



# SOUTHEND-ON-SEA BOROUGH COUNCIL

FINAL REPORT TO THE AUDIT COMMITTEE  
Audit for the year ended 31 March 2013

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# OVERVIEW

This summary covers those matters we believe to be material in the context of our work. However, you should read the entirety of this report, as there may be other matters raised that you consider important.

We have substantially completed our audit work in respect of the Statement of Accounts for the year ended 31 March 2013 and anticipate issuing an unqualified opinion subject to the outstanding matters listed on page 3.

AREA OF AUDIT	SUMMARY
Financial statements	<p>Four material misstatements were identified as a result of our audit work.</p> <p>The results of the 2012 valuation have caused us to review the previous 2007 valuation, identifying an issue with the 2007 valuation. This has required a prior period adjustment of £88.4m to the value of Property, Plant and Equipment, as the valuer providing the previous valuation of the schools' land and buildings in 2007 had not taken account of specific SORP directions in respect of playing fields. This has required a prior period adjustment to be made, rather than to process the revaluation as a current year change as had been reflected in the draft accounts (see page 12).</p> <p>We concluded that the Council has control over Trust Funds where the Council is sole trustee. Accounting standards determine that these should therefore be consolidated within the Council's group financial statements, which has increased the group assets by £14.8m.</p> <p>Two of the material misstatements affect the disclosure notes to the financial statements only. These were:</p> <ul style="list-style-type: none"><li>• NHS bodies creditors of £4.47m had been misclassified as Other entities and individuals within the creditors note</li><li>• the underlying report to support the minimum lease payments due from operating leases was inaccurate, leading to the disclosure note being overstated by £35m</li></ul> <p>Some areas of work are still outstanding at the time of drafting this report (see page 3). Should these result in any significant issues, we will provide a verbal update to the Audit Committee on 25 September 2013.</p> <p>Subject to satisfactory completion of the outstanding work, we anticipate issuing an <b>unqualified</b> true and fair opinion on the financial statements for the year ending 31 March 2013.</p>
Unadjusted audit differences	<p>There are two unadjusted audit differences identified by our audit work that are detailed in Appendix II.</p> <p>The net effect of adjusting for these differences, and also those identified in previous years which affect this year's financial statements, would be to reduce the deficit for the year by £4,000 and decrease net assets by £160,000.</p>
Internal controls	<p>The following issues have been noted where significant deficiencies in financial controls continued or were identified during 2012/13 that impacted upon our audit of the financial statements:</p> <ul style="list-style-type: none"><li>• Agresso bank and payroll reconciliations</li><li>• raising of sales invoices</li><li>• authorisation of credit notes</li></ul> <p>In addition, some areas where there was scope for further improvement were identified, which we have discussed verbally with management.</p>

AREA OF AUDIT	SUMMARY
Annual Governance Statement	<p>From our review of the Annual Governance Statement we proposed, and the Council has made, a number of small amendments, the following of which were the most significant:</p> <ul style="list-style-type: none"> <li>• Clarification about the Role of the Chief Financial Officer</li> <li>• Insertion of more detail from the Head of Internal Audit opinion</li> <li>• Expand upon remaining weaknesses relating to Agresso implementation that continued into 2012/13 from 2011/12</li> </ul>
Whole of Government Accounts (WGA)	<p>Our work to review the consistency of the whole of government accounts return with the audited financial statements is in progress and a verbal update will be given at the Audit Committee on 25 September 2013.</p>
Use of resources and the Value for Money Conclusion	<p>We are satisfied that, in all significant respects, the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2013. We propose issuing an <b>unqualified</b> value for money conclusion.</p>

# Audit status and timetable to completion

We set out below the current status of the audit and our timetable to completion.

## AUDIT STATUS

We have substantially completed our audit work in respect of the financial statements for the period ended 31 March 2013, and anticipate issuing an unqualified opinion on the Council and group financial statements. The following matters are outstanding at the date of this report. We will update you on their current status at the Audit committee meeting on 25 September 2013.

