

Yours faithfully

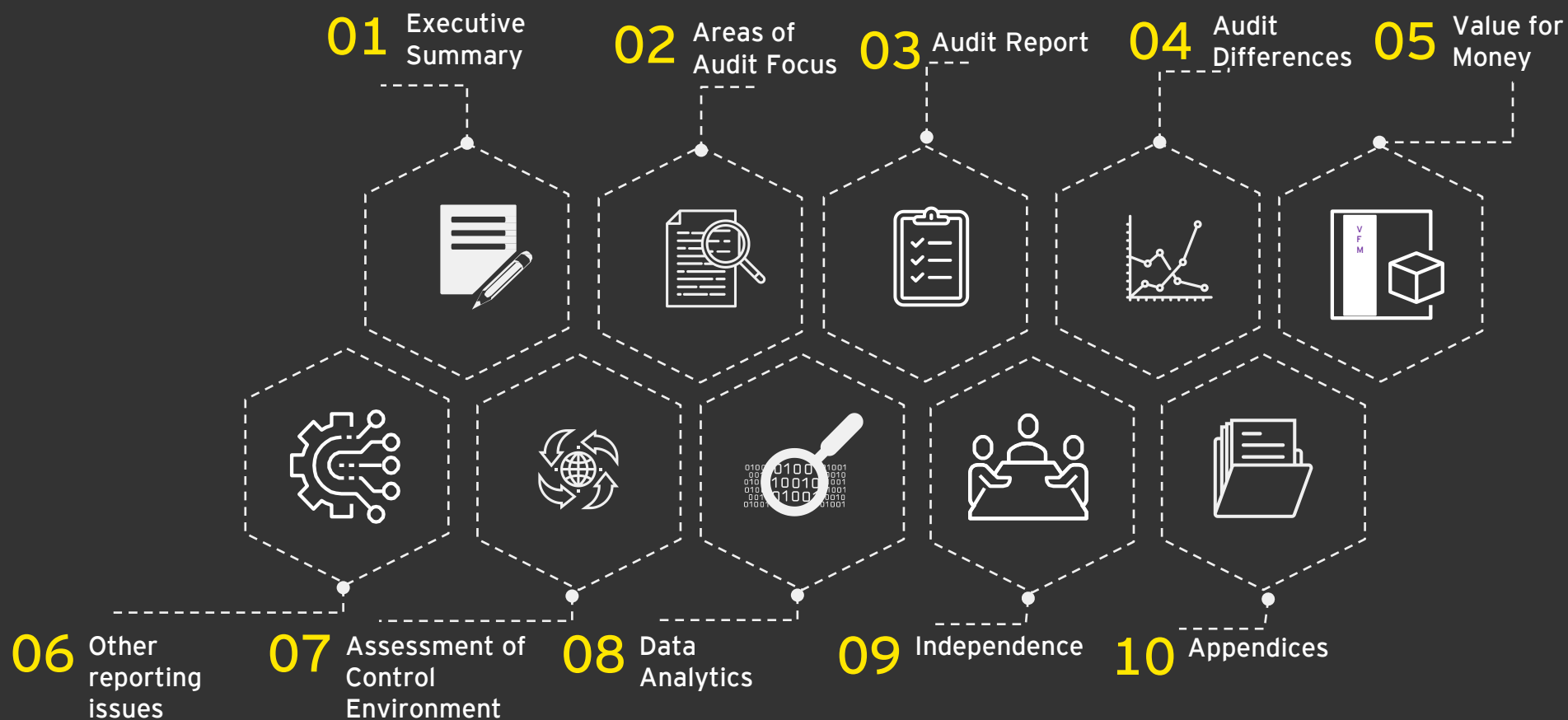
Neil Harris

Associate Partner

For and on behalf of Ernst & Young LLP

Encl

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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). 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 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 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 Hywel Ball, 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

Scope update

In our audit planning report tabled at the March 2020 Audit and Standards Committee meeting, we provided you with an overview of our audit scope and approach for the audit of the financial statements. We carried out our audit in accordance with this plan, with the following exceptions:

Changes to reporting timescales

As a result of COVID-19, new regulations, the Accounts and Audit (Coronavirus) (Amendment) Regulations 2020 No. 404, have been published and came into force on 30 April 2020. This announced a change to publication date for final, audited accounts from 31 July to 30 November 2020 for all relevant authorities.

Changes to our risk assessment as a result of Covid-19

- ▶ **Valuation of Property Plant and Equipment** - The Royal Institute of Chartered Surveyors (RICS), the body setting the standards for property valuations, issued guidance to valuers highlighting that the uncertain impact of Covid-19 on markets might cause a valuer to conclude that there is a material uncertainty. Caveats around this material uncertainty were included in the year-end valuation report produced by the Authority's external valuer. We considered that the material uncertainties disclosed by the valuer gave rise to an additional risk relating to disclosures on the valuation of property, plant and equipment. This is particularly relevant for assets valued at fair value (such as investment properties) or some valued at existing use value (EUV) because of the paucity of reliable market information available at 31 March 2020 upon which to give those valuations.
- ▶ **Disclosures on Going Concern** - The pandemic has had a significant impact on the Authority's finances and as a result there was a need for the Authority to revisit and update financial plans for 2020/21 and the medium term financial plan. We considered the unpredictability of the current environment gave rise to a requirement for the Authority to disclose judgements and assumptions on liquidity and viability for the period of going concern, and for us to review and stress test these.
- ▶ **Events after the balance sheet date** - We identified an increased risk that further events after the balance sheet date concerning the Covid-19 pandemic would need to be disclosed. The amount of detail required in the disclosure needs to reflect the specific circumstances of the Authority.
- ▶ **Adoption of IFRS16** - The adoption of IFRS 16 by CIPFA/LASAAC as the basis for preparation of Local Authority Financial Statements has been deferred until 1 April 2021. The Authority will therefore no longer be required to undertake an impact assessment, and disclosure of the impact of the standard in the financial.
- ▶ **Impairment of receivables** - We identified impairment of receivables as a new area of focus. The Authority holds material third party receivable balances as at 31 March 2020. There is a risk of increasing amounts written off as irrecoverable and impairment of year-end balances due to the potentially increasing number of businesses and residents unable to meet their financial obligations. We have reviewed significant judgements made by management.



Executive Summary

Scope update

Changes to the scope of our audit as a result of Covid-19

- There have been no other changes to the scope of our audit as a result of Covid-19.

Changes in materiality - We updated our planning materiality assessment using the draft financial statements and have also reconsidered our risk assessment. Based on our materiality measure of 2% of gross expenditure on provision of services, we have updated our overall materiality assessment to £1.368m (Audit Planning Report – £1.320m). This results in updated performance materiality, at 75% of overall materiality, of £1.026m, and an updated threshold for reporting misstatements of £0.068m.

Information Produced by the Entity (IPE): We identified an increased risk around the completeness, accuracy, and appropriateness of information produced by the Authority due to the inability of the audit team to verify original documents or re-run reports on-site from the Authority's systems. We undertook the following to address this risk:

- Used the screen sharing function of Microsoft Teams to evidence re-running of reports used to generate the IPE we audited; and
- Agree IPE to scanned documents or other system screenshots.

Additional EY consultation requirements concerning the impact on auditor reports because of Covid-19.

The continued impact of the Covid-19 pandemic increases the risks to the material accuracy of financial statements and disclosures. To ensure we are providing the right assurances to the Authority and its stakeholders the firm has introduced a rigorous consultation process for all auditor reports to ensure that they include the appropriate narrative.

The changes to audit risks, audit approach and auditor reporting requirements changed the level of work we needed to perform. We will determine the impact on our audit fee and discuss with the s151 officer at the conclusion of the audit.



