



Accountants &
business advisers

Southend-on-Sea Borough Council
Annual Governance Report 2009/10

September 2010

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Code of Audit Practice and Statement of Responsibilities of Auditors and Audited Bodies

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission contains an explanation of the respective responsibilities of auditors and of the audited body. Reports and letters prepared by appointed auditors are addressed to members or officers. They are prepared for the sole use of the audited body and no responsibility is taken by auditors to any Member or officer in their individual capacity or to any third party.

1 Executive summary

- 1.1 Auditing standards require that we report to Members with responsibility for financial reporting (those charged with governance) the key findings of our audit prior to issuing our opinion on the financial statements. A summary of the audit findings and conclusions is included in the table below:

Area of audit	Findings & Conclusion
Financial statements	
Key financial systems	<p>The key financial systems are generally adequate as a basis for preparing the financial statements with the only significant control weakness being in respect of reconciling the payroll and Human Resource systems, as described in Section 3.</p> <p>Details of less significant control weaknesses identified through the course of our audit work have also been reported at Appendix B.</p>
Financial statements	<p>A material amendment relating to the consolidation of schools debtor and creditor balances, amounting to £8m, was made to debtors and creditors before the commencement of the audit. However, this did not have an impact on the net position of the Balance Sheet.</p> <p>Some non-trivial but not material errors have been identified during the course of the audit, most of which have been corrected by the Council. Items not adjusted for are set out in Appendix B of this report.</p> <p>Some areas of audit work are still outstanding at the time of drafting this report. We will provide a verbal update on progress to the Audit Committee on 22 September 2010.</p> <p>We are satisfied that the Annual Governance Statement (AGS) is not misleading, or inconsistent with other information we are aware of from our audit of the financial statements.</p> <p>Subject to satisfactory completion of the outstanding work, we anticipate issuing an unqualified “true and fair” opinion.</p>
Use of resources	
Value for money conclusion	We anticipate issuing an unqualified value for money conclusion.

Acknowledgement

- 1.2 We would like to thank staff for their co-operation and assistance during the audit and throughout the period.

2 Introduction

- 2.1 This report summarises the results of our audit work completed to date in respect of the financial statements and arrangements to secure economy, efficiency and effectiveness in the use of resources for the year ending 31 March 2010.
- 2.2 Our report is presented to the Members in accordance with International Auditing Standard 260 ("ISA 260"), which requires us to report to Members with responsibility for financial reporting (those charged with governance) the key findings from the audit, prior to issuing our opinion on the financial statements.

Findings

- 2.3 Recommendations in response to the key findings identified by our audit of the financial statements are provided in the action plan at Appendix A. These recommendations have been discussed with appropriate officers and responses are included in the action plan where appropriate.
- 2.4 We would highlight that in this report we do not provide a comprehensive statement of all weaknesses that may exist in the accounting and control systems, but only those matters which have come to our attention as a result of the audit procedures performed. We have restated weaknesses already reported by Internal Audit where we consider these to be significant weaknesses.

Fee outturn

- 2.5 The Audit Commission's Standing Guidance for Auditors requires us to report the outturn fee position for the year against the budgeted fee included within your Audit Plan. The table below sets out this analysis:

Audit plan 2009/10	Planned fees £	Actual fees £
Financial statements	166,000	166,000
Use of Resources	86,000	86,000
Planning and reporting	109,000	109,000
Subtotal audit	361,000	361,000
Grants	83,000	83,000
Total	£444,000	£444,000

At the time of drafting our audit is not complete. Should any additional fees arise, we will discuss the matter with management and issue an updated fee outturn to the Audit Committee.

- 2.6 A number of the grant claim audits are currently in progress or do not require certification until 31 December 2010 and therefore the actual fee remains an estimate of the expected final position. The final position will be reported in our grants report to be issued in February 2011.

Independence

- 2.7 We confirm that we are not aware of any relationships that may bear on our independence and objectivity as auditors and that our independence declaration, included in the Audit Plan for 2009/10, has remained valid throughout the period of the audit.

3 Financial statements

Requirements

- 3.1 We are required to provide an opinion on whether your financial statements give a true and fair view of your financial position and income and expenditure and whether they have been prepared properly, in accordance with appropriate legislation and relevant accounting guidance.
- 3.2 We carry out procedures designed to obtain sufficient appropriate audit evidence to determine with reasonable confidence whether the financial statements are free from material misstatement and evaluate the overall presentation in order to ascertain whether they have been prepared in accordance with relevant legislation and accounting standards.
- 3.3 We identify the principal areas of risk of material misstatement from our knowledge of the Council, of the environment in which it operates and from discussions with management. We address these risks by carrying out appropriate audit procedures.
- 3.4 We apply an appropriate level of materiality and as such the audit cannot be relied upon to identify all risks or potential and actual misstatements. Materiality is the expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole.
- 3.5 We set a triviality level of £100,000 for the 2009/10 financial statements audit and have not reported to you any matters arising below this level.