- audit of the group accounts
- consideration of the assurance letter from Ernst & Young on the Essex Pension Fund, which is yet to be received
- awaiting information from schools on post year end bank statements and reconciliations
- finalisation of our audit on Investments Properties
- finalisation of our testing on the completeness of the fixed asset register
- completion of our work on the prior period adjustments currently being made by the Council
- completion of our audit on Cashflow statement
- finalisation of our audit of a few disclosure notes (pooled budget note, financial instruments note and lessor note)
- finalisation of our audit on journals
- transferring assurance from work being undertaken on Housing and Council Tax benefit claim form
- finalisation of our IT checklist
- clearance of manager and partner review points
- technical clearance and engagement quality control reviewer sign off
- subsequent events review
- management representation letter, as attached in Appendix I, to be approved and signed

## TIMETABLE TO COMPLETE

The anticipated timetable to complete is as follows:

ACTIVITY	DATE
Completion of outstanding audit work on the financial statements	
Audit Committee meeting	25 September 2013
Signing of group financial statements	27 September 2013
Completion of audit work on the WGA return and circulation of any significant audit findings	27 September 2013
Signing of WGA audit certificate	27 September 2013

# INDEPENDENCE

## INDEPENDENCE

Under Audit Commission Standing Guidance and Auditing and Ethical Standards, we are required as auditors to confirm our independence to ‘those charged with governance’. In our opinion, and as confirmed by you, we consider that for these purposes it is appropriate to designate the Audit Committee as those charged with governance.

Our internal procedures are designed to ensure that all partners and professional staff are aware of relationships that may be considered to bear on our objectivity and independence as auditors. The principal statements of policies are set out in our firm-wide guidance. In addition, we have embedded the requirements of the Standards in our methodologies, tools and internal training programmes.

The procedures require that audit engagement partners are made aware of any matters which may reasonably be thought to bear on the firm’s independence and the objectivity of the audit engagement partner and the audit staff. This document considers such matters in the context of our audit for the period ended 31 March 2013.

A summary of fees for audit and non-audit services for the period from 1 April 2012 to date is set out below.

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 2012/13, has remained valid throughout the period of the audit.

	£
Code Audit fee	189,351
Grants Certification Fees	34,950
<b>TOTAL FEES</b>	<b>224,301</b>

# AUDIT SCOPE AND OBJECTIVES

The audit scope is determined by the Audit Commission's Code of Audit Practice for Local Government and covers audit of the financial statements in accordance with International Standards on Auditing (UK and Ireland), Practice Note 10: audit of public sector bodies in the United Kingdom (October 2010), and guidance issued by the Audit Commission.

This requires that we form an opinion on whether:

**1** The financial statements give a true and fair view of the state of the Council's affairs as at 31 March 2013 and of the income and expenditure for the year then ended

**2** The financial statements have been properly prepared in accordance with statutory requirements and proper practices have been observed in their compilation

**3** The financial statements have been prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting

**4** The information given in the Statement of Accounts and Explanatory Foreword is consistent with the financial statements

**5** The Annual Governance Statement is not inconsistent with our knowledge and complies with "Delivering Good Governance in Local Government" (CIPFA / SOLACE)

**6** The Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources and for:

- securing financial resilience
- challenging how it secures economy, efficiency and effectiveness

**7** The Whole of Government Accounts return is consistent with the audited financial statements and that it is properly prepared

# FINANCIAL STATEMENTS

## Key audit and accounting matters

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 properly prepared, we carry out risk based 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 carrying out our work we determine and apply a level of materiality. Materiality is the expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole, or individual elements of the financial statements as appropriate. Consequently, the audit cannot be relied upon to identify all risks or potential or actual misstatements. Materiality may relate to both quantitative and qualitative matters and for quantitative considerations the numerical level that materiality is assessed at may be different for different information in the financial statements. Nevertheless, within this context, Appendix III gives an indication of the quantitative levels used for planning purposes. Materiality is re-assessed every year in the context of authoritative audit practice.

We are required to report to you all uncorrected misstatements that relate to the current financial year (including those arising in previous periods that have an effect on the current year financial statements) and the effect that they have individually, or in aggregate, on the opinion in the auditor's report, except for those that are clearly trivial. For reporting purposes, we consider misstatements of less than £135,000 to be trivial and have not reported them, unless the misstatement is indicative of fraud.