Executive Summary

Status of the audit

We have substantially completed our audit of Borough of Broxbourne Council financial statements for the year 31 March 2020 and have performed the procedures outlined in our Audit planning report. Subject to satisfactory completion of the following outstanding items we expect to issue an unqualified opinion on the Authority's financial statements in the form which appears at Section 3. However until work is complete, further amendments may arise:

- ▶ Completion of group auditor reporting and thereafter routine completion of group audit work.
- ▶ We have not finalised our work on the pensions pending the receipt of further guidance to be issued related to the McCloud judgment from EY Pensions, but currently do not anticipate that this will have a material impact on the accounting assumptions and disclosures in the financial statements.
- ▶ Completion of our routine review and consultation procedures on the Council's going concern assessment and disclosures, disclosures on valuation of assets and the impact on our audit report.
- ▶ Clearance of queries arising from review by Associate Partner and Manager.
- ▶ Review of the final version of the financial statements.
- ▶ Completion of our final review processes.
- ▶ Completion of our audit report consultation processes.
- ▶ Completion of subsequent events review.
- ▶ Receipt of the signed management representation letter.

WGA timetable has been moved to later in the year and we do not expect to issue the audit certificate at the same time as the audit report. We will submit the required return in due course and in accordance with the deadline set.

Our audit opinion will emphasise the following :

- ▶ Valuation of investment properties and other land and buildings valued using market data - We will include an "emphasis of matter" paragraph to draw users attention to the Council's valuer's material uncertainty disclosure in Note 34 of the accounts. This is not a modification to the audit report.

Audit differences

At the time of writing, there are unadjusted difference arising from our audit related to the pensions liability and property valuations. This is explained in more detail at Section 4.

Our work on pensions is still in progress and needs to be concluded. This is further discussed on page 16 of this report. We will update this report and the Committee when this work has been finalised.

Executive Summary

Areas of audit focus

Our Audit Planning Report identified significant risks and key areas of focus for our audit of Borough of Broxbourne Council's financial statements. This report sets out our observations and conclusions, including our views on areas which might be conservative, and where there is potential risk and exposure. We summarise our consideration of these matters in this report.

We ask you to review these and any other matters in this report to ensure:

- There are no other considerations or matters that could have an impact on these issues
- You agree with the resolution of the issue
- There are no other significant issues to be considered.

There are no matters, apart from those reported by management or disclosed in this report, which we believe should be brought to your attention.

Control observations

We have adopted a fully substantive approach, so have not tested the operation of controls. However, from the results of substantive procedures performed we have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statement.

Value for money

We have considered your arrangements to take informed decisions; deploy resources in a sustainable manner; and work with partners and other third parties. In our Audit Planning Report we identified Continued investments in commercial properties and Increasing borrowing to support strategic objectives as a significant risk. As part of this strategy, the Council purchased investment properties in 2019/20 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. We have no matters to report about your arrangements to secure economy efficiency and effectiveness in your use of resources.

Other reporting issues

We have reviewed the information presented in the Annual Governance Statement for consistency with our knowledge of the Authority. We have no matters to report as a result of this work.

Subject to the finalisation of the areas in the Status of Audit work section, we have no other matters to report.

Independence

We have no matters relating to our Independence to bring to your attention. Please refer to Section 9 for our update on Independence.



Executive Summary

Group Statement of Accounts

The Authority has identified and accounted for the following interests in other entities within its group statement of accounts:

- Badger BC Investments Ltd
- Broxbourne Environmental Services Trading Ltd

Our approach has focused on:

- Issuing group instructions and placing reliance on component auditors work for Badger BC Investments Ltd
- Testing the consolidation of entries relating to the subsidiaries into the Authority's Group Statement of Accounts
- Ensuring valuation of investment properties in Badger BC Investments Ltd is appropriate and uncertainty reported by the valuer is addressed
- Checking that group disclosures are complete and accurate
- Assessing if material uncertainty on going concern exist as a result of C-19 for each subsidiary

We have completed our testing and noted the Authority's group financial statements have been prepared on an appropriate basis. No matters were reported by the component auditors.

However, at the time of writing this report we need to complete our final review of group instruction responses.



02

Areas of Audit Focus



Areas of Audit Focus

Significant risk

Misstatements due to fraud or error

What is the risk?

The financial statements as a whole are not free of material misstatements whether caused by fraud or error.

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.

What judgements are we focused on?

We focussed on testing key areas that are susceptible to management bias.

What did we do?

- ▶ 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.

Performed mandatory procedures regardless of specifically identified fraud risks, including:

- ▶ 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.

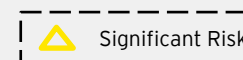
In addition to our overall response, we considered where these risks may present themselves and identified a separate fraud risk related to the capitalisation of revenue expenditure as set out on the next slide.

What are our conclusions?

We have not identified any material weaknesses in controls or evidence of material management override.

We have not identified any instances of inappropriate judgements being applied.

We did not identify any other transactions during our audit which appeared unusual or outside the Authority's normal course of business





Areas of Audit Focus

Significant risk

Risk of fraud in revenue and expenditure recognition – rental income from commercial properties

What is the risk?

Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.

We evaluated which types of revenue and transactions may give rise to this risk and concluded that this is the rental income from commercial properties. 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 Authority's operations.

What judgements are we focused on?

Our judgements were focused on gaining assurance that the recognition of commercial rent income in the financial statements is materially accurate.

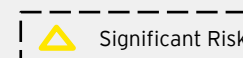
What did we do?

We took a substantive approach to respond to the specific risk, and carried out the following procedures related to rental income from commercial properties:

- Understood the Authority's revenue recognition policy;
- Understood the key controls related to commercial property income by walking through the 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.

What are our conclusions?

Overall 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 recognition of commercial rent income.





Areas of Audit Focus

Significant risk

Misstatements due to fraud or error – capitalisation of revenue expenditure

What is the risk?

As identified in ISA 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 would otherwise appear to be operating effectively. In considering how the risk of management override may present itself, we conclude 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. A key way of improving the revenue position is through the inappropriate capitalisation of revenue expenditure. The Authority 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.

What judgements are we focused on?

We focussed on the testing capital expenditure and obtaining evidence that additions have been correctly classified as capital expenditure.

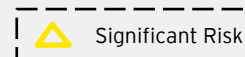
What did we do?

We took a substantive approach to respond to this risk, undertaking the following procedures:

- ▶ 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.

What are our conclusions?

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 capitalisation of revenue expenditure.





Areas of Audit Focus

Significant risk

Valuation of property, including investment properties

What is the risk?

The fair value of Property, Plant and Equipment (PPE) and Investment Property (IP) represent significant balances in the Authority'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. Covid-19 has impacted the valuation of the Authority's investment properties and other assets valued using market data as outlined by the Authority's valuer. This is because of the paucity of reliable market information available at 31 March 2020 upon which to give those valuations. The Authority has included in Note 34 of the accounts reference to the valuers material uncertainty.

What judgements are we focused on?

Our work on valuations focussed on assessing the reasonableness of the methodologies adopted by the valuers in undertaking their valuations in 2019/20 and of the key assumptions input into these valuations. We have also considered those assets that were not valued in 2019/20 and the potential for material misstatement in the valuation of those assets.

What did we do?

- ▶ Considered the work performed by the Authority's valuer, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work.
- ▶ Engaged our valuations specialist (EY Real Estates) to review a sample of other land & buildings & investment properties asset valuations to verify the reasonableness of the valuation methodology applied and key assumptions used.
- ▶ Reviewed assets not subject to valuation in 2019/20 to confirm that the valuation of remaining asset base was not materially misstated.
- ▶ Checked that the material uncertainty reported by the Authority's valuer was appropriately disclosed in the financial statements.
- ▶ Checked that the valuers report reconciles to Authority'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 with no issues arising
- ▶ Tested the accounting entries and disclosures made within the Authority's financial statements to confirm these complied with relevant accounting standards and the Code, for example ensuring that any revaluation gains and losses have been accounted for in the revaluation reserve or charged to the income and expenditure account as appropriate;



Areas of Audit Focus

Significant risk



What are our conclusions?