Reporting to those charged with governance

- 3.6 We are required to report to you:
- our assessment of and response to **significant risks** in the financial statements
 - qualitative aspects of **accounting practices** and **financial reporting**
 - **corrected** and **uncorrected misstatements**
 - final draft **letter of representation** to be agreed by management and those charged with governance
 - expected modifications to the **audit report**
 - material weaknesses in **accounting** and **internal control systems** identified during our work
 - matters required to be reported by **other auditing standards**
 - any **other audit matters** of governance interest.
- 3.7 Our comments in these areas are set out in order in the following pages:

Significant risks in the financial statements

- 3.8 Auditing standards require that we bring to your attention areas that require additional or special audit procedures in response to areas of significant risk, such as a weakness in controls or areas requiring a higher degree of estimation by management.
- 3.9 We reported to you our updated risk assessment in the 2009/10 Audit Plan issued in December 2009. We have since undertaken a more detailed assessment of risk following our completion of the interim review of financial controls and review of the Council's draft financial statements. Our updated risk assessment was reported to you in our letter dated 8 July 2010.
- 3.10 The findings from our review of financial statements risks and other areas of audit focus identified in our Audit Plan are summarised in the table below:

Risk area	Overall conclusion
Significant audit risks	
Authorisation of Journals	We extended our coverage and the level of our substantive testing of journals to gain greater assurance as to the accuracy and validity of the journals being processed. No issues were identified from the audit procedures carried out.
Bad Debt provision	We reviewed the bad debt provisions in place at the Council to ensure that they have been set at a reasonable value and that there is not a shortcoming in the provisions set. No issues were identified from the audit procedures carried out and we concluded that the bad debt provisions are reasonable.
Implementation of new Fixed Asset Register	We reviewed the work completed on the conversion to the new Fixed Asset Register and checked a sample of assets to ensure that they had been correctly uploaded onto the new system. No issues were identified from the audit procedures carried out.
Consideration of service concessions under IFRIC12	We reviewed the Council's assessment for the accounting treatment of service concessions under IFRIC 12. There were no service concessions identified which required accounting for under IFRIC 12.
Areas of audit focus	
Discount factor on the pension fund	From review of the reports provided by PwC and the Audit Commission, they have concluded that the discount factor used within the calculations for the pension fund are appropriate.

- 3.11 We are required to consider management override of controls to be a significant risk in all audit engagements under auditing standards, as discussed in our 2009/10 Audit Plan. Journals and estimates were reviewed and tested to establish whether there was any evidence of management override, and no issues were identified from our work.

Accounting practices and financial reporting

Application of accounting policies

- 3.12 The financial statements have been prepared in accordance with the accounting policies of the SORP. The key changes introduced by the 2009 SORP were:
- the introduction of accounting for service concession arrangements under International Financial Reporting Interpretations Committee (IFRIC) 12
 - the introduction of agency accounting for the collection of Council Tax and national non-domestic rates (NNDR).
 - the introduction of Statutory Instrument 3322/2009 and a requirement to disclose remuneration information for senior officers earning over £50,000.
- 3.13 The Council has addressed the implementation of these changes in an appropriate manner and assisted the audit in the review of the changes required:

Service concessions

- 3.14 A service concession arrangement is an arrangement whereby a government or other body grants contracts for the supply of public services - such as roads, energy distribution, prisons, hospitals and some refuse collection arrangements - to private operators. The grantor controls or regulates what services the operator must provide using the assets, to whom, and at what price, and also controls any significant residual interest in the assets at the end of the term of the arrangement.
- 3.15 CIPFA have introduced the requirement to account for service concessions under IFRS standards, using IFRIC12, a year in advance of the full implementation of IFRS, in order that Councils are accounting for these arrangements in their own accounts on a consistent basis with the requirements of the submission for the Whole of Government Accounts.
- 3.16 The Council undertook a comprehensive review of the services that it provides and concluded that there are no service concession arrangements that would require accounting for under IFRIC 12. Our audit work has not identified any significant service concessions that would need to be accounted for under IFRIC 12.

Agency basis of Council Tax and NNDR

- 3.17 Local authorities are now required to account for the collection of Council Tax and NNDR on an agency basis, so that the financial statements of the Council reflect only the amounts proportionally payable to them (within the Income and Expenditure account and outstanding debtors on the balance sheet). Other amounts are shown as liabilities for amounts the Council owes to other preceptors or central government.
- 3.18 The Council has appropriately reflected these changes within the financial statements, including the restatement of the prior year amounts. Working papers and restated balances were provided in March 2010 to facilitate an early review so that any issues could be discussed in advance of the audit.

New remuneration disclosures for senior officers earning over £50,000

- 3.19 We have reviewed the enhanced disclosures against the statutory requirements and guidance and agreed the senior officer remuneration disclosures to underlying supporting payroll documentation. Minor amendments around bonus payments and the reporting of one officer's pay on a full year equivalent basis have been discussed with officers, but no significant issues have been identified from our work.

Accounts preparation process

- 3.20 The draft financial statements were approved by Members on 23 June 2010, which was in advance of the statutory deadline of 30 June. A number of technical issues, such as the prior year restatement for Council Tax balances, had been discussed in advance of the audit as had also been the case in previous years, which demonstrates the Council's continued pro-active approach to the accounts process.
- 3.21 As part of our planning for the audit, we prepared a detailed document request which outlined the information that we would require to complete the audit. The Council provided us with files of comprehensive working papers on 5 July 2010, as well as electronic working papers. The draft financial statements were received on 17 June 2010 and had been prepared to a good standard which facilitated our early preliminary analytical review of the core statements.
- 3.22 When addressing the variances identified from our preliminary analytical review, the Council identified an error with the debtor and creditor balances in the financial statements. As a result, the Council made an amendment of £8m to both debtor and creditor balances before the commencement of the audit. The error was made as a result of the incorrect consolidation of the schools debtor and creditor balances within the Council's financial statements, which resulted in an equal understatement of both debtor and creditor balances.