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

AUDIT RISK AREAS			
RISK	RELATED CONTROLS	WORK PERFORMED	CONCLUSIONS
<b>MANAGEMENT OVERRIDE</b>	ISA (UK&I) 240 requires us to presume that a risk of management override of controls is present and significant in all entities.  By its nature, there are no controls in place to mitigate the risk of management override.	We reviewed the appropriateness of journal entries and other adjustments made in the preparation of the financial statements. We also reviewed accounting estimates for evidence of possible bias.	We did not identify any significant transactions that are outside the normal course of business for the Council or that otherwise appear to be unusual. Our work on accounting estimates has not identified any evidence of bias.  No misstatements were identified.
<b>REVENUE RECOGNITION</b>	ISA (UK&I) 240 assumes there is a rebuttable presumption that there is a material risk of fraud arising from revenue recognition.  We have reviewed the controls that the Council has put in place to ensure the appropriate recognition and accounting for income.	We substantively tested a sample of income from fees and charges and amounts included in debtors to ensure that accounting policies had been correctly applied in determining the point of recognition of income, and that income was completely and accurately recorded.	All the items tested had been accounted for in accordance with the Councils policy for revenue recognition.



AUDIT RISK AREAS			
RISK	RELATED CONTROLS	WORK PERFORMED	CONCLUSIONS
FINANCIAL SYSTEM WEAKNESSES INCLUDING RECONCILIATIONS	<p>Key reconciliations are undertaken between</p> <ul style="list-style-type: none"> <li>the bank statements and the general ledger</li> <li>the payroll system module and the general ledger.</li> </ul> <p>The effective performance of these reconciliations continued to be developed during the year, following on from the difficulties in performing the reconciliations which were identified during 2011/12. Throughout 2012/13 the Council has been working to identify the reasons for the unknown differences and how to ensure they do not occur on an on-going basis.</p>	<p>We reviewed the year end bank and payroll reconciliations.</p>	<p>No material misstatements were identified. Significant progress has been made during the year, although final solutions have yet to be achieved.</p> <p>In terms of the bank reconciliation, the residual un-reconciled balance is of the order of £1,000. To finally clear this, the Council needs to implement a new cash receipting system that can communicate automatically with Agresso. The tender for a new cash receipting system is currently underway with a scheduled April 2014 go-live date.</p> <p>In terms of the payroll reconciliation, the residual un-reconciled balance is of the order of £30.</p>
	<p>The general ledger is reconciled to the Fixed Asset Register after each transaction (e.g. revaluation) has been processed.</p>	<p>We substantively tested all material transactions included in Property, Plant and Equipment, Intangible Assets, Heritage Assets and Investment Property. These transactions included additions, revaluations, depreciation, amortisation, impairment and the completeness of opening and closing balances.</p>	<p>The current valuer valued the playing field elements of schools using existing use, as is required by RICS valuation guidance, which is considerably less than the development value that had previously been used. The previous valuation of schools in 2007/08 was undertaken by the then valuer without taking account of a particular direction relating to schools playing fields included within the SORP for that year. This has been amended in the final version of the accounts to be recognised as a Prior Period Adjustment in the accounts and not as an in-year transaction as was included in the draft accounts.</p> <p>Other misstatements were identified including:</p> <ul style="list-style-type: none"> <li>misclassification of assets</li> <li>incorrect accounting for impairment of Housing Revenue Account (HRA) properties</li> </ul>

# Accounting Practices and Financial Reporting Framework

## Financial Statement Preparation process

The requirement for Members to approve the draft financial statements by 30 June was removed by the Accounts and Audit Regulations 2011, however these regulations introduced the requirement for the Responsible Financial Officer to sign and present the financial statements for audit by 30 June. The financial statements were signed and presented for audit on 28 June 2013.

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 comprehensive working papers on 4 July 2013, in line with the agreed timetable.

As a result of difficulties with the WGA documentation provided by the Department of Communities and Local Government, the Department extended the submission deadline to 14<sup>th</sup> August, but still require the audited return to be submitted by 5<sup>th</sup> October.

## Audit issues and impact on opinion

We have no matters to report in relation to the financial statement preparation process.

## Accounting Policies

The following changes have been introduced by the 2012/13 Code of Practice on Local Authority Accounting in the United Kingdom (the 'Code'), resulting in changes in accounting practice:

## Audit issues and impact on opinion

We have no matters to report in relation to the changes introduced by the 2012/13 Code.