We have substantially completed our work in response to this risk, including the work carried out by our valuations specialist (EY Real Estates).

Findings

We have reconciled valuers report with the fixed asset register. We have noted differences which are reported in section 4 of this report.

The Authority's external valuer did disclose a 'material uncertainty' in its year end valuation report in line with RICS guidance. The Authority repeated the 'material uncertainty' in the statement of accounts. Based on the work we have undertaken we are satisfied that the carrying value of PPE and IP disclosed in the financial statements is materially accurate. We intend to include an emphasis of matter paragraph in our audit report highlighting the Council's revised disclosure in this area to the reader of the accounts.

For clarity, an emphasis of matter paragraph is not a modification of our opinion. It is a paragraph in our report which highlights a disclosure in the financial statements that, in our judgment, is of importance to the users' understanding of the financial statements.



Areas of Audit Focus



Pension Liability Valuation

The Local Authority Accounting Code of Practice and IAS19 require the Authority to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by Hertfordshire County Council. The Authority's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Authority's balance sheet.

The information disclosed is based on the IAS 19 report issued to the Authority by the actuary to the Pension Fund.

Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

Our approach has focused on:

- ▶ Liaising with the auditors of Hertfordshire Pension Fund to obtain assurances over the information supplied to the actuary in relation to Borough of Broxbourne Council;
- ▶ Assessing the work of the Pension Fund actuary including the assumptions they have used by relying on the work of PwC - Consulting Actuaries commissioned by the NAO for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team; and
- ▶ Reviewing and testing the accounting entries and disclosures made within the Authority's financial statements in relation to IAS19.

In September 2020 the Authority obtained a revised IAS 19 report from the actuary to take into account the most recent development in respect of the McCloud and Goodwin ruling which occurred after year end. This resulted in an adjustment of £1.6m in pensions reserve.

We have considered the IAS19 assurance letter from the auditor of the Pension Fund. This letter noted exceptions related to the Council. Management have deemed this to be immaterial. We note that as it did not have a material impact on the pension liability and reported as un-adjusted audit differences in section 4 of this report.

At the date of this report, we are considering and assessing the impact of McCloud and Goodwin as at 31 March 2020. Our work on pension is in progress.



Areas of Audit Focus



Going concern disclosure

There is presumption that the Authority will continue as a going concern. However, the current and future uncertainty over government funding and other sources of Authority revenue as a result of Covid-19 increases the need for the Authority to undertake a detailed going concern assessment to support its assertion. In light of the unprecedented nature of Covid-19, its impact on the funding of public sector entities and uncertainty over the form and extent of government support, we requested that management provide a documented consideration to support their assertion regarding the going concern basis. We also reviewed the Authority's subsequent new disclosure note.

Our approach has focused on:

- Assessing the adequacy of disclosures required in 2019/20;
- Discussing with management the going concern assessment and challenging management's underlying assumptions;
- Considering the impact on our audit report, including completing the EY consultation requirements.

At the time of writing this report, we need to review the assessment, focusing on the reasonableness of the financial impact assessment, cashflow and liquidity forecasts, known outcomes, sensitivities, mitigating actions and key assumptions, particular around reductions in fees and charges. We also need to formally complete internal consultation to agree final audit opinion and conclusions in respect of the going concern disclosure.



Impairment of receivables

At 31 March 2020 the Authority had £22.8m of total debtors. There may be risk to collection due to the impact of the Covid-19 pandemic. To address the risk, we have performed the following procedures:

- Evaluated the reasonableness of the methods and assumptions used by management to estimate the allowances for doubtful debts.
- Tested the accuracy and completeness of the data used by management to compute the bad debts provision.
- Tested debtor samples to evaluate reasonableness of collection as at 31 March 2020.

Findings and conclusions

We determined that the Authority had considered the impact of Covid-19 through evidence that some debtors had agreed with the Authority temporary deferment of payment. Our sample testing confirmed that the impairment of receivables in the accounts was fairly stated.



03 Audit Report



Audit Report

Draft audit report

This is an example report - our audit report will not be completed and issued until the work and internal consultation on opinion is complete.

Our opinion on the financial statements

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BOROUGH OF BROXBOURNE COUNCIL

Opinion

We have audited the financial statements of Borough of Broxbourne Council for the year ended 31 March 2020 under the Local Audit and Accountability Act 2014. The financial statements comprise the:

- ▶ Authority and Group Movement in Reserves Statement,
- ▶ Authority and Group Comprehensive Income and Expenditure Statement,
- ▶ Authority and Group Balance Sheet,
- ▶ Authority and Group Cash Flow Statement and the related notes 1 to [x].
- ▶ Collection Fund and the related notes 1 to [x]

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

In our opinion the financial statements:

- ▶ give a true and fair view of the financial position of Borough of Broxbourne Council as at 31 March 2020 and of its expenditure and income for the year then ended; and
- ▶ have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and the Comptroller and Auditor General's (C&AG) AGN01, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter - Other land building and Investment Property valuation

We draw attention to Note 34 of the statement of accounts, which describes the valuation uncertainty the Authority is facing as a result of the Covid-19 pandemic in relation to other land and building and investment property valuations. Our opinion is not modified in respect of this matter.



Audit Report

Draft audit report

This is an example report - our audit report will not be completed and issued until the work and internal consultation on opinion is complete.

Our opinion on the financial statements

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- ▶ the Chief Finance Officer's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- ▶ the Chief Finance Officer's has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The other information comprises the information included in the Statement of Accounts 2019/20, other than the financial statements and our auditor's report thereon. The Chief Finance Officer is responsible for the other information. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinion on other matters prescribed by the Local Audit and Accountability Act 2014

Arrangements to secure economy, efficiency and effectiveness in the use of resources

In our opinion, based on the work undertaken in the course of the audit, having regard to the guidance issued by the Comptroller and Auditor General (C&AG) in April 2020, we are satisfied that, in all significant respects, Borough of Broxbourne Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

Matters on which we report by exception

We report to you if:

- ▶ in our opinion the annual governance statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Council;
- ▶ we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- ▶ we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014;
- ▶ we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- ▶ we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014; or
- ▶ we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.



Audit Report

Draft audit report

This is an example report - our audit report will not be completed and issued until the work and internal consultation on opinion is complete.

Our opinion on the financial statements

Responsibility of the Chief Finance Officer

As explained more fully in the Statement of the Responsibilities set out on page 1, the Chief Finance Officer's is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20, and for being satisfied that they give a true and fair view.

In preparing the financial statements, the Chief Finance Officer is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Authority either intends to cease operations, or have no realistic alternative but to do so.

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General (C&AG) in April 2020, as to whether Borough of Broxbourne Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether Borough of Broxbourne Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, Borough of Broxbourne Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our conclusion relating to proper arrangements.



Audit Report

Draft audit report

This is an example report - our audit report will not be completed and issued until the work and internal consultation on opinion is complete.

Our opinion on the financial statements

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Delay in the certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate until we have completed the work necessary to issue our assurance statement in respect of the Authority's Whole of Government Accounts consolidation pack. We are satisfied that this work does not have a material effect on the financial statements or on our value for money conclusion.

Until we have completed these procedures we are unable to certify that we have completed the audit of the accounts in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice issued by the NAO.

Use of our report

This report is made solely to the members of Borough of Broxbourne Council, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Neil Harris (Key Audit Partner)
Ernst & Young LLP (Local Auditor)
Luton Date



04

Audit Differences

Audit Differences

In the normal course of any audit, we identify misstatements between amounts we believe should be recorded in the financial statements and the disclosures and amounts actually recorded. These differences are classified as “known” or “judgemental”. Known differences represent items that can be accurately quantified and relate to a definite set of facts or circumstances. Judgemental differences generally involve estimation and relate to facts or circumstances that are uncertain or open to interpretation. At the time of writing, we are finalising our procedures on the pensions liability. We will update this report and the Audit and Standards Committee as necessary.

