



Accountants &  
business advisers

Councillor Paul Collins  
Chair of the Audit Committee  
Southend-on-Sea Borough Council  
Civic Centre  
Victoria Avenue  
Southend-on-Sea  
Essex  
SS2 6ER

Our ref: 4008711/2011-12/DE/AB

4 September 2012

Dear Councillor Collins

### **Update to financial statements risks for the audit of Southend-on-Sea Borough Council for the year ended 31 March 2012**

Auditing standards require that we bring to your attention areas that require additional or special audit procedures in response to areas of “significant audit risk”, such as a weakness in controls or areas requiring a higher degree of estimation by management.

We reported to you our latest risk assessment in the Annual Audit Plan for 2011/12 presented to the Audit Committee on 12 January 2012. We have since undertaken a more detailed assessment of audit risk following further progress made in our interim review of financial controls and review of the Council’s draft financial statements. In addition to the audit risks reported in the Annual Audit Plan, this most recently updated risk assessment has identified new additional significant audit risks which are described in the table over the page.

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Audit risk identified from planning	Financial Statement Area & Assertion	Audit response
<p>There is a risk that Property, Plant and Equipment (PPE) will be incorrectly accounted for in the financial statements due to the following:</p> <ul style="list-style-type: none"> <li>• There is a risk that the infrastructure assets included in the financial statements are inaccurate due to the Council not being able to identify the assets that are included in this asset category.</li> <li>• There is a risk that the PPE figures included in the financial statements are inaccurate due to the Fixed Asset Register not being correctly updated for the 2010/11 closing balances as a result of the Council not utilising the Fixed Asset Register to produce the PPE figures in the financial statements for 2010/11.</li> </ul>	<p>Existence, valuation and allocation, rights and obligations and completeness of PPE in the statement of financial position.</p>	<p>We will complete the following audit procedures:</p> <ul style="list-style-type: none"> <li>• Discuss and review the progress made by the Council in identifying new infrastructure assets, as recommended in our 2010/11 Annual Governance Report.</li> <li>• Complete substantive testing to sense check the value included in the financial statements as infrastructure assets.</li> <li>• Increased sample testing on the opening balances used for the 2011/12 PPE values included in the fixed asset register.</li> </ul>
<p>There is a presumption in ISA (UK&amp;I) 240 that there are risks of fraud in revenue recognition, particularly those revenue areas that relate to fees and charges. Therefore this has to be considered as part of our audit risk assessment in order that we comply with auditing standards.</p> <p>In addition the review of controls in place for Accounts Receivable on the Agresso system identified that there is weakness in the controls around the raising of invoices. All staff that have access to the Agresso system are able to request that an invoice is raised using the E-Form provided by Agresso. The E-Form is processed by Accounts Receivable officers, who check to confirm the appropriateness of that invoice, but may not have the detailed knowledge of the workings of the Council to properly make that check. This creates a risk that invoices are inaccurately raised or that income is incomplete.</p> <p>There is also a lack of segregation of duties in place within the Accounts Receivable system, because 19 Officers are able to raise invoices and receipt income via the paye.net system (telephone payments). This creates a risk that invoices may be inappropriately raised and receipted..</p>	<p>Occurrence, accuracy, classification and cut-off of income in the Comprehensive Income and Expenditure Statement.</p>	<p>We will perform substantive testing, using an increased sample size, on income relating to fees and charges to confirm that the transaction has occurred, that amounts have been accurately recorded and that income (and any associated expenditure) is recorded in the correct accounting period and under the correct heading in the financial statements.</p>

If you or your colleagues on the Audit Committee have any questions about the content of this letter, please don't hesitate to contact me or Andrew Barnes on 01473 320745 / [andrew.barnes@uk.pkf.com](mailto:andrew.barnes@uk.pkf.com)

Kind regards

Yours sincerely

A handwritten signature in black ink, appearing to be 'DAVID EAGLES', with a long horizontal line extending from the end of the signature.

**David Eagles**

Partner

PKF (UK) LLP

cc. Audit Committee Members  
Sally Holland (Corporate Director of Support Services)  
Joe Chesterton (Head of Finance and Resources)