- There has been some re-ordering and re-phrasing of the objective of the financial statements and the qualitative characteristics of financial information as a result of the publication of the first phase of the International Accounting Standards Board's (IASB's) The Conceptual Framework for Financial Reporting 2010 (the Conceptual Framework). The 2012/13 Code has:
  - Underlying Assumption: Going Concern
  - Fundamental Qualitative characteristics: Relevance, Materiality, Faithful Representation
  - Enhancing Qualitative Characteristics: Comparability, Verifiability, Timeliness, Understandability
- Amendments in relation to IFRS 7 Financial Instruments: Disclosures (transfers of financial assets).

## Accounting estimates

We review material accounting estimates identified as having high estimation uncertainty or which are subject to a significant degree of judgement by management, and assess the reasonableness of the assumptions applied by management when deciding whether to recognise amounts in the accounts or the value at which these are recognised.

We consider the following to be material accounting estimates with high estimation uncertainty:

- valuation of property
- pension liability

## Audit issues and impact on opinion

### Valuation of property

Land and buildings are required to be carried at fair value which is either existing use value, depreciated replacement cost for specialised properties or open market value. The Council re-values land and buildings over a five year rolling programme and does not adjust for price indices between formal valuations unless there is indication of material changes. When there is an indication of a material change then the Internal valuers will provide a valuation.

Management makes valuation adjustments to land and buildings based on valuation reports and useful economic lives provided by an independent firm of valuers with specialist knowledge and experience valuing local authority estates, which has regard to local prices and building tender indices in the public sector.

We are satisfied that the valuer is suitably independent of the Council, objective and experienced in undertaking this work. Our review of the valuations provided, when compared to other price index information available, and useful economic lives allocated to buildings and significant components showed that they are not unreasonable.

However, a misstatement has been identified with the previous 2007 valuation of school playing fields (see page 12).

### Pension liability

The net pension liability of the Council comprises its share of the market value of assets held in the Essex Pension Fund and the estimated future liability to pay pensions for its current, deferred and retired members of the pension scheme.

An actuarial estimate of the pension fund liability is calculated by an independent firm of actuaries with specialist knowledge and experience. Their estimate has regard to local factors such as mortality rates and expected pay rises along with other assumptions around inflation.

Management has agreed the assumptions made by the actuary to support the estimate and these are disclosed in the financial statements. We have requested written representations from the Council to confirm that the assumptions applied by the actuary are reasonable and consistent with its knowledge of the business of the Council.

We are satisfied that the actuary is suitably independent of the Council, objective and experienced in undertaking this work. Our review of the assumptions applied in estimating the pension liability suggest that these are generally not significantly different from those being applied by the actuaries of other local authorities.

We review material accounting disclosures, to confirm that they are in compliance with the requirements of the Code.

#### **NHS creditors**

Our testing of creditors identified a number of NHS items which had been misclassified as central government or receipts in advance. The amount moved into NHS creditors totalled £4.470m.

#### **Operating leases where the Council is the lessor**

Our testing of this note found that the working paper to support the minimum lease payments disclosure had an incorrect end dates for some of the leases. The Council regenerated the report to support the note and has amended the figures to agree to this new working paper. The total amount of minimum lease payments due has decreased from £85m to £50m.

#### **Movement in Reserves Statement (MiRS)**

The analysis of the Adjustments between Accounting Basis and Funding Basis under Regulations in the MiRS, disclosed in Note 7, did not agree to other parts of the financial statements. A number of misclassifications were identified, the most notable being:

- £1m of amortisation of intangible assets being classified a charges for depreciation and impairment
- £2m of transfers of cash sale proceeds credited as part of the gain / loss on disposal to the CIES, being classified as non-current assets written off on disposal or sale as part of the gain / loss on disposal to the CIES
- £1.4m of Amounts of non-current assets written off on disposal or sale as part of the gain / loss on disposal to the CIES misclassified as transfer of cash sale proceeds credited as part of the gain / loss on disposal to the CIES

These did not affect the overall financial position reported. The Council has made the amendments required in the final version of the financial statements.

#### **Capital grants unapplied**

When testing capital grants received and applied in the year we found that the breakdown provided did not agree to the movements included in Note 7. The Council reviewed the breakdown and identified a misclassification of grants received for Revenue Expenditure Funded by Capital Under Statute (REFCUS) but not applied in the year. These grants totalled £2.066m and have been adjusted for in Note 7.