Summary of adjusted differences

- **Pensions** - The Authority requested a revised IAS 19 report from the actuary to assess the impact as a result of McCloud consultation. This resulted in drop in pensions reserve by £1.6m.
- **Property, plant and equipment** - We have reconciled valuers report to fixed asset register and noted difference of £0.136m for Cheshunt Cemetery land.

Summary of un-adjusted differences

We highlight the following misstatement which has not been corrected by management. The Audit and Standards Committee should consider management’s rationale as to why they have not corrected the misstatement. This should be included in the management Letter of Representation.

- **Pensions** - The actuary has estimated the value of assets of the fund as at 31 March 2020 using a forecast investment return of -1.3% for 2019/20. The actual investment return of the fund was -1.4% for 2019/20. We have estimated the impact between an investment return of -1.3% and -1.4% for the Authority to increase pension reserve by £0.407m.
- **Pensions** - Pension fund auditor identified the differences in testing the valuation of Pension Fund assets taking account of the impact of Covid-19 from December 2019 values to March 2020. Our work performed indicates the Authority’s share of this difference would decrease pension reserve by £0.465m.
- **Pensions** - The benefits paid figure in the IAS 19 report was £3.567m. The benefits paid by the Pension Fund in 2019/20 was £3.636m. This is a £0.069m difference.
- **Property, plant and equipment** - We have reconciled valuers report to the fixed asset register. We noted transposition error of £0.094m for asset A779.

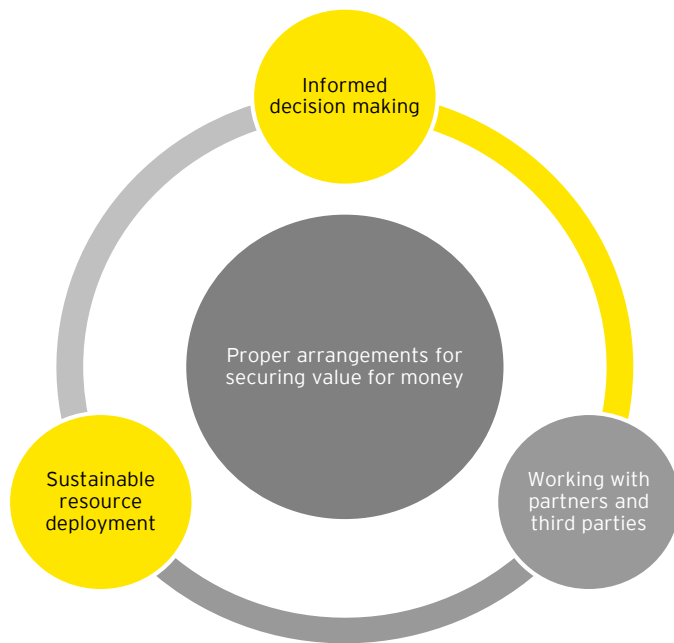
We discussed the misstatement with management the above known differences. Whilst management are not proposing to amend the accounts because the amounts on IAS19 are not material we will need to revisit whether that is appropriate once we have concluded our remaining audit procedures.



05 Value for Money



Value for Money



Background

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 (VFM) conclusion.

For 2019/20 this is based on the overall evaluation criterion:

"In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people"

Proper arrangements are defined by statutory guidance issued by the National Audit Office (NAO). They comprise your arrangements to:

- Take informed decisions;
- Deploy resources in a sustainable manner; and
- Work with partners and other third parties.

In considering your proper arrangements, we will draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your annual governance statement.

Impact of covid-19 on our VFM assessment

On 16 April 2020 the NAO published an update to auditor guidance in relation to the 2019/20 VFM assessment in the light of Covid-19. This clarified that in undertaking the 2019/20 VFM assessment auditors should consider local authorities responses to Covid-19 only as far as it relates to the 2019-20 financial year and only where clear evidence comes to the auditor's attention of a significant failure in arrangements as a result of Covid-19 during the financial year, would it be appropriate to recognise a significant risk in relation to the 2019-20 VFM arrangements conclusion. We identified no such evidence for the Authority and therefore identified no significant VFM risk associated to Covid-19.

Overall conclusion

We identified one significant risk around these arrangements. The table below present our findings in response to the risk in our Audit Planning Report and any other significant weaknesses or issues we want to bring to your attention. We have not identified any new significant risks around these arrangements. We have no matters to include in the auditor's report about your arrangements to secure economy, efficiency and effectiveness in your use of resources.



Value for Money Risks

We are only required to determine whether there are any risks that we consider significant within the Code of Audit Practice, where risk is defined as:

"A matter is significant if, in the auditor's professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public"

Our risk assessment supports the planning of enough work to deliver a safe conclusion on your arrangements to secure value for money, and enables us to determine the nature and extent of any further work needed. If we do not identify a significant risk we do not need to carry out further work.

The table below presents the findings of our work in response to the risks areas in our Audit Planning Report.

What is the significant value for money risk?

Financial resilience - the Council's medium term financial plan places an emphasis on self-sufficiency through, for example:

- Continued investments in commercial properties
- Increasing borrowing to support strategic objectives

As part of this strategy, the Council has invested in Waltham Cross High Street in 2019/20 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.

What arrangements did the risk affect?

- Take informed decisions;
- Deploy resources in a sustainable manner; and
- Work with partners and other third parties

What did we do?

We have assessed the arrangements in place supporting these developments, focusing on:

- 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 & calculations of the 2019/20 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



Value for money

Significant risk



What are our findings?

- We have considered the medium term financial strategy and how the Council's investment strategy fits with this. As part of this strategy, the Authority has purchased Waltham Cross High Street property in 2019/20 with the primary purpose of generating investment income.
- We have reviewed the process for identifying and purchasing investment properties. We have reviewed the Authority's investment strategy, and how it has reflected the recent guidance on local government investments issued by MHCLG, to be assured that due consideration has been given to this guidance, including factors such as borrowing in advance of need. We concluded that the Authority has undertaken appropriate due diligence in reaching its decisions on commercial investment, including in its governance, financial and risk management arrangements.
- We have considered the due diligence undertaken by the Authority and reviewed supporting documentation to evidence consideration of the opportunities and risk presented by the purchases and their congruence with the overall capital and investment strategies. We have concluded that the underlying assumptions and calculations are robust and clearly linked to the capital programme and revenue budgeting.
- The Authority is not currently working with other bodies or partners to support its commercial investment strategy. It engages relevant specialists to support its investment decisions such as legal expertise and valuation expertise. We consider this approach to be reasonable.
- We have reviewed the Authority's capital strategy and supporting evidence. The Authority has considered within its capital strategy the affordability of borrowing either in the short term or long term and the implications for the revenue budget. This consideration is updated annually, taking into account prevailing interest rates for different types of borrowing.
- We have reviewed the Authority's income strategy. The Authority is heavily reliant on rental income to manage its finances. Due to this reliance, the Authority has taken appropriate steps to manage the risk. This focus on managing risks will need to be maintained, including the risk of rising interest rates and/or decreasing rental income which could increase the Authority's exposure to financial risk.
- The value of Waltham Cross High Street dropped by £928,168 as at 31 March 2020 which represents 20% of the purchase price. The acquisition of property was made due to its future earning potential rather than current earning potential. At the time of the valuation management acknowledged that there were a number of vacant units therefore it was recognised that this would lead to a reduction in value over the short-term. We have considered the valuation of the property at the time of purchase as appropriate and supported by sufficient due diligence process.



