

Basingstoke and Deane Borough Council

Annual Audit Letter for the year
ended 31 March 2020

11 December 2020

The EY logo consists of the letters 'EY' in a bold, white, sans-serif font. A yellow triangle is positioned above the 'Y', pointing downwards towards the letters.

Building a better
working world

Contents

		Page
Section 1	Executive Summary	3
Section 2	Purpose and Responsibilities	7
Section 3	Financial Statement Audit	10
Section 4	Value for Money	16
Section 5	Other Reporting Issues	19
Section 5	Focused on your future	22
Appendices		
Appendix A	Audit Fees	24

Public Sector Audit Appointments Ltd (PSAA) have issued a 'Statement of responsibilities of auditors and audited bodies'. It is available from the Chief Executive of each audited body and via the PSAA website (www.psa.co.uk).

This Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The 'Terms of Appointment (updated April 2018)' issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Annual Audit Letter is prepared in the context of the Statement of responsibilities / Terms and Conditions of Engagement. 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.



Section 1

Executive Summary

Executive Summary

We are required to issue an annual audit letter to Basingstoke and Deane Borough Council (the Council) following completion of our audit procedures for the year ended 31 March 2020. Covid-19 had an impact on a number of aspects of our 2019/20 audit. We set out these key impacts below.

▶ 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. We worked with the Council to deliver our audit in line with the revised reporting timescale.
▶ 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 have been included in the year-end valuation reports produced by the Council's external valuer. We consider 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.
▶ Disclosures on Going Concern	Financial plans for 2020/21 and medium term financial plans will need revision for Covid-19. We considered the unpredictability of the current environment gave rise to a risk that the Council would not appropriately disclose the key factors relating to going concern, underpinned by managements assessment with particular reference to Covid-19 and the Council's actual year end financial position and performance.
▶ Events after the balance sheet date	We identified an increased risk that further events after the balance sheet date concerning the current Covid-19 pandemic will need to be disclosed. The amount of detail required in the disclosure needed to reflect the specific circumstances of the Council.
▶ Information Produced by the Entity (IPE)	We identified an increased risk around the completeness, accuracy, and appropriateness of information produced by the entity due to the inability of the audit team to verify original documents or re-run reports on-site from the Council's systems. We undertook the following to address this risk: <ul style="list-style-type: none">▶ Used the screen sharing function of Microsoft Teams to evidence re-running of reports used to generate the IPE we audited; and▶ Agreed IPE to scanned documents or other system screenshots.
▶ Consultation requirements	Additional EY consultation requirements concerning the impact on auditor reports. The changes to audit risks and audit approach changed the level of work we needed to perform.

Executive Summary (cont'd)

The tables below set out the results and conclusions on the significant areas of the audit process.

Opinion on the Council's:	
▶ Financial statements	Unqualified - the financial statements give a true and fair view of the financial position of the Council as at 31 March 2020 and of its expenditure and income for the year then ended.
▶ Consistency of other information published with the financial statements	Other information published with the financial statements was consistent with the Statement of Accounts.
▶ Concluding on the Council's arrangements for securing economy, efficiency and effectiveness	We concluded that the Council have put in place proper arrangements to secure value for money in its use of resources.

Area of Work	Conclusion
Reports by exception:	
▶ Consistency of Governance Statement	The Governance Statement was consistent with our understanding of the Council.
▶ Public interest report	We had no matters to report in the public interest.
▶ Written recommendations to the Council, which should be copied to the Secretary of State	We had no matters to report.
▶ Other actions taken in relation to our responsibilities under the Local Audit and Accountability Act 2014	We had no matters to report.

Executive Summary (cont'd)

Area of Work	Conclusion
Reporting to the National Audit Office (NAO) on our review of the Council's Whole of Government Accounts return (WGA).	We had no matters to report.

As a result of the above we have also:

Issued a report to those charged with governance of the Council communicating significant findings resulting from our audit.	Our Audit Results Report was issued on 17 November 2020 and presented to the Audit & Accounts Committee on 23 November 2020.
Issued a certificate that we have completed the audit in accordance with the requirements of the Local Audit and Accountability Act 2014 and the National Audit Office's 2015 Code of Audit Practice.	Our certificate was issued on 1 December 2020.