We also noted when reviewing the REFCUS grants that the amount received in the year at Note 7 did not agree to the breakdown of grants received at Note 39. This was due to a misclassification of grants of £385k at Note 39. This has been amended at Note 39 and has no overall impact on the financial position reported.

**Senior Officer Remuneration**

A number of adjustments have been made to the Senior officers' remuneration note. Some of these had been amended by the Council before the commencement of the audit.

**Capital commitments**

Our testing of a sample of capital commitments identified a number of projects which do not meet the definition of a capital commitment. This is because there was no signed contract in place as at 31 March 2013. As a result the Council has over-disclosed the capital commitments reported in the financial statements by £3.8m from the £15.7m tested, but no amendment has been made.

**Related parties**

The Council has disclosed all grants made to bodies where a Councillor has an interest within that body (usually as a trustee). From the information available to us, we have not been able to ascertain whether these meet the definition of a related party transaction. A related party is where a member or senior officer is in a position of control over the other organisation. Consequently, it is possible that there is over-disclosure in the related party disclosure.

**Other disclosures**

A number of other amendments identified by our audit have been made the disclosures, including:

- the National Non-Domestic Rates deferral of £308k had been deducted from Council Tax debtors rather than the amount due from the Department of Communities and Local Government
- some of the 2008/09 and 2009/10 figures in the pension disclosure did not agree to the 2011/12 signed financial statements
- the disclosure of the five year summary of heritage asset transactions had not been reported in the draft financial statements
- a number of opening balances in the HRA Property, Plant and Equipment note did not agree to the 2011/12 signed financial statements
- £345k of REFCUS grants were misclassified as Highways Infrastructure grants rather than 'other' grants in the analysis of grants provided in Note 39
- £385k of REFCUS grants were misclassified as Other service grants and contributions in the analysis of grants provided in Note 39

A number of other presentational amendments have been made to the narrative included in the disclosures to provide a clearer understanding of the information for the reader.

## Misstatements

We identified a small number of material departures from the expected presentation of the financial statements, or where notes and other disclosures had not been presented in accordance with the Code and requested management correct these in order to achieve compliance.

## Audit issues and impact on opinion

### Previous valuation of schools

This year the Council had the school properties revalued. This resulted in a £155m decrease in the value of the opening gross book value of £247m. £143m of the decrease related to land valuations. This change in valuation had been reflected as an in-year movement in the draft accounts submitted for audit.

The reason for this decrease was that the valuer engaged for the 2012 valuation had used a different assumption about the playing fields element of the schools estate than the valuer engaged in 2007. In 2007/08 the valuer had used an assumption that the playing fields would obtain planning consent and as a result had valued the land at £3.090m per hectare. The Council used a different valuer for the valuation as at 1 April 2012. This valuer made a different assumption, which was to value at existing use (i.e. as playing fields, without the premium associated with development potential) and as a result the land was valued at a much reduced £25k per hectare.

We concluded that the new valuation was made in line with the expectations of the Code and the current RICS Valuation - Professional Standards (the “Red Book”). In 2007 the “Red Book” had not been explicit regarding the valuation of playing fields whereas the current version is, although we understand that at the time of the valuation some draft guidance which supported valuation at existing use was in circulation to valuers.

Review of the Statement of Recommended Practice (SORP) 2007 guidance notes identified that playing fields should have been valued at existing use (i.e. without planning consent).

Based on this information, we concluded that the previous valuation has been prepared on an inappropriate basis and a prior period adjustment was required. To correct the 2007 valuation a value of £21,000 per hectare has been used, which is the value provided by the previous valuer as the amount they would have used in 2007 if the “no planning consent” assumption had been used.

As a result the comparative information for 2011/12 has been adjusted to decrease the value of PPE by £88.4m, with consequent adjustment to the Revaluation Reserve of £45.5m and an impairment of £42.9m charged to the CIES.

**Trust Funds**

There are 12 Trust Funds where the Council is the sole Trustee. Previously the Council did not consolidate the accounts of the Trust Funds into the Group Accounts, as it was considered that there was no overall control over the Trust Funds. From our updated analysis of the circumstances, we have concluded that, as the sole Trustee, the Council does have control of the Trust Funds, even though their use is restricted to the terms of the Trust's deed and charitable objects.