06 Other reporting issues

Other reporting issues

Consistency of other information published with the financial statements, including the Annual Governance Statement

We must give an opinion on the consistency of the financial and non-financial information in the Statement of Accounts 2019/20 with the audited financial statements.

We must also review the Annual Governance Statement for completeness of disclosures, consistency with other information from our work, and whether it complies with relevant guidance.

Financial information in the Statement of Accounts 2019/20 and published with the financial statements was consistent with the audited financial statements.

We have reviewed the latest version of the Annual Governance Statement and can confirm it is consistent with other information from our audit of the financial statements and we have no other matters to report.

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 our report, is specified by the National Audit Office. As the Authority's assets, income, liabilities and expenditure are below the threshold set by HM Treasury, detailed audit of the return is not required for Borough of Broxbourne Council.

We will submit the required return in due course and in accordance with the deadline set.

Other powers and duties

We have a duty under the Local Audit and Accountability Act 2014 to consider whether to report on any matter that comes to our attention in the course of the audit, either for the Authority to consider it or to bring it to the attention of the public (i.e. "a report in the public interest"). We also have a duty to make written recommendations to the Authority, copied to the Secretary of State, and take action in accordance with our responsibilities under the Local Audit and Accountability Act 2014. We have had no reason to exercise these duties.



07

Assessment of Control Environment



Assessment of Control Environment

Financial controls

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

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 to you significant deficiencies in internal control.

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

We considered whether circumstances arising from Covid-19 resulted in a change to the overall control environment of effectiveness of internal controls, for example due to significant staff absence or limitations as a result of working remotely. We identified no issues which we wish to bring to your attention.



08

Data Analytics



Use of Data Analytics in the Audit

► Data analytics – Journal Entry Analysis and Payroll Analysis

Analytics Driven Audit

Data analytics

We used our data analysers to enable us to capture entire populations of your financial data. These analysers:

- Help identify specific exceptions and anomalies which can then be the focus of our substantive audit tests; and
- Give greater likelihood of identifying errors than traditional, random sampling techniques.

In 2019/20, our use of these analysers in the Authority's audit included testing journal entries and employee expenses, to identify and focus our testing on those entries we deem to have the highest inherent risk to the audit.

We capture the data through our formal data requests and the data transfer takes place on a secured EY website. These are in line with our EY data protection policies which are designed to protect the confidentiality, integrity and availability of business and personal information.

Journal Entry Analysis

We obtain downloads of all financial ledger transactions posted in the year. We perform completeness analysis over the data, reconciling the sum of transactions to the movement in the trial balances and financial statements to ensure we have captured all data. Our analysers then review and sort transactions, allowing us to more effectively identify and test journals that we consider to be higher risk, as identified in our audit planning report.

Payroll Analysis

We also use our analysers in our payroll testing. We obtain all payroll transactions posted in the year from the payroll system and perform completeness analysis over the data, including reconciling the total amount to the General Ledger trial balance. We then analyse the data against a number of specifically designed procedures. These include analysis of payroll costs by month to identify any variances from established expectations, as well as more detailed transactional interrogation.



Journal Entry Testing

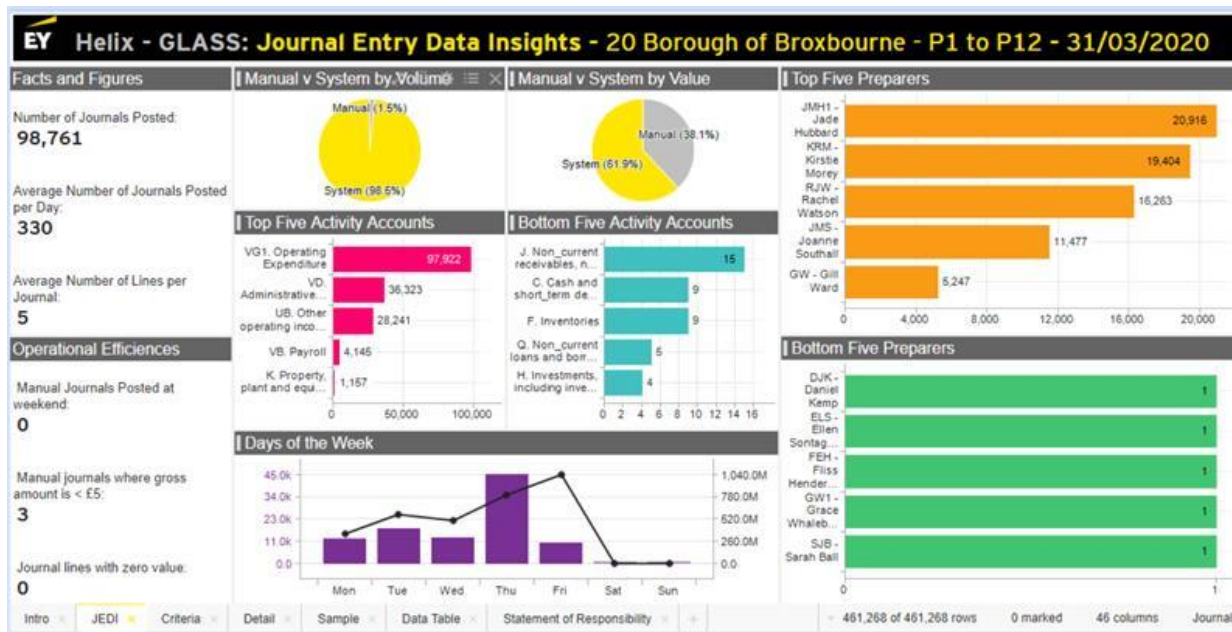
What is the risk?

In line with ISA 240 we are required to test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements.

What judgements are we focused on?

Using our analysers we are able to take a risk based approach to identify journals with a higher risk of management override, as outlined in our audit planning report.

Journal entry data criteria – 31 March 2020



What did we do?

We obtained general ledger journal data for the period and have used our analysers to identify characteristics typically associated with inappropriate journal entries or adjustments, and journals entries that are subject to a higher risk of management override.

We then performed tests on the journals identified to determine if they were appropriate and reasonable.

What are our conclusions?

We isolated a sub set of journals for further investigation and obtained supporting evidence to verify the posting of these transactions and concluded that they were appropriately stated.



09

Independence

Independence

Confirmation

We confirm there are no changes in our assessment of independence since our confirmation in our audit planning report dated March 2020. We complied with the APB Ethical Standards. 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 consider that our independence in this context is a matter which you should review, as well as us. It is important that you and your Audit and Standards Committee consider the facts known to you and come to a view. If you would like to discuss any matters concerning our independence, we will be pleased to do this at the meeting of the Audit and Standards Committee on 11 November 2020.

We confirm we have not undertaken any non-audit work outside the NAO Code requirements in relation to our work.

Relationships, services and related threats and safeguards

The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and your Authority, senior management and its affiliates, including all services provided by us and our network to your Authority, senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on the our integrity or objectivity, including those that could compromise independence and the related safeguards that are in place and why they address the threats. There are no relationships from 1 April 2019 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

Services provided by Ernst & Young

The table overleaf includes a summary of the fees for the year ended 31 March 2020 in line with the disclosures set out in FRC Ethical Standard and in statute.

Fee analysis

As part of our reporting on our independence, we set out below a summary of the fees paid for the year ended 31 March 2020.

We have included the fees paid by the Authority in engaging us as a reporting accountant on DWP's the housing benefits assurance programme. We have adopted the necessary safeguards in completing this work and complied with Auditor Guidance Note 1 issued by the NAO.

In our Audit Plan we outlined the basis on which the scale fees are set by PSAA and in our subsequent reporting to the Audit and Standards Committee, we have outlined a combination of factors which mean that we do not believe the existing scale fees provide a clear link with both a public sector organisation's risk and complexity and therefore it endangers the sustainability of Local Audit in the future. Based on these factors, and in light of requests from PSAA to provide further detailed analysis we have estimated the impact on the Council as shown below. This proposal is currently being considered by PSAA as part of their national consideration of EY's fee proposals.