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

Maria Grindley
Associate Partner
For and on behalf of Ernst & Young LLP

Section 2

Purpose and Responsibilities



Purpose

The Purpose of this Letter

The purpose of this annual audit letter is to communicate to Members and external stakeholders, including members of the public, the key issues arising from our work, which we consider should be brought to the attention of the Council.

We have already reported the detailed findings from our audit work in our 2019/20 Audit Results Report to the 23 November 2020 Audit and Accounts Committee, representing those charged with governance. We do not repeat those detailed findings in this letter. The matters reported here are the most significant for the Council.

Responsibilities

Responsibilities of the Appointed Auditor

Our 2019/20 audit work was undertaken in accordance with the Audit Plan that we issued on 3 March 2020 and the subsequent scope updates communicated through the initial audit results report we issued on 16 September 2020. Our audit was conducted in accordance with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK), and other guidance issued by the National Audit Office.

As auditors, we are responsible for:

- ▶ Expressing an opinion:
 - ▶ On the 2019/20 financial statements; and
 - ▶ On the consistency of other information published with the financial statements.
- ▶ Forming a conclusion on the arrangements the Council has to secure economy, efficiency and effectiveness in its use of resources.
- ▶ Reporting by exception:
 - ▶ If the annual governance statement is misleading or not consistent with our understanding of the Council;
 - ▶ Any significant matters that are in the public interest;
 - ▶ Any written recommendations to the Council, which should be copied to the Secretary of State; and
 - ▶ If we have discharged our duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice.

Alongside our work on the financial statements, we also review and report to the National Audit Office (NAO) on your Whole of Government Accounts return. The Council is below the specified audit threshold of £500mn. Therefore, we did not perform any additional audit procedures on the return.

The Council is responsible for preparing and publishing its statement of accounts accompanied by an Annual Governance Statement (AGS). In the AGS, the Council reports publicly each year on how far it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in year, and any changes planned in the coming period.

The Council is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Section 3

Financial Statement Audit



Financial Statement Audit

Key Issues

The Council's Statement of Accounts is an important tool for the Council to show how it has used public money and how it can demonstrate its financial management and financial health.

We audited the Council's Statement of Accounts in line with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK), and other guidance issued by the National Audit Office and issued an unqualified audit report on 1 December 2020.

Our detailed findings were reported to the 23 November 2020 Audit and Accounts Committee.

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

Inappropriate capitalisation of revenue expenditure due to fraud or error

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.

From our risk assessment, we have assessed that the risk manifest itself solely through the inappropriate capitalisation of revenue expenditure to improve the financial position of the general fund.

Misstatements that occur in relation to the risk of fraud in revenue and expenditure recognition could affect the income and expenditure accounts, so we focused on the judgement applied to these classifications.

We focused our substantive testing on the risk of incorrectly classifying revenue expenditure as capital additions, this would decrease the net expenditure from the general fund, and increase the value of non-current assets.

We:

- Examined invoices for significant additions, capital expenditure authorisations, leases and other data that support these additions. We reviewed the sample selected against the definition of capital expenditure in IAS16.
- Extended our testing of items capitalised in the year by lowering our testing threshold.
- Reviewed a larger random sample of capital additions below our testing threshold.
- Tested REFCUS to ensure that it is appropriate for the revenue expenditure incurred to be financed from ring fenced capital resources.
- Identified and reviewed the basis for significant journals transferring expenditure from revenue to capital codes on the general ledger at the end of the year.

Based on the procedures we performed, we have reached the following conclusions:

- We did not identify any evidence of material management override.
- We did not identify any instances of inappropriate judgements being applied or other management bias both in relation to accounting estimates and other balances and transactions.
- We did not identify any other transactions during our audit which appeared unusual or outside the Council's normal course of business.

Financial Statement Audit (cont'd)