As the Council has control over the Trust funds and does utilise them to support the delivery of Council services and responsibilities, the accounting standards require that the Trust funds be consolidated within the group accounts, and that they should have been in previous years. The Council has included a prior period adjustment to the financial statements to reflect the amended view of the status of the Trust Funds. This has led to the group balance sheet increasing by £14.8m in 2012/13 and 2011/12.

**Impairment of HRA properties**

At the end of the year 2 hostels were impaired as the number of rooms available has been reduced. We found that the transactions included in the financial statements to reflect this has been incorrectly prepared. As a result Council Dwellings gross book value has reduced by £934k, of which £354k is offset against the Revaluation Reserve and £580k is charged as an impairment to the Comprehensive Income and Expenditure Statement (CIES). Due to the Regulations there is no impact on the HRA as the impairment is ultimately transferred to the Capital Adjustment Account (CAA).

**Property classification**

The Council included Warners Road car park in surplus assets with a value of £525k. We identified that this asset was leased to a third party during the year and, as a result, the Council has re-classified the asset as an Investment Property.

**Provisions**

A provision of £234k for care home residents had been incorrectly included in creditors. This has now been corrected.

## Uncorrected misstatements

We are required to report to you unadjusted audit differences that relate to the current financial year (including those arising in previous periods that have an effect on the current year financial statements) and the effect that they have individually, or in aggregate, on the auditors' report, except for those that are clearly trivial. These, and their potential impact, are summarised at Appendix II.

## Audit issues and impact on opinion

### Assets held for sale

We identified that the property included in long term assets held for sale at £262k does not meet the strict criteria of an asset held for sale. As a result this should be classified as a surplus asset within Property, Plant and Equipment.

### Classification of teachers' pension creditor

The creditor for teachers' pension contributions has been incorrectly classified in the creditors note under "local authorities", rather than "central government".



# Matters required to be reported by other auditing standards

## Whole of Government Accounts

We are required to perform tests with regard to the WGA return prepared by the Council for use by the Department of Communities and Local Government for the consolidation of the local government accounts, and by HM Treasury at Whole of Government Accounts level. This work requires checking the consistency of the WGA return with the audited financial statements, and reviewing the consistency of income and expenditure transactions and receivables and payable balances with other government bodies.

## Audit issues and impact on opinion

We have not yet commenced the audit of the WGA return. The findings from our review of the consistency of the return with the audited financial statements will be circulated to members of the Audit Committee before the 4th October 2013 deadline.

## Annual Governance Statement

We have reviewed the draft Annual Governance Statement and are satisfied that it is not inconsistent or misleading with other information we are aware of from our audit of the financial statements, the evidence provided in the Council's review of effectiveness and our knowledge of the Council.

## Audit issues and impact on opinion

We requested that the Council clarify about the Role of the Chief Finance Officer, expand upon remaining weaknesses relating to Agresso implementation that continued into 2012/13 from 2011/12 and include additional information about the Head of Internal Audit Opinion in the finalised version of the Annual Governance Statement.

# CONTROL ENVIRONMENT

We are required to report to you, in writing, significant deficiencies in internal control that we have identified during the audit. These matters are limited to those which we have concluded are of sufficient importance to merit being reported to you.

As the purpose of the audit is for us to express an opinion on the group and council financial statements, you will appreciate that our audit cannot necessarily be expected to disclose all matters that may be of interest to you and, as a result, the matters reported may not be the only ones which exist. As part of our work, we considered internal control relevant to the preparation of the financial statements such that we were able to design appropriate audit procedures. This work was not for the purpose of expressing an opinion on the effectiveness of internal control.

## SIGNIFICANT DEFICIENCIES

AREA	OBSERVATION	IMPLICATION	RECOMMENDATION	MANAGEMENT RESPONSE
<p><b>BANK AND PAYROLL RECONCILIATIONS</b></p>	<p>Bank and payroll reconciliations to the general ledger were being undertaken, but they were not able to fully reconcile the position at the end of each month. This was due to a number of unknown differences identified at the end of 2011/12.</p> <p>Throughout 2012/13 the Council was working to identify the reasons behind the differences and to catch up with fully completing the reconciliations for individual months. Most elements of the reconciliations had been brought up to date by December 2012. The reconciliations are now being performed in the month following the reconciliation date.</p> <p>At the end of the year differences of £1,121 remains on the bank reconciliation and £31 remains on the payroll reconciliation</p> <p>However, the Council has identified that additional work needs to be carried out between the individual payroll control accounts.</p>	<p>If bank and payroll reconciliations are not completed on regular basis there is a risk that incorrect postings to the general ledger will not be identified and corrected on a timely basis.</p>	<p>No new recommendations have been made as these issues were raised in 2011/12 and the Council has made progress against them.</p>	<p>Not applicable.</p>