Detailed Revenue Reports

- 3.23 As part of our debtors and creditors testing we identified that the Council was unable to provide detailed reports, as at 31 March 2010, analysing Council Tax arrears and prepayments in order for us to perform sample testing on this balance. This is the same issue that was identified and raised as part of last year's audit, with recommendations made to avoid this occurring again, that have not been addressed.
- 3.24 The Council's total Council Tax debtor at the 31 March 2010 is £4.5m and the creditor for 2009/10 is £0.8m, which correctly excludes the debtors and creditors in respect of the Police and Fire Authorities. These amounts have been agreed in total to summary reports from the Northgate system, but detailed reports of individual account balances were not produced until 1 April 2010, resulting in a difference of £0.2m between the summary reports used to prepare the accounts and the detailed information supporting those summary reports.
- 3.25 Based on the results of our planned systems controls testing and additional substantive testing that was undertaken on the detailed reports, we have been able to conclude that the accounts are not materially misstated. However, we again recommend that detailed reports to support the summary report are produced as at 31 March 2010 and retained as detailed evidence of the Council Tax debtor. A repeat recommendation to this effect has been raised in Appendix A.

Cash Receipts

- 3.26 Our testing of income identified some instances where cash had been received on the cash receipting system and posted to individual accounts through the cash feeder journal. However, there was no corresponding evidence held by the Council to support the allocation of the income received. The risk generated by this weakness is that income could be posted to an incorrect account code, as there is no supporting evidence to identify what the income relates to.
- 3.27 Our testing identified 5 instances of this weakness, amounting to a total of £5,340. By extrapolating this error across the total value of the income we have tested, we have concluded that the total amount without corresponding evidence would be trivial (i.e. less than £100,000) and therefore the risk of the financial statements being materially misstated as a result is low.

- 3.28 At the point the cash feeder journal is processed, officers at the Council only check that the total balances agree so that there is no check that all items on the journal are valid, have relevant supporting documentation, and have been posted to the correct account code. A recommendation has been raised in Appendix A that such a check is completed.

Actuarial assumptions for the pension fund liability

- 3.29 The pension fund liability attributable to the Council, reported in the Balance Sheet, is subject to significant estimation based on expected rates of inflation, salary increases, pension increases, discount rates, options for retiring members to convert an element of pension into a lump sum, and mortality tables for life expectancy.
- 3.30 We have reviewed the expected rates proposed by the actuary in calculating the pension liability and are satisfied that these are not significantly different from rates applied by other actuaries of local government pension schemes.
- 3.31 However, whilst the actuary has made recommendations for the expected rates to be applied, it is for the Council to confirm that these rates are appropriate and reflect its understanding of its workforce, scheme members and its future plans. Therefore, we have sought written representations from the Council in the Letter of Representation in Appendix C to confirm that the assumptions applied are reasonable and consistent.
- 3.32 Since the accounts were approved, the Government has announced its intention to amend the pension regulations for future pension increases, which will impact on the assumptions used by the actuary in calculating the pension liability. The nature of this event, and it occurring after the balance sheet date, means that it is “non-adjusting”, so no changes to reported figures need to be made in the financial statements, but accounting standards require the impact of this change to be reported as a note in the financial statements. As a result a note has been included in the revised financial statements.

Adequacy of disclosures

- 3.33 We identified a small number of departures from the expected presentation of the financial statements or where notes and other disclosures had not been presented in accordance with the SORP. These have been amended by the Council.

Corrected and uncorrected misstatements

- 3.34 As part of our audit approach, all material balances were subject to audit testing and agreement, on a sample basis, to supporting documentation. Issues arose in respect of the following matters, which we bring to your attention:

Reversal of Impairment

- 3.35 Our testing on the revaluation of Investment Properties identified some assets that were revalued in 2009/10, and had been previously subject to impairment in 2008/09. In 2008/09 the impairment charge had been correctly charged to the Income & Expenditure (I&E) account, and therefore the correct treatment of the revaluation gain in 2009/10 is to reverse the value of impairment previously charged to the I&E account, and then post the remaining valuation gain to the revaluation reserve. However, the Council did not account for the revaluation in this way and posted the total revaluation gain straight to the revaluation reserve.
- 3.36 The Council has amended for this error in the revised accounts, resulting in an adjustment amounting to £3.66m being credited to the I&E account and reversed out of the revaluation reserve. Although this reduces the deficit reported in the I&E account, it has no overall effect on the financial position of the Council, as the impact of the impairment charges are reversed through the Statement of Movement on General Fund Balance. Our audit confirmed that other assets that were subject to valuation during the year had been correctly accounted for.

Statement of Total Recognised Gains and Losses (STRGL)

- 3.37 Our audit of the STRGL identified that there is a balance of £183,000 being referred to as 'Other gains'. Our review of the working papers and discussions with officers have established that this is a balancing item and that officers are unable to identify what the gain relates to. We will update the Audit Committee if we are able to resolve the reason for this entry on the STRGL.
- 3.38 As a result of this uncertainty, we are unable to suggest an amendment to improve the presentation of the accounts, however with the balance at this level we have been able to conclude that the accounts are not materially misstated, but as the uncertainty is above the triviality level set for the Council we are required to report this anomaly.