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

Significant Risk	Conclusion
<p>Valuation of Property, Plant and Equipment (“PPE”) and Investment Property (“IP”)</p> <p>The PPE and IP balances make up a significant proportion of the Council’s assets 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, which increases the risk of material misstatements. The time gap between the detailed valuation (31 December 2019) and the reporting date also increases the risk of misstatements at the reporting date.</p> <p>Misstatements that occur in relation to valuation could materially affect the year end carrying value of PPE and IP.</p> <p>We focused on the valuation assertion of large assets. This is because valuing such assets is difficult and requires a substantial amount of experience and knowledge as it relies upon judgement and estimation. Due to it being a highly judgmental area of the accounts and the high value of the items, we engaged valuation specialists to assist us with evaluating the adequacy of methodologies and assumptions employed by the management’s specialists.</p>	<p>We:</p> <ul style="list-style-type: none">• Considered the work performed by the Council’s valuation specialists, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work. This review includes the use of EY internal real estate specialists.• Tested a sample of key asset information used by the valuers in performing their valuation.• Considered the annual cycle of PPE valuations to ensure that assets have been valued within a 5 year rolling programme as required by the CIPFA Code of Practice.• Reviewed assets not subject to valuation in 2019/20 to confirm that the remaining asset base is not materially misstated.• Considered changes to useful economic lives as a result of the most recent valuation.• Tested that accounting entries have been correctly processed in the financial statements. <p>During our audit procedures, we identified that the value of the investment property under construction, Basing View, was understated by £4.6m. Management corrected this misstatement in the draft accounts by increasing the value of Investment Property in the Balance Sheet with a corresponding reversal of Loss on Investment Property in the Comprehensive Income and Expenditure Statement (CIES).</p> <p>Other than the above finding, we concluded that the valuation of PPE and IP is reasonable as of 31 March 2020.</p>

Financial Statement Audit (cont'd)

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

Going Concern Disclosure

Covid-19 has created a number of financial pressures throughout Local Government. It is creating financial stress through a combination of increasing service demand leading to increased expenditure in specific services, and reductions in income sources.

There have been a number of media stories in both the national press and trade publications raising the possibilities of an increase in Chief Financial Officers using their s114 powers. This could be under s114(3), insufficient resources to fund likely expenditure.

CIPFA's Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 states that organisations that can only be discontinued under statutory prescription shall prepare their accounts on a going concern basis.

However, International Auditing Standard 570 Going Concern, as applied by Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom, still requires auditors to undertake sufficient and appropriate audit procedures to consider whether there is a material uncertainty on going concern that requires reporting by management within the financial statements, and within the auditor's report. We are obliged to report on such matters within the section of our audit report 'Conclusions relating to Going Concern'.

To do this, the auditor must review management's assessment of the going concern basis applying IAS1 Presentation of Financial Statements.

We did not identify a material uncertainty in relation to Going Concern. We did require additional disclosure notes to be included within the financial statements, which was appropriately implemented by management.

Financial Statement Audit (cont'd)

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

Pension Liability Valuation

The Local Council Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by Hampshire County Council.

The Council's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Council's balance sheet. At 31 March 2020 this totalled £91.8 million.

The information disclosed is based on the IAS 19 report issued to the Council by the designated actuary. 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.

We were satisfied that the required IAS 19 disclosures have been reflected in the financial statements and were based on accurate supporting information.

Since the timing of the actuarial calculations, the pension fund experienced a drop in net asset value as of 31 March 2020, which resulted in an increase of the Council's pension scheme liability by £851k.

McCloud and Goodwin rulings

With respect to the 'McCloud' judgement, there was an updated consultation with a potential impact on the 19/20 accounts.

A new judgment, 'Goodwin', was released in June 2020 with a potential impact (if material) on the disclosures included in the Council's 19/20 accounts.

Our assessment indicated that the 'McCloud' event is unlikely to result in a change in the Council's pension liability, while the 'Goodwin' event resulted in a judgmental difference of £497k understatement of the Council's pension scheme liability.

Neither of the two audit differences described above were adjusted by management because they were assessed as being overall immaterial for the Council's Statement of Accounts as a whole.

Financial Statement Audit (cont'd)

Our application of materiality

When establishing our overall audit strategy, we determined a magnitude of uncorrected misstatements that we judged would be material for the financial statements as a whole.

Planning materiality

We determined planning materiality to be £1.8m (2018/19: £2.0m), which is 2% of gross expenditure reported in the accounts adjusted for revaluation losses, but including pension interest costs, payments of precepts and investment property running costs.

We consider gross expenditure to be one of the principal considerations for stakeholders in assessing the financial performance of the Council.

Reporting threshold

We communicated to the Audit and Accounts Committee that we would report to the Committee all audit differences in excess of £94k (2018/19: £102k).

In addition to this, the Committee asked that we also include any other matters above £50,000 that came to our attention during the audit - we have not reduced our testing or reporting thresholds to address this request as that would have required significantly more testing and audit work. Any matters discussed with the Committee between £50k and £94k are purely items we happen to come across as opposed to matters resulting from our approach and therefore do not provide assurance at this lower level.