<b>INVOICES RAISED</b>	There are no checks in place to ensure that all invoice requests are raised, or to check that those that have been raised are accurate.	This could result in invoices not being raised at all, or being raised inaccurately, leading to a reduction in the income received by the Council.	Internal Audit has recommended that a control needs to be put in place to ensure: <ul style="list-style-type: none"> <li>• delays in raising invoices are detected</li> <li>• errors made when raising invoices are identified and corrected</li> <li>• all invoices requested are produced</li> </ul>	Revised processes went live on Civica, the Council’s EDRMS system, in July. The effectiveness of the revised control procedures will be monitored on an on-going basis.
<b>CREDIT NOTES</b>	Internal Audit identified a number of credit notes which had not been appropriately authorised.	Credit notes are inappropriately raised reducing the income due to the council.	Internal Audit has recommended that a Scheme of Delegation with appropriate authorisation levels is determined and implemented and that evidence of this exercise and the approvals sought is retained.	All relevant budget holders have been contacted seeking the scheme of delegation for credit note approval.
<b>ADULT SOCIAL CARE DEBT</b>	Through our testing of adult social care income we identified that the property value used as a cap when calculating the debt to be recognised is based upon the representations of the client about the property value and is not verified, for example by comparing to an external valuers opinion.	This could mean that the Council is unable to reclaim all of the debt if the property cannot be sold for as much as the client is claiming. It could also mean that the value of debt may be understated if the value of the property is more than the client states that it is worth.	Obtain some form of independent valuation of the property when the client first enters the care system and subsequently review this valuation every 5 years on a rolling basis, in accordance with the suggestions from the Group Manager (Department for People).	We are now requesting those who have been on a deferred payment for more than a year for a valuation from an estate agent and we will continue to ask for them on an annual basis thereafter.

**Other control issues**

During our review of the bank reconciliation we identified 317 cheques, totalling approximately £90k, which were older than 1 year and which had been included within the un-presented cheques list. Given the age of these cheques, they are unlikely to be cashed. A recommendation has been raised to review the un-presented cheque list for all cheques over one year old and cancel these items. The sum involved was “trivial” for our accounts audit and is therefore not included within unadjusted errors, given the overall cash balances of £34m.

# USE OF RESOURCES

## Key audit matters

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).

In accordance with our Audit Plan, our principal work in arriving at our value for money conclusion was comparing the Council's performance against the requirements specified by the Audit Commission in its guidance to auditors. This is based on the following two reporting criteria:

- the organisation has proper arrangements in place for securing financial resilience
- the organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

The focus of the criteria for 2012/13 is:

- the organisation has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future
- the organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity
- undertaking other local risk-based work, as appropriate.

Our work considered the outcome from the Audit Commission's financial ratio tool and value for money profiles tool as well as a review of the medium term financial strategy, performance reports and strategic and operational planning documents. Discussions were held with key officers to confirm and update our knowledge as part of the process.

### Financial resilience

### Audit issues and impact on opinion

Our financial resilience work has considered the Council's arrangements for financial governance, financial planning and financial control, including improvements in arrangements over the prior year.

*We have no matters to report.*

During 2012/13, as part of setting the budget for 2013/14 and following the financial settlement announced during the year, the Council updated the four year Medium Term Financial Strategy (MTFS), that identifies the budget gap that needs to be addressed through the Council's financial planning arrangements.

The budget gap of £29.6million (down from £32.5 million in the MTFS at the end of 2011/12) is forecast to arise as follows:

- 2014/15: £12.5 million (increased from £8.5 million in the previous MTFS)
- 2015/16: £8.7 million (decreased from £11.0 million in the previous MTFS)
- 2016/17: £8.4 million

The Council's political and managerial leadership understand the financial position and challenges being faced by the Council over the period of the MTFS, and the need to contain budgets to match the available resource.