Airport Funds

- 3.39 The Council sold part of the airport land in 1994 for £1,512,300, and developed an agreement that the funds received by the Council would be used on expenditure for the airport. When the land was subsequently sold on again for redevelopment into a retail park, the Council received a further lump sum of £2,319,348. The total capital receipt in respect of the sale of airport land was therefore £3,831,648.
- 3.40 The agreement detailed that the Council would add interest onto this balance (reflecting its ring-fenced nature). The amount of interest accrued each year has been recorded as interest payable in the I&E account and recorded as a creditor in the balance sheet.
- 3.41 Each year the amount passed to the airport to meet expenditure incurred has reduced correspondingly the total capital receipt balance. During 2008/09, the total capital receipt was fully utilised and the airport started to use up the accrued interest balance.
- 3.42 As a result, the expenditure is now funded from the accrued interest balance retained in creditors. The expenditure in the 2009/10 year amounted to £645,997.95 which has been included within the net cost of services, and has been funded by a matching entry in interest receivable on the face of the I&E account. However, this is not the most appropriate treatment as the transaction does not represent interest receivable to the Council.
- 3.43 It would be more appropriate to record the utilisation of the accrued interest as income to match the expenditure in the net cost of services. The Council has not amended for this proposed change and therefore the unadjusted error has been recorded in Appendix C, although this has no overall effect on the financial position of the Council.

Insurance Reserve and Provision

- 3.44 The insurance reserve represents money set aside to meet potential, as yet unknown claims in the future. The insurance provision represents the best estimate of the costs of claims that have been received, but for which the exact values are not yet known.
- 3.45 Our review of the documentation to support the values reported for the reserve and for the provision in the accounts identified that the calculation of the provision anticipated that this should be set at £4.0m rather than the reported value of £3.6m, and that the expected reserve should be set at £1.3m rather than the reported value of £1.6m. The overall effect of these differences being that the resources allocated to potential insurance claims costs are £83,000 lower than the current estimates of future costs.
- 3.46 Due to the uncertain nature of the future liabilities (in that they are based upon estimates), management have chosen not to make amendments to the accounts to bring them into line with the underlying estimated position. However, this does not result in a material misstatement of the accounts.
- 3.47 All other misstatements identified during the course of the audit have been corrected for.

Letter of representation

- 3.48 The draft letter of representation has been attached as Appendix D. We do not anticipate any changes being required before providing our opinion on the financial statements.

Audit report

- 3.49 Subject to satisfactory resolution of the following outstanding issues and final clearance of the audit, we anticipate issuing an unqualified audit opinion on the accounts:

- clearance of manager and partner review queries
- receipt of final bank confirmation letters
- receipt of the Civic Centre title deeds
- confirmation from the Valuer on the basis for the valuation of the Housing Stock

- 3.50 We will provide a verbal update at the Audit Committee on 22 September 2010.

Accounting and internal control systems

Key financial systems

- 3.51 We have reviewed the key financial systems, which contribute to the preparation of materially accurate financial statements, to assess the extent to which we can place reliance on them for this purpose. In carrying out this work we consider:

- the extent to which your accounting and internal control systems are a reliable basis from which to prepare the financial statements
- the robustness of your accounts preparation processes.

- 3.52 In assessing the reliability of systems as a basis for providing financial information that is free from material misstatement, we prepared systems notes for each financial system and we evaluated the controls within those systems, with particular focus on assessing whether the controls in place to mitigate significant risks are suitably designed and operating as intended to meet their objective.

- 3.53 Your key financial systems are:

- | | |
|--------------------------------|-------------------------------------|
| - Main accounting | - Council Tax |
| - Cash and bank | - Housing and council tax benefits |
| - Payments and creditors | - National Non Domestic Rates |
| - Income and debtors | - Housing rents income |
| - Payroll and employment costs | - Investments and investment income |
| - Information technology | |

- 3.54 We also have a responsibility to give specific consideration to the potential risk of material misstatement of your financial statements due to fraud and error, including the risk of fraudulent financial reporting. This requires us to:

- review internal controls that are designed to prevent, or detect and correct, misstatements in the accounts
- review the arrangements for preparing the financial statements
- select and test transactions and balances, including review of significant balances against expectations and substantiate individual items
- assess the significant estimates and judgements made by officers in preparing the accounts
- consider the adequacy of presentation and disclosures included in the financial statements.

- 3.55 The primary responsibility for ensuring that your internal control frameworks are robust enough to prevent and detect material fraud and corrupt practices lies with management and those charged with governance.

Fraud risks

- 3.56 In order to identify the fraud risks, and the controls you have put in place to mitigate those risks, we have:
- discussed your anti fraud and corruption arrangements with officers, and those charged with governance
 - considered the extent to which the work of Internal Audit is designed to detect material misstatements in the accounts arising through fraud
 - made enquiries regarding instances of actual fraud you have brought to our attention.

Internal audit

- 3.57 Where possible, we have placed reliance on Internal Audit's work and thereby avoided unnecessary duplication of audit effort. To ensure this approach was valid, we have undertaken the following:
- reviewed Internal Audit's working papers and reports
 - considered the robustness of the key financial systems on the evidence of this work
 - re-performed Internal Audit's evaluation of controls and a sample of its testing of the effectiveness of controls, to ensure that its conclusions are soundly based.

- 3.58 We were able to place reliance on Internal Audit's work for the testing of the effectiveness of specific controls.

Conclusions

- 3.59 As a result of our work, we have concluded that the key financial systems are generally adequate as a basis for preparing the financial statements. However, we would like to draw to your attention the following key issue arising from our review of the key financial systems:

Reconciliation of the Payroll System to the HR System

- 3.60 Internal Audit testing identified that the Council does not reconcile the Payroll System to the Human Resources (HR) system. As part of our audit we attempted to reconcile the two systems. However, it was not possible to complete this as at 31 March 2010, due to the fact that the HR system is live, and a report can only be generated at a particular point in time. Without the reconciliation between the systems there is risk that there are employees being paid through the Payroll System who are not on the HR System.
- 3.61 As a result, we have undertaken additional substantive testing to confirm that payroll payments being made are being paid at the correct rate to bona fide employees of the Council. This testing further highlighted the inconsistencies with the HR system, but did not identify any instances of incorrect payments being made. We have included this as a recommendation in Appendix B.
- 3.62 Other problems identified with key controls identified by our audit, or by internal audit are reported in Appendix B. For the issues referred to relating to those at Appendix B, whilst we consider these to be key controls (and so must confirm their *existence*), we had not planned to place reliance on the effective *operation* of the controls. There was, therefore, no impact upon our planned audit approach.

