

SOUTHEND-ON-SEA BOROUGH COUNCIL

Progress report to those charged with governance

June 2017



INTRODUCTION

Summary of progress

This report provides the Audit Committee with an update of the progress in delivering the 2016/17 audit.

Auditors' principal objectives are to review and report on, to the extent required by the relevant legislation and the requirements of the Code of Audit Practice for Local Government, the audited body's:

- financial statements
- arrangements for securing economy, efficiency and effectiveness in its use of resources.

We are also required to certify specified grant claims and returns.

Progress updates on the recommendations raised in the Annual Governance Report are reported to the Audit Committee twice a year in January and June.

2016/17 Annual Audit Plan - progress summary as at 7 June 2017

Area of work	Scope / Associated deadlines	Status	Outputs / Date
Planning	Risk assessment and formulation of the audit plan. Detailed audit plan to be issued outlining direction of the audit.	First phase of work completed.	Planning Letter 2016/17 Reported to the Audit Committee in June 2016. Audit Plan 2016/17 Presented to the Audit Committee in March 2017.
Interim audit	Audit of the key financial systems that support the financial statements of accounts. To be completed prior to commencement of the audit of the financial statements in June 2017.	Work currently in progress.	We report to management any deficiencies in internal control identified during the audit. Where such deficiencies are significant we also report them in our Final Report to the Audit Committee .
Financial Statements audit	Audit of the draft financial statements to determine whether they give a true and fair view of the Council's financial affairs and the income and expenditure for the year. Deadline for issue of audit opinion and publication of the statement of accounts is 30 September 2017.	Start date agreed as 12 June 2017.	Final Report to the Audit Committee Target issue date August 2017. Opinion on the financial statements Target issue date August 2017.
Whole of government accounts audit	Audit of the consolidation pack for consistency with the audited statement of accounts. Consolidation pack opinion – deadline not yet finalised – expected to be early October 2017.	Start date agreed in line with Financial Statements audit.	Opinion on the WGA Consolidation Pack Target date October 2017.

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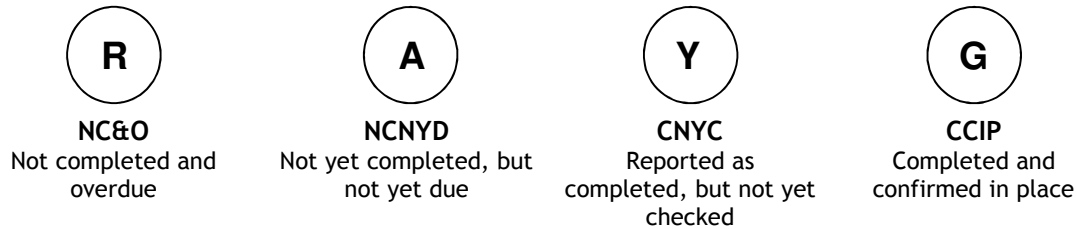
Area of work	Scope / Associated deadlines	Status	Outputs / Date
Use of resources	<p>Approach for VFM Conclusion: One criteria: In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.</p> <p>The overall criterion is supported by three sub-criteria:</p> <ul style="list-style-type: none"> • Informed decision making • Sustainable resource deployment • Working with partners and other third parties <p>Conclusion to be given alongside the accounts opinion by the deadline of 30 September 2017.</p>	Start date July 2017.	<p>Final Report to the Audit Committee Target issue date August 2017.</p> <p>VFM conclusion Target issue date August 2017.</p>
Annual Audit Letter	Public-facing summary of audit work and key conclusions for the year. To be finalised by 31 October 2017.	This will follow completion of the Audit.	<p>Annual Audit Letter Target issue date October 2017.</p>
Grants and returns	To audit and submit BEN 01 (Housing Benefit) grant claim and returns by 30 November 2017 deadline.	Start date agreed as 29 August 2017.	Housing Benefit grants claim and return to be audited by 30 November 2017 deadline.
Non Audit Commission grants and returns	<p>To audit and submit Teachers' Pension and the Housing Pooled Capital Receipts grant claims and returns by the deadline.</p> <p>Teachers' Pensions: Deadline to issue reasonable assurance report is 30 November 2017.</p> <p>Housing Pooled Capital Receipts: Deadline TBC.</p>	Start date for Teachers' pensions agreed as 23 October 2017.	<p>Teachers' Pension grants claim and return to be audited by the 30 November 2017 deadline.</p> <p>Housing Pooled Capital Receipts grants claim and return to be audited by the deadline.</p>
Grants Report	Summary of our certification work completed on 31 March 2017 claims, to be issued by February 2018.	To be drafted after certification work concluded.	Grants Report to those charged with governance to be issued by February 2018 and will be presented to the March 2018 Audit Committee.

