

SOUTHEND-ON-SEA BOROUGH COUNCIL

Progress report to those charged with governance

January 2017



INTRODUCTION

Summary of progress

This report provides the Audit Committee with an update of the progress in delivering the 2015/16 and 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.

2015/16 Annual Audit Plan - progress summary as at 5 January 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 2015/16 Reported to the Audit Committee in June 2015. Audit Plan 2015/16 Reported to the March 2016 Audit Committee.
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 July 2016.	Work is complete.	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 2016.	Work is complete.	Final Report to the Audit Committee Reported to the Audit Committee on the 21 September 2016. Opinion on the financial statements Opinion issued on 30 September 2016.
Whole of government accounts audit	Audit of the consolidation pack for consistency with the audited statement of accounts. Consolidation pack opinion –there was a delay in HM treasury in issuing the Data collection tool as a result the deadline was extended to the 21 October 2016.	Work is complete.	Opinion on the WGA Consolidation Pack Opinion issued on the 21 October 2016.
Use of resources	New approach for VFM Conclusion: One criteria:	Work is complete.	Final Report to the Audit Committee Reported to the Audit Committee on the 21

Area of work	Scope / Associated deadlines	Status	Outputs / Date
	<p>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 2016.</p>		<p>September 2016.</p> <p>VFM conclusion</p> <p>Opinion issued 30 September 2016.</p>
Annual Audit Letter	Public-facing summary of audit work and key conclusions for the year. To be finalised by 31 October 2016.	Final report agreed.	<p>Annual Audit Letter</p> <p>Issued by the 31 October deadline. Being reported to the Audit Committee on 18 January 2016.</p>
Grants and returns	To audit and submit BEN 01 (Housing Benefit) grant claim and returns by 30 November 2016 deadline.	Work is complete	Housing Benefit grants claim certified in line with the 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 2016.</p> <p>Housing Pooled Capital Receipts: Deadline 30 November 2016.</p>	<p>The Housing Pooled Capital Receipts return was certified in line with the deadline.</p> <p>The audit of the Teachers' Pension claim is in progress. This is as a result of issues with reconciling the claim form to the Agresso system.</p> <p>This is expected to be completed before the Audit Committee.</p>	<p>Teachers' Pension grants claim and return to be audited by the 30 November 2016 deadline.</p> <p>Housing Pooled Capital Receipts grants claim and return certified in line with the deadline.</p>
Grants Report	Summary of our certification work completed on 31 March 2016 claims, to be issued by February 2017.	Report to be drafted after completion of the Teachers' Pensions grant claim.	Grants Report to those charged with governance to be issued by February 2017.

2016/17 Annual Audit Plan - progress summary as at 5 January 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 Target issue date 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 July 2017.	Start date agreed.	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.	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 to be agreed.	Opinion on the WGA Consolidation Pack Target date October 2017.
Use of resources	New approach for VFM Conclusion: One criteria: In all significant respects, the audited body had	Start date to be agreed.	Final Report to the Audit Committee Target issue date August 2017. VFM conclusion

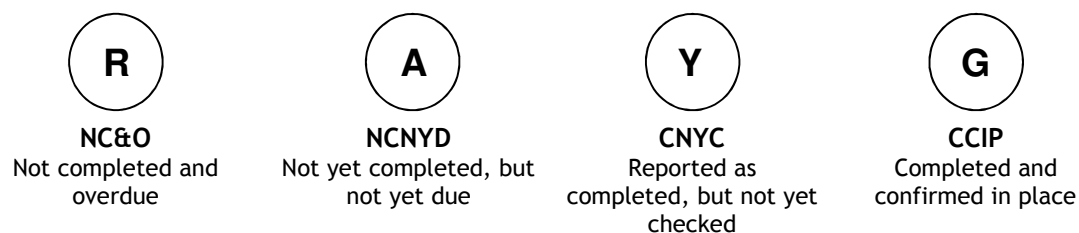
Area of work	Scope / Associated deadlines	Status	Outputs / Date
	<p>proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.</p> <p>The overall criterion is supported by three sub-criteria:</p> <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>		Target issue date August 2017.
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.	Annual Audit Letter Target issue date October 2017.
Grants and returns	To audit and submit BEN 01 (Housing Benefit) grant claim and returns by 30 November 2017 deadline.	Start date to be agreed.	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 to be agreed.	<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.