Matters required to be reported by other auditing standards

- 3.63 There are no other matters arising from our work that we are required by other auditing standards to bring to the attention of those charged with governance.

Other audit matters of governance interest**Annual governance statement**

- 3.64 The Council has a responsibility to publish an Annual Governance Statement, including the outcome of a review of its effectiveness, with its 2009/10 financial statements.
- 3.65 We have reviewed the Annual Governance Statement and the supporting review of effectiveness that has been undertaken and we are satisfied that the Statement is not inconsistent with the evidence provided in the review of effectiveness and our knowledge of the Council.

International financial reporting standards

- 3.66 International Financial Reporting Standards (IFRSs) will be adopted in local government from 2010/11 and will require transitional arrangements to be put in place by the Council. Management should prepare for the adoption of IFRSs based on the Treasury timescales and ensure that staff have sufficient knowledge of IFRSs to restate the current financial statements.
- 3.67 Progress reports around the Councils transition process for IFRS accounting have been provided to the Audit Committee for consideration, and the Council are on course for meeting the deadline for the 31 March 2009 balance sheet restatement. A further review of leases and lease type arrangements is planned to ensure the Council has identified all the relevant arrangements and the appropriate accounting treatment has been applied to them.
- 3.68 The 2009/10 financial statements are due to be restated by the end of December 2010 with skeleton draft IFRS statements to be prepared by the end of March 2011.

4 Use of resources

- 4.1 We are required to be satisfied that proper arrangements have been made to secure economy, efficiency and effectiveness in the use of resources (value for money).
- 4.2 In June 2010 the Government announced the abolition of Comprehensive Area Assessment. As a result the Audit Commission announced changes to its Use of Resources approach, effective immediately, which included removal of the scored judgements for use of resources assessments in local government bodies. It was still necessary, however, for auditors to complete sufficient Use of Resources assessment work to support their statutory duty to provide a value for money conclusion.
- 4.3 In practice, much of the Use of Resources assessment had already been completed at the time of the announcement, in order to meet the prior deadline of submitting indicative scores to the Audit Commission by 21 April 2010.
- 4.4 The Audit Commission has recently communicated the approach to value for money that will be adopted from 2010/11 (but funded from 2011/12 fees onwards), and we will be discussing the impact of these changes with officers during the autumn.

Use of resources risks

- 4.5 The findings from our review of use of resources risks identified in our audit plan are summarised as follows:

Risk area	Findings and Conclusion
Financial Position	At the current time the Council's financial position remains adequate. However, as with most public sector organisations, the future financing position is extremely uncertain and the Council is currently making plans to deal with potentially radical reductions in the funding provided to support the activities of the Council in future years.
Capital Programme for Housing Stock	The Council has adequate and effective arrangements in place that have fully delivered the £10m investment programme agreed for 2009/10, and is currently on track to deliver the planned programme for 2010/11. Recent, high profile developments relating to a housing contractor have been foreseen by the Council and pro-active risk mitigation undertaken.
Building Schools for the Future	We concluded that the Council has implemented appropriate governance arrangements in respect of the delivery of the Building Schools for the Future work programme and, as a result, is successfully delivering the capital works to the Belfairs School, in line with the project plan implemented at the outset of the project. The progress to date remains on course to deliver the programmed works in accordance with the Project Execution Document.
Thames Gateway	The Council has implemented robust governance arrangements in respect of the delivery of the Thames Gateway investment projects and is delivering the capital works supported by funding agreements with the Homes and Communities Agency in line with the timetables required to enable that funding to be accessed. However, there are some inconsistencies between projects in respect of the use made of the project management documentation arrangements that have been implemented by the Council. These inconsistencies should be addressed so that all projects are recorded to the corporate standard, to demonstrate that they are being properly project managed and delivered in accordance with the Council's plans and expectations.

Risk area	Findings and Conclusion
Health Inequalities	<p>Essex public sector organisations have made good overall progress against previous recommendations, particularly in consolidating strategic approaches to deal with health inequalities, working together to develop operational arrangements to deliver the strategies and improving member awareness. Some issues require further attention, particularly in delivery, target setting and local performance monitoring.</p> <p>Southend Together has significantly strengthened its arrangements for tackling health inequalities since we undertook our first stage review, and there is already a much stronger base for delivery and having an impact on health inequalities in the future, with the implementation of the recently introduced Health Inequalities Strategy.</p>

Value for money conclusion

- 4.6 Our value for money conclusion is based on considering our judgements from the results of risk based audit work, as well as consideration of the processes underpinning your review of the effectiveness of your controls as described in the Annual Governance Statement. Our judgements against the value for money conclusion criteria are set out in the table below:

Value for money conclusion criteria	Yes/No
1. Does the organisation plan its finances effectively to deliver its strategic priorities and secure sound financial health?	Yes
2. Does the organisation have a sound understanding of its costs and performance and achieve efficiencies in its activities?	Yes
3. Is the organisation's financial reporting timely, reliable and does it meet the needs of internal users, stakeholders and local people?	Yes
4. Does the organisation commission and procure quality services and supplies, tailored to local needs, to deliver sustainable outcomes and value for money?	Yes
5. Does the organisation produce relevant and reliable data and information to support decision making and manage performance?	Yes
6. Does the organisation promote and demonstrate the principles and values of good governance?	Yes
7. Does the organisation manage its risks and maintain a sound system of internal control?	Yes
8. Is the organisation making effective use of natural resources?	Yes
9. Does the organisation manage its assets effectively to help deliver its strategic priorities and service needs?	Yes
10. Does the organisation plan, organise and develop its workforce effectively to support the achievement of its strategic priorities?	Yes

Overall conclusion

- 4.7 Our overall conclusion is that adequate arrangements are in place to secure value for money.