All fees exclude VAT	Planned fee 2019/20	Scale fee 2019/20	Final Fee 2018/19
	£	£	£
Code work fee	36,137	36,137	36,137
Group consolidation	7,000	N/A	4,500
Property valuations significant risk	6,000	N/A	4,500
Additional work on pensions	TBC	N/A	1,500
Additional fee to address Covid-19 related risks (Note 1)	TBC	N/A	N/A
Total audit	TBC	36,137	46,637
Other non-audit services (Housing Benefits)	10,000	N/A	9,532
Additional fee for extended testing on housing benefits (Note 2)	TBC	N/A	17,750
Total other non-audit services	TBC	N/A	27,782

Note 1: We have carried out additional work in response to the material uncertainty reported by the Authority's valuer and additional procedures to address Covid-19 related risks. These are specific to the 19/20 audit year and once quantified we will discuss with management and the PSAA.

Note 2: £1,000 - £4,000 for each set of extended ("40+") testing. The final fee therefore will be dependent on the level of extended testing required for the 2019/20 claim.

Update on audit fees

Scale fees

Summary of impact

We outlined in our audit plan the basis on which the scale fees are set by PSAA. We also outlined a combination of factors which mean that we do not believe the existing scale fees provide a clear link with both a public sector organisation's risk and complexity. Based on these factors, and in light of requests from PSAA to provide further detailed analysis we have estimated the impact on the Council as shown below. Note that given the timing of this exercise it does not include the impact of any specific requirements in relation to additional work in response to COVID-19. We have shared the analysis with officers, but as noted below these amounts are subject to the approval of PSAA.

	Rationale for fee variation	Impact (£)
Scale fee		36,137
Changes in risk profile	As a result of macro changes in the sector and the impact on the council in terms of the risks being faced, the decisions being made and the financial reporting of those, this in turn increases audit risk, as outlined in our audit plans, and we need to extend our procedures to address these.	12,569
Changes in regulatory environment	There has been a significant increase in the focus on areas of the financial statements especially where judgemental estimates are made. This is to address regulatory expectations from FRC reviews on the extent of audit procedures performed in areas such as the valuation of land and buildings and pension assets and liabilities. Our required procedures now entail higher samples sizes, increased requirements for corroborative evidence to support the assumptions and the increased use of specialists. We have also seen wider changes in the regulatory environment which all firms have needed to respond to. These include the various reviews, completed or ongoing, which all have a focus on audit quality and what is expected of external auditors. This has increased compliance and quality assurance costs which are now required for us to continue to provide services to the sector.	12,032
Changes in expectations on delivery	Our expectation of the degree of efficiency that would be achievable, for instance through greater automation, has an impact on each audit.	822
Revised scale fee (to be approved by PSAA)		61,560

Independence

New UK Independence Standards

The Financial Reporting Council (FRC) published the Revised Ethical Standard 2019 in December and it will apply to accounting periods starting on or after 15 March 2020. A key change in the new Ethical Standard will be a general prohibition on the provision of non-audit services by the auditor (and its network) which will apply to UK Public Interest Entities (PIEs). A narrow list of permitted services will continue to be allowed.

Summary of key changes

- Extraterritorial application of the FRC Ethical Standard to UK PIE and its worldwide affiliates
- A general prohibition on the provision of non-audit services by the auditor (or its network) to a UK PIE, its UK parent and worldwide subsidiaries
- A narrow list of permitted services where closely related to the audit and/or required by law or regulation
- Absolute prohibition on the following relationships applicable to UK PIE and its affiliates including material significant investees/investors:
 - Tax advocacy services
 - Remuneration advisory services
 - Internal audit services
 - Secondment/loan staff arrangements
- An absolute prohibition on contingent fees.
- Requirement to meet the higher standard for business relationships i.e. business relationships between the audit firm and the audit client will only be permitted if it is inconsequential.
- Permitted services required by law or regulation will not be subject to the 70% fee cap.
- Grandfathering will apply for otherwise prohibited non-audit services that are open at 15 March 2020 such that the engagement may continue until completed in accordance with the original engagement terms.
- A requirement for the auditor to notify the Audit and Standards Committee where the audit fee might compromise perceived independence and the appropriate safeguards.
- A requirement to report to the Audit and Standards Committee details of any breaches of the Ethical Standard and any actions taken by the firm to address any threats to independence. A requirement for non-network component firm whose work is used in the group audit engagement to comply with the same independence standard as the group auditor. Our current understanding is that the requirement to follow UK independence rules is limited to the component firm issuing the audit report and not to its network. This is subject to clarification with the FRC.

Next Steps

We do not provide any non-audit services which would be prohibited under the new standard.

Other communications

EY Transparency Report 2019

Ernst & Young (EY) has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained. Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year end 30 June 2019: https://assets.ey.com/content/dam/ey-sites/ey-com/en_uk/about-us/transparency-report-2019/ey-uk-2019-transparency-report.pdf







10 Appendices





Appendix A

Required communications with the Audit and Standards Committee





There are certain communications that we must provide to the Audit and Standards Committees of UK clients. We have detailed these here together with a reference of when and where they were covered:

		 Our Reporting to you
Required communications	 What is reported?	  When and where
Terms of engagement	Confirmation by the Audit and Standards Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter.	Audit Plan - March 2020
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit Plan - March 2020
Significant findings from the audit	<ul style="list-style-type: none"> ▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▶ Significant difficulties, if any, encountered during the audit ▶ Significant matters, if any, arising from the audit that were discussed with management ▶ Written representations that we are seeking ▶ Expected modifications to the audit report ▶ Other matters if any, significant to the oversight of the financial reporting process 	Audit Results Report - November 2020




Appendix A

		 Our Reporting to you
Required communications	 What is reported?	  When and where
Going concern	<p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> ▶ Whether the events or conditions constitute a material uncertainty ▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▶ The adequacy of related disclosures in the financial statements 	No conditions or events were identified, either individually or together to raise any doubt about Borough of Broxbourne Council's ability to continue for the 12 months from the date of our report
Misstatements	<ul style="list-style-type: none"> ▶ Uncorrected misstatements and their effect on our audit opinion ▶ The effect of uncorrected misstatements related to prior periods ▶ A request that any uncorrected misstatement be corrected ▶ Material misstatements corrected by management 	Audit Results Report - November 2020
Subsequent events	<ul style="list-style-type: none"> ▶ Enquiry of the Audit and Standards Committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements. 	
Fraud	<ul style="list-style-type: none"> ▶ Enquiries of the Audit and Standards Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the Authority ▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▶ Unless all of those charged with governance are involved in managing the Authority, any identified or suspected fraud involving: <ul style="list-style-type: none"> a. Management; b. Employees who have significant roles in internal control; or c. Others where the fraud results in a material misstatement in the financial statements. ▶ The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected ▶ Any other matters related to fraud, relevant to Audit and Standards Committee responsibility. 	Audit Results Report - November 2020





Appendix A

		 Our Reporting to you
Required communications	 What is reported?	  When and where
Related parties	<p>Significant matters arising during the audit in connection with the Authority's related parties including, when applicable:</p> <ul style="list-style-type: none"> ▶ Non-disclosure by management ▶ Inappropriate authorisation and approval of transactions ▶ Disagreement over disclosures ▶ Non-compliance with laws and regulations ▶ Difficulty in identifying the party that ultimately controls the Authority 	Audit Results Report - November 2020
Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence.</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> ▶ The principal threats ▶ Safeguards adopted and their effectiveness ▶ An overall assessment of threats and safeguards ▶ Information about the general policies and process within the firm to maintain objectivity and independence <p>Communications whenever significant judgments are made about threats to objectivity and independence and the appropriateness of safeguards put in place.</p> <p>For public interest entities and listed companies, communication of minimum requirements as detailed in the FRC Revised Ethical Standard 2019:</p> <ul style="list-style-type: none"> ▶ Relationships between EY, the company and senior management, its affiliates and its connected parties ▶ Services provided by EY that may reasonably bear on the auditors' objectivity and independence ▶ Related safeguards ▶ Fees charged by EY analysed into appropriate categories such as statutory audit fees, tax advisory fees, other non-audit service fees ▶ A statement of compliance with the Ethical Standard, including any non-EY firms or external experts used in the audit 	Audit Plan - March 2020 and Audit Results Report - November 2020