We also identified the following areas where misstatement at a level lower than our overall materiality level might influence the reader. For these areas we developed an audit strategy specific to these areas. The areas identified and audit strategy applied include:

- ▶ Remuneration disclosures including any severance payments, exit packages and termination benefits: we agreed all disclosures back to source data and approved amounts.
- ▶ Related party transactions: we tested the completeness of related party disclosures and the accuracy of all disclosures by checking back to supporting evidence.

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

Section 4

Value for Money



Value for Money

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness in its use of resources. This is known as our value for money conclusion.

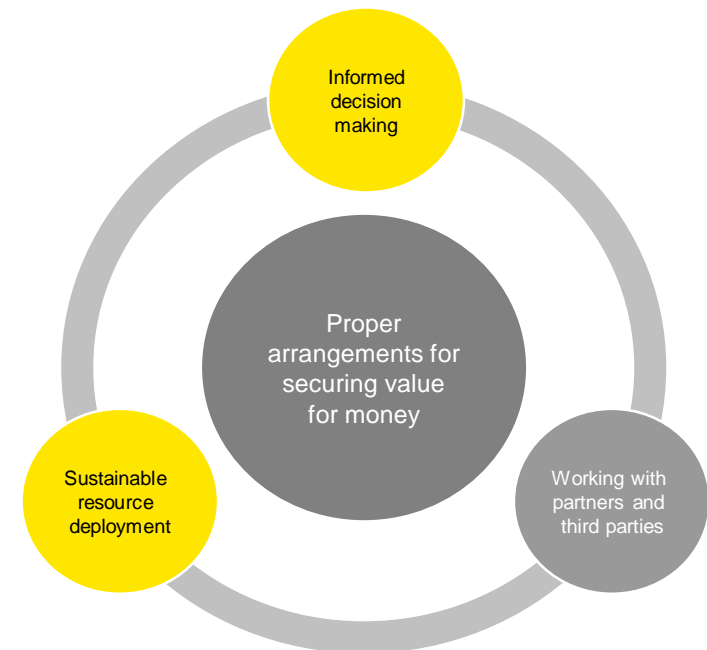
Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

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

On 16 April 2020 the National Audit Office published an update to auditor guidance in relation to the 2019/20 Value for Money assessment in the light of Covid-19. This clarified that in undertaking the 2019/20 Value for Money assessment auditors should consider the authorities' response to Covid-19 only as far as it relates to the 2019-20 financial year; 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 one significant risk in relation to Manydown Garden Communities LLP, our work in this area is covered on the next page.

We have performed the procedures outlined in our audit plan. We did not identify any significant weaknesses in the Council's arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.



Value for Money (cont'd)

We therefore issued an unqualified value for money conclusion on 1 December 2020.

The Council along with Hampshire County Council have established Manydown Garden Communities LLP (MGC LLP), a 50:50 joint venture (JV) vehicle, which will hold the freehold interest in the land known as Manydown North upon exercise of the option set out in the 999-year lease.

MGC LLP is to enter into a 50:50 JV partnership with InvestCo (a JV between Urban & Civic and The Wellcome Trust) establishing Manydown Development Vehicle LLP which will draw down land for development from MGC LLP.

Urban & Civic is to act as the private sector development partner.

The future of the project may involve significant financial investment by the Council over a period of years.

Our work specifically examined changes from the prior year in the following three key areas:

- Governance and project management arrangements
- Risk management arrangements
- External parties and appropriateness of advice

We identified no issues to report.

A photograph of a business meeting in progress. Several people are seated around a dark wooden conference table, looking at documents. A woman with blonde hair is leaning forward with her chin resting on her hand, appearing thoughtful. A man in a blue shirt and red tie is standing in the background. The scene is brightly lit, suggesting a modern office environment.

Section 5

Other Reporting Issues

Other Reporting Issues

Whole of Government Accounts

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

The Council is below the specified audit threshold of £500m. Therefore, we were not required to perform any additional audit procedures on the consolidation pack.

Annual Governance Statement

We are required to consider the completeness of disclosures in the Council's annual governance statement, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it is misleading.

We completed this work and did not identify any areas of concern.

Report in the Public Interest

We have a duty under the Local Audit and Accountability Act 2014 to consider whether, in the public interest, to report on any matter that comes to our attention in the course of the audit in order for it to be considered by the Council or brought to the attention of the public.