Appendix A: Action Plan

Summary of progress with implementing audit recommendations

This report is intended to provide the Audit Committee with an update of the progress that the Council has made in implementing our recommendations.

We have received an update on progress from management and assessed whether the action taken by the Council addresses the expectations of the recommendation. This is included as a “RAG” assessment in the report with the following definitions:



2014/15 GRANTS RECOMMENDATIONS

Conclusions from work	Recommendations 2014/15	Management responses	Responsibility	Timing	Latest management update	RAG status
HOUSING AND COUNCIL TAX BENEFIT SUBSIDY						
There is a high volume of Local Authority error overpayments. As a result the Council breached the overpayments threshold and lost subsidy on these overpayments. This is as a result of incorrectly entering data upon receipt of claimant data then subsequently identifying and rectifying this.	Complete increased, targeted sample checks on the work completed by benefit assessors to identify any particular training needs and to ensure that any known errors are being addressed.	The volume of checking of officer's work has increased. This has resulted in improved accuracy being found in the area of earned income. The new benefits structure effective from April 2016 will allow for further increases of checking across a broader spectrum of work areas.	Benefits Manager	April 2016 Onwards	January 2017: Increased and targeted checking is now undertaken by the Quality & Assurance Team with monthly performance monitoring reports to the Director of Finance. This report includes the type of errors and resulting training given. June 2017: Completed and on-going	G CCIP ¹
Testing in the current and previous year has identified a number of overpayment misclassifications in the subsidy claim.	Provide specific targeted training to the benefits team on how to classify overpayments.	Agreed. As part of the new benefits structure effective from April 2016 there will be specific targeted training to the benefits team on the classification of overpayments.	Benefits Manager	April 2016 Onwards	January 2017: Training has been provided to staff and forms part of the annual refresher training programme. June 2017: Completed and on-going	G CCIP ²

¹ Although action has been taken by the authority we have not seen the results of this in the 2015/16 claim form due to the timing of the restructure. As a result this will remain open until the 2016/17 claim has been audited.

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2014/15 AUDIT RECOMMENDATIONS

Conclusions from work	Recommendations	Management responses	Responsibility	Timing	Latest management update	RAG status
CONTROL ENVIRONMENT						
<p>Payroll Amendments</p> <p>This point was previously reported by Internal Audit:</p> <p>Evidence to support amendments to the Payroll system (including starters, leavers and amendments to staff records) could not be found for a number of amendments during testing completed by Internal Audit.</p>	<p>Fully implement the recommendations raised by Internal Audit in their final payroll report.</p>	<p>Agreed.</p> <p>Anticipated all recommendations will be fully implemented by December 2015.</p>	<p>Sue Putt (Group Manager HR Services)</p>	<p>December 2015</p>	<p>January 2016: Amendment log in place. Actions in relation to this recommendation are completed as of December 2015.</p> <p>June 2016: Completed December 2015</p> <p>September 2016: The Council have been working on this throughout the year and are still working towards a resolution to the issues raised.</p> <p>December 2016: Manual processes are in place to do monthly checks for staff changes affecting payroll. The functionality of the Agresso system does not allow for this to be done electronically. Internal Audit updated and are aware of restrictions and aware of manual process in place.</p> <p>Self Service on Agresso has been introduced and therefore staff can enter direct into the system changes to their own personal details such as address, bank details etc. Therefore these types of changes are no longer undertaken by Payroll.</p> <p>June 2017:</p> <p>Processes outlined above remain in place. Internal audit are aware of these processes as they were developed. Monthly checks are completed in line with this process for all payrolls.</p>	<p>Y</p> <p>CNYC</p>