Appendix A

		 Our Reporting to you
Required communications	 What is reported?	 When and where
	<ul style="list-style-type: none"> ▶ Details of any inconsistencies between the Ethical Standard and Group's policy for the provision of non-audit services, and any apparent breach of that policy ▶ Details of any contingent fee arrangements for non-audit services ▶ Where EY has determined it is appropriate to apply more restrictive rules than permitted under the Ethical Standard ▶ The Audit and Standards Committee should also be provided an opportunity to discuss matters affecting auditor independence 	
External confirmations	<ul style="list-style-type: none"> ▶ Management's refusal for us to request confirmations ▶ Inability to obtain relevant and reliable audit evidence from other procedures. 	We have received all requested confirmations
Consideration of laws and regulations	<ul style="list-style-type: none"> ▶ Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur ▶ Enquiry of the Audit and Standards Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit and Standards Committee may be aware of. 	We have asked management and those charged with governance. We have not identified any material instances or non-compliance with laws and regulations
Significant deficiencies in internal controls identified during the audit	<ul style="list-style-type: none"> ▶ Significant deficiencies in internal controls identified during the audit. 	Audit Results Report - November 2020

Appendix A

		 Our Reporting to you
Required communications	 What is reported?	  When and where
Group Audits	<ul style="list-style-type: none"> ▶ An overview of the type of work to be performed on the financial information of the components ▶ An overview of the nature of the group audit team's planned involvement in the work to be performed by the component auditors on the financial information of significant components ▶ Instances where the group audit team's evaluation of the work of a component auditor gave rise to a concern about the quality of that auditor's work ▶ Any limitations on the group audit, for example, where the group engagement team's access to information may have been restricted ▶ Fraud or suspected fraud involving group management, component management, employees who have significant roles in group-wide controls or others where the fraud resulted in a material misstatement of the group financial statements. 	Audit Plan - March 2020 and Audit Results Report - November 2020
Written representations we are requesting from management and/or those charged with governance	<ul style="list-style-type: none"> ▶ Written representations we are requesting from management and/or those charged with governance 	Audit Results Report - November 2020
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	<ul style="list-style-type: none"> ▶ Material inconsistencies or misstatements of fact identified in other information which management has refused to revise 	Audit Results Report - November 2020
Auditors report	<ul style="list-style-type: none"> ▶ Any circumstances identified that affect the form and content of our auditor's report 	Audit Results Report - November 2020
Fee Reporting	<ul style="list-style-type: none"> ▶ Breakdown of fee information when the audit planning report is agreed ▶ Breakdown of fee information at the completion of the audit ▶ Any non-audit work 	Audit Plan - March 2020 and Audit Results Report - November 2020

Management representation letter

Management Rep Letter

[To be prepared on the entity's letterhead]

Xx November 2020

Neil Harris
Associate Partner
Ernst & Young LLP
400 Capability Green
Luton
LU1 3LU

This letter of representations is provided in connection with your audit of the financial statements of Borough of Broxbourne Council ("the Group and Council") for the year ended 31 March 2020. We recognize that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the financial position of Borough of Broxbourne Council as of 31 March 2020 and of its income and expenditure and its cash flows for the year then ended in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

We understand that the purpose of your audit of our financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing, which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose - all fraud, shortages, errors and other irregularities, should any exist.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.
2. We acknowledge, as members of management of the Group and Council, our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position, financial performance (or results of operations) and cash flows of the Group and Council in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20, and are free of material misstatements, including omissions. We have approved the financial statements.
3. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.
4. As members of management of the Group and Council, we believe that the Group and Council has a system of internal controls adequate to enable the

preparation of accurate financial statements in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 that are free from material misstatement, whether due to fraud or error. We have disclosed to you any significant changes in our processes, controls, policies and procedures that we have made to address the effects of the COVID-19 pandemic on our system of internal controls.

5. We believe that the effects of any unadjusted audit differences, summarized in the accompanying schedule, accumulated by you during the current audit and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the (consolidated) financial statements taken as a whole.

B. Non-compliance with laws and regulations, including fraud

1. We acknowledge that we are responsible to determine that the Group and Council's business activities are conducted in accordance with laws and regulations and that we are responsible to identify and address any non-compliance with applicable laws or regulations, including fraud.
2. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
3. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
4. We have no knowledge of any identified or suspected non-compliance with laws or regulations including fraud that may have affected the Group and Council (regardless of the source or form and including without limitation, any allegations by "whistleblowers"), including non-compliance matters:
 - Involving financial improprieties
 - Related to laws or regulations that have a direct effect on the determination of material amounts and disclosures in the Group and Council's financial statements
 - Related to laws or regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Group and Council's business, its ability to continue in business, or to avoid material penalties
 - Involving management, or employees who have significant roles in internal control, or others

In relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others

C. Information Provided and Completeness of Information and Transactions

1. We have provided you with:

Management representation letter (continued)

Management Rep Letter

- Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters
 - Additional information that you have requested from us for the purpose of the audit and
 - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
2. All material transactions have been recorded in the accounting records and are reflected in the financial statements, including those related to the COVID-19 pandemic.
 3. We have made available to you all minutes of the meetings of Group and Council and Performance, Audit and Governance Oversight held through the 1 April 2019 to the most recent meeting on the following date: 11 November 2020.
 4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Group and Council's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the 31 March 2020 end. These transactions have been appropriately accounted for and disclosed in the financial statements.
 5. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
 6. We have disclosed to you, and the Group and Council has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.
 7. From 1 April 2019 through the date of this letter we have disclosed to you any unauthorized access to our information technology systems that either occurred or to the best of our knowledge is reasonably likely to have occurred based on our investigation, including of reports submitted to us by third parties (including regulatory agencies, law enforcement agencies and security consultants), to the extent that such unauthorized access to our information technology systems is reasonably likely to have a material impact to the financial statements, in each case or in the aggregate.

D. Liabilities and Contingencies

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements.
2. We have informed you of all outstanding and possible litigation and claims, ~~whether or not~~ they have been discussed with legal counsel.
3. We have recorded and/or disclosed, as appropriate, all liabilities related to

litigation and claims, both actual and contingent, and have disclosed in Note [X] to the financial statements all guarantees that we have given to third parties.

E. Subsequent Events

1. There have been no events, including events related to the COVID-19 pandemic, subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

F. Other information

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises Narrative Report and Annual Governance Statement.
2. We confirm that the content contained within the other information is consistent with the financial statements.

G. Going Concern

1. Note [X] to the financial statements discloses all the matters of which we are aware that are relevant to the Group and Council's ability to continue as a going concern, including significant conditions and events, our plans for future action, and the feasibility of those plans.

H. Estimates

When we have identified following estimates as significant or higher risk:

- i. Pension Liability
- ii. Property, Plant & Equipment / Investment Properties – Valuation and Impairment
- iii. Provision for impairment of receivables
- iv. NDR Appeals Provision

1. We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimates have been consistently applied and are appropriate in the context of CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.
2. We confirm that the significant assumptions used in making the accounting estimates appropriately reflect our intent and ability to carry out the operations on behalf of the Group and Council.
3. We confirm that the disclosures made in the financial statements with respect to the accounting estimates are complete, including the effects of the COVID-19 pandemic on 31 March 2020 and made in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.
4. We confirm that no adjustments are required to the accounting estimates and disclosures in the financial statements due to subsequent events, including due to the COVID-19 pandemic.