We did not identify any issues which required us to issue a report in the public interest.

Written Recommendations

We have a duty under the Local Audit and Accountability Act 2014 to designate any audit recommendation as one that requires the Council to consider it at a public meeting and to decide what action to take in response.

We did not identify any issues which required us to issue a written recommendation.

Other Reporting Issues (cont'd)

Objections Received

We did not receive any objections to the 2019/20 financial statements from members of the public.

Other Powers and Duties

We identified no issues during our audit that required us to use our additional powers under the Local Audit and Accountability Act 2014.

Independence

We communicated our assessment of independence in our Audit Results Report to the Audit and Accounts Committee on 23 November 2020. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning regulatory and professional requirements.

Control Themes and Observations

As part of our work, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of internal control, we are required to communicate to you significant deficiencies in internal control identified during our audit.

We have adopted a fully substantive audit approach and have therefore not tested the operation of controls.

Our audit did not identify any controls issues to bring to the attention of the Audit and Accounts Committee.

Section 6

Focused on your future



Focused on your future

The Code of Practice on Local Authority Accounting in the United Kingdom introduces the application of new accounting standards in future years. The impact on the Council is summarised in the table below.

IFRS 16 Leases

It is currently proposed that IFRS 16 will be applicable for local authority accounts from the 2022/23 financial year, which is a further deferral by one year announced in December 2020.

Whilst the definition of a lease remains similar to the current leasing standard; IAS 17, for local authorities who lease a large number of assets the new standard will have a significant impact, with nearly all current leases being included on the balance sheet.

There are transitional arrangements within the standard and although the 2021/22 Accounting Code of Practice for Local Authorities has yet to be updated, CIPFA have issued some limited provisional information which begins to clarify what the impact on local authority accounting will be. Whether any accounting statutory overrides will be introduced to mitigate any impact remains an outstanding issue.

Until the revised 2021/22 Accounting Code is issued and any statutory overrides are confirmed there remains some uncertainty in this area.

However, what is clear is that the Council will need to undertake a detailed exercise to identify all of its leases and capture the relevant information for them in its 2021/22 accounts. CIPFA LASAAC would encourage finance teams to continue their preparations for the implementation of the standard. The Council must therefore ensure that all lease arrangements are fully documented.

Audit Fees

Our base fee for 2019/20 is in line with the scale fee set by the PSAA / as agreed with your in our Engagement Letter and reported in our 23 November 2020 Audit Results Report.

Description	Scale Fee 2019/20		Final Fee 2018/19
	£	£	£
Total Audit Fee - Code work (NB scale fee = planned fee for 2019/20)	42,865	42,865	42,865
Changes in work required to address professional and regulatory requirements and scope associated with risk (Note 1)	45,140		
Revised Proposed Scale Fee			
Scale fee variation			4,201
Audit Committee effectiveness			1,900
Additional specific one-off work required for Covid-19 considerations (£3,246) including additional work in relation to Going Concern (£2,543) (see Note 2)	5,789		
Additional work required for significant risk on PPE valuation (£4,216) and vfm conclusion (£1,755) (see Note 3)	5,971		
Total Audit Fee	99,765	42,865	48,966

Note 1

For 2019/20 the scale fee has been re-assessed to take into account a number of risk factors as outlined below:

- Procedures performed to address the risk profile of the Council - £10,564
- Additional work to address increase in Regulatory standards - £33,356
- Client readiness and IT support for Data Analytics - £1,220

This additional fee has not been agreed but has been highlighted to Management and is subject to review and approval by the PSAA Ltd.

Note 2

We have quantified the additional work we have undertaken during 2019/20 as a result of Covid19, going concern and resulting consultation processes, and we will discuss these with the Executive Director of Corporate Services (Section 151 Officer). We will be seeking PSAA approval.

Note 3

We have quantified the additional work completed during 2019/20 we have undertaken for significant risk on PPE valuation and value for money conclusion, and we will discuss these with the Executive Director of Corporate Services (Section 151 Officer). We will be seeking PSAA approval.

About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit ey.com.

© 2018 EYGM Limited.
All Rights Reserved.

ED None

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



In line with EY's commitment to minimise its impact on the environment, this document has been printed on paper with a high recycled content.

This material has been prepared for general informational purposes only and is not intended to be relied upon as accounting, tax, or other professional advice. Please refer to your advisors for specific advice.

ey.com