2015/16 AUDIT RECOMMENDATIONS

Conclusions from work	Recommendations	Management responses	Responsibility	Timing	Latest management update	RAG status
FINANCIAL STATEMENTS						
<p>VAT on South Essex Homes</p> <p>Our testing identified that the accounting transactions were being posted incorrectly in respect of some of the rental income with South Essex Homes. This was due to the net income being invoiced rather than separate invoices being raised for gross income and expenditure. The effect of this is that income, expenditure and VAT reclaimable were all understated. This was trivial to the accounts.</p>	<p>Raise separate invoices for income and expenditure going forward.</p>	<p>This approach was adopted by management as soon as the issue was raised.</p>	<p>Ian Ambrose (Group Manager – Financial Management)</p>	<p>Already implemented</p>	<p>December 2016: New process put into place as soon as raised by External Auditors.</p>	<p>G CCIP</p>
<p>Posting of Re-valuation Amounts</p> <p>We identified that the impairment recorded on an asset re-valued during the year was recorded in the CIES when it should have been posted to the re-valuation reserve as there was an opening balance in the re-valuation reserve in respect of this asset. The amounts involved were trivial in this instance, but there is a risk that the impairments taken to the CIES could be materially overstated if a number of similar errors were to occur.</p>	<p>Perform a high level review of the re-valuations to ensure impairments are only taken to the CIES in respect of assets where there was no opening balance in the re-valuation reserve.</p>	<p>As part of the 5 year rolling programme, all HRA property assets were revalued in 2015/16 including over 6,000 council dwellings with a net book value of £325m. Due to the large volumes involved the revaluations could not be applied manually line by line but had to be applied with the use of a formula. This was sample checked to ensure that it had been applied correctly but had led to £186.81 for one asset being recorded in the CIES when it should have been posted to the revaluation</p>	<p>Caroline Fozzard (Group Manager – Financial Planning and Control)</p>	<p>March 2017</p>	<p>December 2016: This review will be undertaken as part of the 2016/17 revaluations work as part of closing the accounts.</p> <p>June 2017:</p> <p>This review was undertaken and has identified that this can arise where the overall asset being revalued is recorded across more than one asset number and with each asset number having multiple components. There is an on-going exercise to standardise descriptions and rationalise asset numbers so that these assets and their components can be more easily identified and the correct accounting treatment can be applied.</p>	<p>G CCIP</p>

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Conclusions from work	Recommendations	Management responses	Responsibility	Timing	Latest management update	RAG status
		reserve. In other years there are fewer assets re-valued and revaluations are applied manually line by line. It will be ensured that this review is undertaken in future years.				
<p>Consolidation of Schools Income The Council consolidates all income privately generated by the schools and the Southend Adult College into their CIES. We identified that some of the income given to the schools had been consolidated into the Council's accounts and some things that should have been consolidated had been excluded. The amounts involved this year were not material. There is however a risk that income could be materially under or overstated as a result of this error if it were to occur again in future years.</p>	Provide the schools and colleges guidance on what should be consolidated so that the returns provided include all of the relevant information to include in the Council's accounts.	This guidance will be produced and sent to the schools and colleges when the requests for the income declarations are made.	Ian Ambrose (Group Manager – Financial Management)	March 2017	December 2016: Progressing for due date of March 2017. June 2017: Schools finance team worked closely with schools to improve the quality of financial returns. Some concern persists with the Southend Adult College, with support and challenge still being offered.	 Y CNYC
<p>Bad debt provision The bad debt provision has been calculated based upon the same percentages as in the prior year. These percentages have been an accurate reflection of recovery rates in previous years, but this is no longer the case.</p>	Review the calculation of the bad debt provision based upon the historical collection rates.	Management will review the bad debt provision calculation for the 2016/17 statement of accounts and on-going.	Ian Ambrose (Group Manager – Financial Management)	March 2017	December 2016: To be reviewed as part of the 2016/17 closure of accounts. June 2017: Bad and doubtful debt calculations fully reviewed and changes implemented in calculating the various provisions as at 31 March 2017.	 Y CNYC