I. Retirement benefits

Management representation letter (continued)

Management Rep Letter

1. On the basis of the process established by us and having made appropriate enquiries, we are satisfied that the actuarial assumptions underlying the scheme liabilities are consistent with our knowledge of the business. All significant retirement benefits and all settlements and curtailments have been identified and properly accounted for.

J. Group audits

1. There are no significant restrictions on our ability to distribute the retained profits of the Group because of statutory, contractual, exchange control or other restrictions other than those indicated in the Group financial statements.
2. Necessary adjustments have been made to eliminate all material intra-group unrealised profits on transactions amongst Council, subsidiary undertakings and associated undertakings.

Yours faithfully,

Sandra Beck
Director of Finance

Michael Iszatt
Chairman of the Audit and Standards Committee

Appendix C - Reflections from the Redmond review

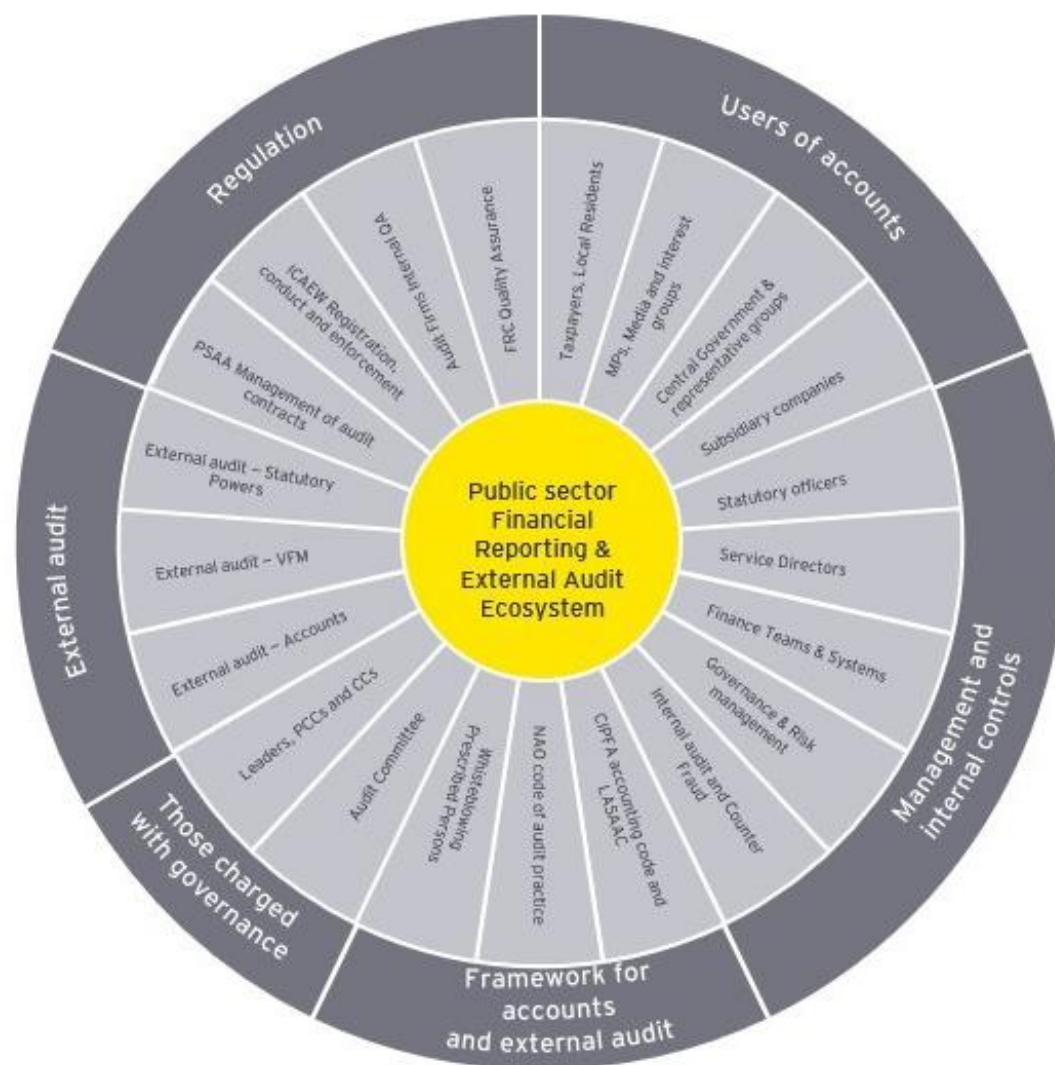
Independent Review into the Oversight of Local Audit and the Transparency of Local Authority Financial Reporting

Published on the 8th September 2020, Sir Tony Redmond's findings and recommendations from his independent review provides a significant opportunity to shape the future sustainability of local government financial reporting and auditing. We believe this will help ensure audit continues to meet the evolving needs of local authorities, the public, and the public interest.

Guiding principles for reform

We believe reforms should be guided by the following principles:

- Reforms should enhance, or at least should not create risks to, the quality of financial reporting and external audit.
- The importance of the multidisciplinary audit firm model, to enable local auditors to respond efficiently and effectively to the increased reporting complexity, risks and financial resilience pressures we have seen facing the public sector pre and post Covid-19.
- There should not be a two-tier system of generally accepted accounting and auditing standards between the public and corporate sectors.
- To be effective and sustainable, reforms need to focus on the public sector financial reporting and external audit ecosystem as a whole.



Appendix C - Reflections from the Redmond review

Taking our guiding principles, we broadly welcome the Redmond review and proposals, in particular:

Quality of financial reporting and external audit

- The recognition that all stakeholders in the ecosystem have a role to play to improve accountability, transparency and sustainability. This includes improving the effectiveness of Audit Committees, strengthening the training skills, capacity capability and attractiveness of the public sector finance and audit professions.
- His conclusion that the current procurement and fee structure does not support sustainable audit quality. We have provided you with our perspectives on how baseline audit fees need to change to take account of your risk profile, complexity as well as the regulatory and professional context which drive our audits.

Reforming the public sector financial reporting and external audit ecosystem

- Establishing the Office for Local Audit Regulation (OLAR), which provides a “system leader” and will bring clarity to the existing framework for local authority audit.
- The importance of MHCLG establishing a liaison committee of all key stakeholders to oversee reforms. To begin with MHCLG should take urgent action to implement primary legislation to establish OLAR, revise the timetable for financial reporting and revisit the procurement and fee structure for public sector audit.

Multidisciplinary audit firm model

- The importance of the auditors work to critically assess the financial resilience and viability of public sector bodies and his proposals on how this assessment could be enhanced within the NAOs code of audit practice.

Safeguarding professional accounting and auditing standards

- The need for CIPFA/LASAAC to revisit the accounting code and introduce summarised accounts. We agree that there is a need for more proportionality in the Code which also sets out the expectations of practitioners and auditors and how this could be applied in areas such as pensions and asset valuations. However, we believe that any future proposals on the accounting code should not create a two-tier system.

What are we doing in the meantime?

1. Planning for a 30 September financial reporting target date for 2020/2021 accounts, integrated with our NHS work.
2. Implementing the new NAO code and changes to our VFM conclusion work and reporting for 2020/2021 audits. We will also work with the NAO and other audit suppliers on any refinements to how auditors assess financial resilience.
3. Continuing to engage with and influence MHCLG, NAO, PSAA CIPFA/LASAAC, FRC and other key stakeholders on the actions required to implement the Redmond proposals as swiftly as possible and how these effectively align to the broader package of audit reforms which BIES will consult on later this year.

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