Appendix A: Action Plan

Conclusions from work	Recommendations	Priority	Management response	Responsibility	Timing
Accounting practices and financial reporting					
<p>Revenue Reports</p> <p>Our debtors and creditors testing identified that the Council were unable to provide detailed reports for Council Tax arrears and prepayments as at 31 March to allow us to perform sample testing on these balances. This is the same issue that was identified last year.</p>	<p>1. The Council should ensure that detailed reports are run from Northgate for Council Tax accounts in arrears and prepayments as at 31 March, and that these reports are retained.</p>	High	Agreed.	Revenues Manager	31 March 2011
<p>Cash Income receipts</p> <p>Our testing of income identified some instances where cash had been received on the cash receipting system and posted through the cash feeder journal without corresponding evidence to support what the income was received for and what it related to.</p> <p>When the cash feeder journal is processed, Officers at the Council only check that the total balances agree. It appears that there is no check performed that all items on the journal are valid, have relevant supporting documentation, and have been posted to the correct account code.</p>	<p>2. Checks should be performed on the entries included on the cash feeder journal to ensure that they have supporting evidence to confirm the allocation of the income to the correct account codes.</p>	Medium	<p>We will review a sample of journal entries to identify whether any significant errors are identified.</p> <p>The approach will be reviewed based on the results of this work.</p>	Income Manager	31 December 2010

Conclusions from work	Recommendations	Priority	Management response	Responsibility	Timing
<p>Debtors & Creditors</p> <p>Our audit of the disclosure notes in relation to debtors and creditors identified that some debtors and creditors relating to central government and local authorities had been incorrectly disclosed as general debtors. This occurred because whilst members of finance process the year end journals for debtors and creditors within their individual areas, no central checks are performed to ensure that they have been correctly coded and classified.</p>	<p>3. The Council should ensure that central checks are performed on the debtor and creditor year end journals to ensure that all entries are correctly coded and classified, and thus correctly disclosed in the notes in the financial statements.</p>	Medium	Agreed. This will be included as part of the year end closedown timetable list of activities to be undertaken.	Group Manager - Financial Management	31 March 2011

Appendix B: Control Weaknesses

Conclusions from work	Recommendations	Priority	Responsible officer	Deadline agreed	Previously reported to TCWG by Internal Audit
<p>1. Journals</p> <p>Internal Audit identified that, from a sample 10 journals tested, there was no evidence that the journal had been reviewed and authorised by an Officer independent of the Officer raising the journal, in 2 cases.</p> <p>We completed additional testing on a further sample of 7 journals, where we found 2 more instances where journals were not independently reviewed and authorised.</p> <p>Consequently there is a risk that invalid or inappropriate journals are processed on the system.</p>	<p>All journals that are processed on the general ledger system should be independently reviewed to ensure that they are valid, accurate and appropriate.</p>	Medium	Group Manager – Financial Planning & Capital	31 July 2010	<p>Internal Audit report recommendations that are overdue to the Audit Committee. This recommendation has not become overdue, therefore it has not been reported in detail.</p> <p>This was included in Internal Audit's final report on the Main Accounting System.</p>
<p>2. Reconciliation of the Payroll System to the HR System</p> <p>Internal Audit identified that the Payroll System is not reconciled to the Human Resources system on a regular basis.</p> <p>We attempted to complete this reconciliation as at 31 March 2010. However, we were unable to complete this due to the HR system not being able to generate reports at previous points in time.</p> <p>Consequently there is a risk that ghost employees are being paid through the Payroll System.</p>	<p>A regular reconciliation should be performed between the Payroll System and the Human Resources system to ensure that all employees being paid are valid and recorded on the HR system.</p> <p>We understand that the new system currently being implemented will assist with resolving this issue.</p>	High	Group Manager – Financial Planning & Capital	31 March 2011	No

Conclusions from work	Recommendations	Priority	Responsible officer	Deadline agreed	Previously reported to TCWG by Internal Audit
<p>3. Payroll – Confirmation of Payroll costs by Budget Holders</p> <p>Internal Audit identified that data from the HR System is regularly sent to each department for verification of accuracy. The returned establishment lists are checked by HR to ensure that they have been appropriately authorised, and amendments are made to the system. Internal Audit found the control to be operating for payroll 7 (schools), but not for payroll 8 (council).</p> <p>Consequently there is risk of ghost employees and that staff are not being accurately paid at the correct rate.</p>	<p>Positive confirmation of the review of establishments lists should be completed for both payrolls that are operated by the Council.</p>	<p>High</p>	<p>Group Manager - Financial Management</p>	<p>31 March 2011</p>	<p>No</p>
<p>4. NNDR / Council Tax - Awarding of reliefs and allowances</p> <p>There continues to be a lack of evidence of review of claims received and evidence provided by claimants when relief or exemptions are applied for.</p> <p>Consequently there is a risk that reliefs and exemptions are being inappropriately applied to ratepayers accounts.</p>	<p>The officer assessing the claim for exemptions or reliefs should clearly document the evidence that has been reviewed in reaching their decision, so that there is a clear audit trail that the appropriate evidence has been taken into account in reaching that decision.</p>	<p>High</p>	<p>Revenues Manager</p>	<p>TBA dependent on third party undertaking the review</p>	<p>Internal Audit report recommendations that are overdue to the Audit Committee. This recommendation has not become overdue, therefore it has not been reported in detail.</p> <p>This was included in Internal Audit's final report on Council Tax, in relation to single person discounts being awarded.</p>