Conclusions from work	Recommendations	Management responses	Responsibility	Timing	Latest management update	RAG status
CONTROL ENVIRONMENT						
<p>Payroll Authorisation The Council identified that one employee was erroneously paid £363k (£627k gross) in April 2015. The Council's controls failed to identify, prior to the payment being made, that this had been erroneously input to the system. The error was subsequently identified by the Council during the process of making the payment for the PAYE/NIC amounts for this month. The error was identified before the PAYE/NIC was paid and no overpayment was made in respect of these amounts. It was identified after the employee had been paid that the net amount paid to this employee was overstated. Although the Council has controls in place to stop such payments taking place, these controls were ineffective and failed to stop the payment being made. In this instance, the employee repaid the amount they were overpaid. There is however a risk that another employee may not have done so, and that this could lead to a large outflow of resource to the council which they are unable to recoup.</p>	<p>Undertake a thorough review process on all payroll transactions before payment is made.</p>	<p>Controls to prevent this happening are already in place. It will be ensured that the controls are operating effectively going forward.</p>	<p>Sue Putt (Group Manager - HR Services)</p>	<p>On-going</p>	<p>December 2016: Work has been undertaken to improve the controls. Deviance reports are run at the end of input and then again following any amendments that may have been required. The two reports are reconciled and would highlight any errors. Internal Audit are aware of the processes in place. June 2017: The functionality of the Agresso system does not allow for this to be done electronically. Internal Audit updated and are aware of restrictions and aware of manual process in place. Processes remains in place. and Monthly checks are completed in line with this process for all payrolls.</p>	<p style="text-align: center;">Y</p> <p>CNYC</p>

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Conclusions from work	Recommendations	Management responses	Responsibility	Timing	Latest management update	RAG status
TEACHERS' PENSIONS						
A lot of manual intervention is needed to extract the data from the Agresso system to enable the claim form to be compiled/ supported.	Identify a more efficient way to extract this information from the Agresso system.	Senior HR Payroll & Technical Officer and Agresso Support Team to set up the scheme afresh on the system from 1.4.17.	Marie Kohler and Mike Miller	April 2017	June 2017: New Agresso pension scheme codes set up which facilitates creation of the pension returns. The move from annual to monthly returns will simplify the process further.	Y CNYC
There is currently a manual process to deal with back pay adjustments. Which means that the month in which the Teachers were paid below their new salary the Employees contribution is included in the wrong tier.	Set up a new process or function on agresso to take into consideration the back payment and allocate to the month the missing pay is relevant to.	Intention is to resolve this problem with the set up of the new scheme from April 2017.	Marie Kohler and Mike Miller	April 2017	June 2017: Resolved by modifying the formula that determines the pension tier/percentage to take into account the pensionable pay for the whole period rather than just the pensionable pay in the additional pay run.	Y CNYC
Our testing identified some incorrect allocations between people who were included in the old Teachers' Pensions scheme rather than the new scheme on the system, which meant individuals were set up under the wrong tier on the claim form.	Undertake training for any new employees or where there have been any changes to the Teachers' Pension guidance.	Payroll staff are aware of the issues and new staff will be trained appropriately and all staff will be trained on any changes to guidance.	Marie Kohler	January 2017 and on – going	June 2017 We do not believe we have had further instance of this occurring following training.	Y CNYC

The matters raised in our report prepared in connection with the audit are those we believe should be brought to the attention of the organisation. They do not purport to be a complete record of all matters arising. No responsibility to any third party is accepted.

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