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:



2012/13 GRANTS RECOMMENDATIONS

Conclusions from work	Recommendations 2012/13	Management responses	Responsibility	Timing	Latest management update	RAG status
HOUSING AND COUNCIL TAX BENEFIT SUBSIDY						
A number of errors were identified during our testing on the input of income and the classification of overpayments.	Carry out regular checking of a number of claims to ensure that: <ul style="list-style-type: none"> Income has been input correctly. Overpayments have been correctly classified. 	Additional resource introduced on checking claims 5 days a week to support quality assurance team and increase the volumes checked Team leaders to check high value Admin Delay overpayments to check correctly classified. To be reviewed regularly by Asst. Benefit Manager.	Asst Benefit Managers Team Leaders & Asst Benefit Manager	Implemented January 2014 Implemented January 2014	January 2016: Checking continues to be carried out on earned income as this remains an area with a high potential for errors to occur. June 2016: Complete and on-going January 2016: High value Admin delay overpayments continue to be checked. Management are discussing ways that checking on this area can be made more effective June 2016: Complete and on-going December 2016: New Quality & Assurance Team undertaking significant sampling in all areas and advising training needs where required.	<div> G CCIP¹ </div> <div> G CCIP² </div>

¹ Reduced number of errors in respect of earned income in qualification letter – satisfied implemented this part of recommendation.

² We are satisfied that checks are in place however a number of errors were identified during the audit of the 2015/16 claim form. As a result management are revisiting this process. This recommendation will therefore remain.

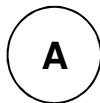
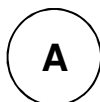

2014/15 AUDIT RECOMMENDATIONS

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. 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>Y</p> <p>CNYC</p>

2015/16 AUDIT RECOMMENDATIONS

Conclusions from work	Recommendations	Management responses	Responsibility	Timing	Latest management update	RAG status
FINANCIAL STATEMENTS						
VAT on South Essex Homes 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.	Raise separate invoices for income and expenditure going forward.	This approach was adopted by management as soon as the issue was raised.	Ian Ambrose (Group Manager – Financial Management)	Already implemented	December 2016: New process put into place as soon as raised by External Auditors.	<div>Y</div> CNYC
Posting of Re-valuation Amounts 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.	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.	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 reserve. In other years there are fewer assets re-valued and	Caroline Fozzard (Group Manager – Financial Planning and Control)	March 2017	December 2016: This review will be undertaken as part of the 2016/17 revaluations work as part of closing the accounts.	<div>A</div> NCNYD

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Conclusions from work	Recommendations	Management responses	Responsibility	Timing	Latest management update	RAG status
		revaluations are applied manually line by line. It will be ensured that this review is undertaken in future years.				
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.	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.	<div style="text-align: center;">  A NCNYD </div>
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.	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.	<div style="text-align: center;">  A NCNYD </div>
CONTROL ENVIRONMENT						
Payroll Authorisation The Council identified that one employee was erroneously paid £363k (£627k gross) in April 2015. The Council's controls failed to	Undertake a thorough review process on all payroll transactions before payment is made.	Controls to prevent this happening are already in place. It will be ensured that the controls are operating effectively going forward.	Sue Putt (Group Manager - HR Services)	On-going	December 2016: Work has been undertaken to improve the controls. Deviance reports are run at	<div style="text-align: center;">  Y CNYC </div>

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Conclusions from work	Recommendations	Management responses	Responsibility	Timing	Latest management update	RAG status
<p>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>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.</p> <p>Internal Audit are aware of the processes in place.</p>	

The matters raised in our report prepared in connection with the audit are those we believe should be brought to your attention. They do not purport to be a complete record of all matters arising. This report is prepared solely for the use of the council and may not be quoted nor copied without our prior written consent. No responsibility to any third party is accepted.

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