Conclusions from work	Recommendations	Priority	Responsible officer	Deadline agreed	Previously reported to TCWG by Internal Audit
<p>5. Credit notes & Refunds</p> <p>Internal Audit identified that 2 refunds, out of a sample of 10 tested, and 2 credit notes out of a sample 10 tested, were authorised by an Officer in excess of their authorised limit per the authorised signatory list.</p> <p>This creates a risk that credit notes and refunds are inappropriately awarded.</p>	<p>The Council should ensure that credit note and refund procedures are adhered to and that this process is implemented consistently throughout the Authority.</p>	Medium	Group Manager Financial Capital & Planning	30 April 2010	<p>Internal Audit report recommendations that are overdue to the Audit Committee. This recommendation has not become overdue, therefore it has not been reported in detail.</p> <p>Internal reported this weakness in their Debtors final report.</p>
<p>6. Write off of debt balances</p> <p>Internal Audit identified that 1 write off of a debt balance, out of a sample of 10 tested, was authorised by an Officer in excess of their authorised limit per the authorised signatory list.</p> <p>This creates a risk that debt balances are inappropriately written off.</p>	<p>The Council should ensure that write off procedures are adhered to and that this process is implemented consistently throughout the authority.</p>	Medium	Group Manager Financial Capital & Planning	31 March 2011	No
<p>7. Completeness of Income</p> <p>Our testing of income and debtors identified that there is a general lack of controls around the completeness of income and individual departments ensuring that invoices are raised and all income is received for services provided.</p> <p>There is a risk that not all income due to the Council is invoiced and received.</p>	<p>Registers should be maintained for all income areas, recording when a service has been provided, when the invoice has been raised and when the income has been received.</p> <p>We understand that the Agresso system being implemented will create a sales order at the point of service request by the customer, and that these sales orders can then be used as the register of billable services provided.</p> <p>In addition the Council is currently changing its processes so that wherever possible the customer will be required to pay for services at the point of request, therefore removing the need to raise an invoice and pursue the debt.</p>	Medium	Group Manager Financial Capital & Planning	31 March 2011	No

Appendix C: Uncorrected misstatements

The table below details the potential differences recorded during the audit that have not been adjusted for within the financial statements:

Uncorrected misstatements	Income Over/ (Under) £'000	Expenses (Over)/ Under £'000	Assets (Over)/ Under £'000	Liabilities Over/ (Under) £'000	Reserves Over/ (Under) £'000
Misstatements of fact (specific misstatements)					
Interest receivable figure in the Income & Expenditure account is overstated by the utilisation of the creditor balance of accrued interest on the funds allocated to the Airport, which should be included in net cost of services.	645				
Net cost of services is understated by the utilisation of the creditor balance of accrued interest on the funds allocated to the Airport, which has been included in interest receivable.	(645)				
Misstatements of subjective decisions (estimates or application of accounting policy)					
Reviewed against the underlying supporting documentation prepared to support the estimated balances, the insurance reserve is overstated by and the insurance provision is understated.				(416)	416
Total net misstatements				(416)	416
- Net understatement of costs					
- (Overstatement) of net assets			(416)		416

Appendix D: Draft letter of representation

PKF (UK) LLP
16 The Havens
Ransomes Europark
Ipswich
Suffolk
IP3 9SJ

XX September 2010

Dear Sirs

Financial statements of Southend-on-Sea Borough Council for the year ended 31 March 2010

Representations of the Interim Head of Finance and Resources

I confirm to the best of my knowledge and belief, and having made appropriate enquiries of other officers and members of the Council, the following representations given to you in connection with your audit of the Council's financial statements for the year ended 31 March 2010.

Responsibility for the financial statements

I acknowledge as the Group Manager - Financial Management and s151 Officer my responsibilities for the financial statements.

Completeness of information

All the accounting records have been made available to you for the purpose of your audit and all the transactions undertaken by the Council have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of all management and committee meetings (held during the year and up to the date of this letter) have been made available to you.

Internal control

I acknowledge my responsibility for the design, implementation and maintenance of internal control relevant to the preparation and presentation of the financial statements that are free from misstatement, whether arising from fraud or error.

Fraud

I have disclosed to you the results of my assessment of the risk that the financial statements could be materially misstated as a result of fraud.

I am not aware of any fraud or suspected fraud affecting the financial statements, nor have any allegations of fraud or suspected fraud affecting the financial statements been communicated to me by employees, former employees, councillors, regulators or others.

Compliance with law and regulations

I am not aware of any possible or actual instances of non-compliance with laws or regulations whose effects should be considered when preparing financial statements of the Council.

Transactions with related parties

I confirm that I have put in place appropriate arrangements to identify related party transactions.

I am satisfied that the disclosure in the financial statements of related party transactions is appropriate and complete and contains all the elements necessary for an understanding of the financial statements.

Contingent liabilities

I am not aware of any significant contingent liabilities, including pending claims, proceedings or litigation involving the Council that has not already been disclosed in the financial statements.

Pension fund assumptions

I confirm that the actuarial assumptions underlying the valuation of the Local Government Pension Scheme (LGPS) scheme liabilities, as applied by the scheme actuary, are reasonable and consistent with my knowledge of the Council. These assumptions include:

- | | |
|--|------|
| • Rate of inflation | 3.3% |
| • Rate of increase in salaries | 4.8% |
| • Rate of increase in pensions | 3.3% |
| • Rate for discounting scheme liabilities | 5.6% |
| • Take up option to convert the annual pension into retirement grant | 50% |

I also confirm that the actuary has applied up-to-date mortality tables for life expectancy of scheme members in calculating scheme liabilities.

Uncorrected misstatements

You have brought to my attention uncorrected misstatements in the financial statements as listed in Appendix 1 to this letter. I do not wish to correct these misstatements as I consider them to be immaterial to the view given by the financial statements.

Subsequent events

There have been no events since the balance sheet date which necessitate revision of the figures included in the financial statements or inclusion of a note thereto. Should any material events occur, which may necessitate revision of the figures included in the financial statements or inclusion of a note thereto, I will advise you accordingly.

Yours faithfully

Ian Ambrose
Interim Head of Finance and Resources

Representations of the Council

We confirm to the best of our knowledge and belief, and having made appropriate enquiries of other officers and members of the Council, the following representations given to you in connection with your audit of the Council's financial statements.

Responsibility for the financial statements

We acknowledge our responsibilities to make arrangements for the proper administration of the Council's financial affairs and to approve the financial statements.

Uncorrected misstatements

We have considered the uncorrected misstatements in the financial statements as listed in Appendix 1 to this letter together with the explanations provided by the Head of Resources for not correcting these misstatements, and we consider them to be immaterial to the view given by the financial statements.

Annual Governance Statement

We confirm that the Council has conducted a review during the year of the effectiveness of its system of internal control. We are satisfied that the Annual Governance Statement appropriately reflects the circumstances of the Council and includes an outline of the actions taken, or proposed, to deal with significant internal control issues.

Yours faithfully

Cllr B Kelly
Audit Committee Chair

Signed on behalf of the Council

Note: Appendix 1 referred to in this letter relates to Appendix C in this report

Appendix E: Draft independent auditors' report

Independent auditors' report to the Members of Southend-on-Sea Borough Council

Opinion on the accounting statements

We have audited the Council and Group accounting statements and related notes of Southend-on-Sea Borough Council for the year ended 31 March 2010 under the Audit Commission Act 1998. The Council and Group accounting statements comprise the Council and Group Income and Expenditure Account, the Council Statement of Movement on the General Fund Balance, the Reconciliation of Single Entity Deficit to Group Deficit, the Council and Group Balance Sheet, the Council and Group Statement of Total Recognised Gains and Losses, the Council and Group Cash Flow Statement, the Housing Revenue Account, the Statement of Movement on the Housing Revenue Account, the Collection Fund and the related notes. These accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of Southend-on-Sea Borough Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 49 of the Statement of Responsibilities of Auditors and of Audited Bodies published by the Audit Commission in April 2008.

Respective responsibilities of the Head of Finance and Resources and auditor

The Head of Finance and Resources' responsibilities for preparing the Statement of Accounts and accounting statements in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice are set out in the Statement of Responsibilities for the Statement of Accounts.

Our responsibility is to audit the accounting statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the Council and Group accounting statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of:

- the financial position of the Council and its income and expenditure for the year; and
- the financial position of the Group and its income and expenditure for the year.

We review whether the Annual Governance Statement (governance statement) reflects compliance with 'Delivering Good Governance in Local Government: A Framework' published by CIPFA/SOLACE in June 2007. We report if it does not comply with proper practices specified by CIPFA/SOLACE or if the statement is misleading or inconsistent with other information we are aware of from our audit of the accounting statements. We are not required to consider, nor have we considered, whether the governance statement covers all risks and controls. Neither are we required to form an opinion on the effectiveness of the Council's corporate governance procedures or its risk and control procedures.

We read other information published in the Council and Group accounting statements, and consider whether it is consistent with the audited Council and Group accounting statements. This other information comprises the Explanatory Foreword and the Additional Financial Information (Members' Allowances). We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Council and Group accounting statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Council and Group accounting statements. It also includes an assessment of the significant estimates and judgments made by the Council in the preparation of the Council and Group accounting statements, and of whether the accounting policies are appropriate to the Council's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Council and Group accounting statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the Council and Group accounting statements.

Opinion

In our opinion:

- the Councils accounting statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of the financial position of the Council as at 31 March 2010 and its income and expenditure for the year then ended; and
- the Group accounting statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of the financial position of the Group as at 31 March 2010 and its income and expenditure for the year then ended.

Conclusion on arrangements for securing economy, efficiency and effectiveness in the use of resources

Council's Responsibilities

The Council 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 regularly to review the adequacy and effectiveness of these arrangements.

Auditor's Responsibilities

We are required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the Council for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion in relation to proper arrangements, having regard to relevant criteria for principal local authorities specified by the Audit Commission and published in May 2008 and updated in October 2009. We report if significant matters have come to our attention which prevent us from concluding that the Council has made such proper arrangements. We are not required to consider, nor have we considered, whether all aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Conclusion

We have undertaken our audit in accordance with the Code of Audit Practice and having regard to the criteria for principal local authorities specified by the Audit Commission and published in May 2008 and updated in October 2009, and the supporting guidance, we are satisfied that, in all significant respects, Southend-on-Sea Borough Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2010.

Certificate

We certify that we have completed the audit of the accounts in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

David Eagles, Partner
for and on behalf of:
PKF (UK) LLP
Ipswich

[Date]