The Council's financial planning arrangements are being utilised to manage the process. However, there remains work to do to determine specific, detailed plans as to how the reductions will be achieved and then implement the actions required by those plans to continue to deliver a balanced financial position into the medium term.

The Council has maintained its good track record of member and officer involvement in reviewing financial matters and consulting on expenditure priorities. Clear leadership is shown in ensuring that the Council's overall financial position is understood within the organisation and among partners.

#### Financial outturn 2012/13

In 2012/13 the Council underspent against the budget overall for the year by £355k, increasing the General Fund balance to £11.8m, after making an additional contribution to general earmarked reserves of £4.5m (excluding HRA reserves). This reflects the work that was on-going during 2012/13 to address the financial situation being faced by the Council. The Council will need to continue to demonstrate this level of financial control, and secure further improvements, in order to continue to deliver against budgets in future years.

In 2012/13 the HRA underspent against the budget for the year, and was therefore able to contribute £2.3 million to HRA earmarked reserves, while maintaining the HRA balance at £3.5m.

Along with all other Councils, Southend was notified of a reduction in central government funding which led to the need to identify revenue savings of £11.8m for 2012/13. Saving and efficiency initiatives were identified to fund the gap in 2012/13 as part of the budget setting process. These included a reduction in staff costs, transformation in the way services are delivered to reduce resource utilisation, and the Accommodation Strategy.

Given the financial challenges the Council has been facing, the programme of corporate work streams that was developed in 2011/12 was continued for the 2012/13 financial year to maintain the efficiency drive and to support the identification of savings for future years.

The corporate work streams that were continued to identify and deliver future corporate savings are:

- Contract rationalisation
- Shared localised delivery
- Shared services and alternative delivery models
- Review & streamlining of systems
- Trading & Trading companies

The Council's general fund balance at 31 March 2013 is £11.8 million, which is between the Council's approved target optimum level of £10.0 million and maximum level of £12.0m. The value of unallocated financial reserves (the general fund balance) as a proportion of total gross revenue expenditure is in line with the average compared to other unitary councils, and therefore is not out of line with expectations.

**Budget 2013/14 and beyond**

To assist with addressing the budget gap in 2013/14, as part of setting the budget for the year the Council identified planned savings of £10.4m across the Council departments and corporate areas as follows:

- Adult and Community Services £1.8m (£2.9m in 2012/13)
- Children and Learning £1.8m (£2.0m in 2012/13)
- Enterprise, Tourism and the Environment £1.3m (£1.6m in 2012/13)
- Support Service £0.8m (£0.9m in 2012/13)
- Corporate £0.8m (£0.4m in 2012/13)
- Workstreams £3.9m (£4.0m in 2012/13)

The projects to be delivered to achieve this level of savings were specified and approved by Members as part of the budget setting, and the Council has a strong track record of achieving the required savings in recent years.

From our review of the latest forecast position, the Council is slightly behind where it planned to be to deliver its 2013/14 financial objectives and targets. Management are now working to improve this position for 2013/14 and are beginning to develop the budget for 2014/15 and beyond.

Variances against both the service budgets and the budget savings will need to be addressed so that the Council can achieve its planned financial position for 2013/14 as a further stepping stone to addressing the medium term budget gap. If the 2013/14 plans are not achieved this will exacerbate the reductions to be delivered in future periods, making it even more difficult to achieve a balanced budget position in future periods.

Our review of the Audit Commission's VFM profile tools indicates that net expenditure per head of population is high compared to other unitary councils, although the total level of expenditure is low when compared to other unitary councils. When compared to the Audit Commission's statistical nearest neighbours for the Council, net expenditure per head of population was found to be average.

Most services are operating at an average level of expenditure per head, although housing and Council Tax benefit administration costs per head are in the top third for unitary councils and this may be an area for further consideration as part of future budget setting rounds.

Overall, the Council is working to manage the delivery of the required savings over the MTFS period and currently has sufficient flexibility in its reserves to remain financially resilient.

Our review of economy, efficiency and effectiveness has considered the Council's arrangements for prioritising resources and improving efficiency and productivity.

*We have no matters to report.*

The budget set for 2012/13 was designed to allocate resources in accordance with the Council's priorities. As the Council continues to challenge the resource allocation in the next round of budget and medium term financial planning, the Council must ensure that it continues to focus resources to address priorities, and re-visit these priorities to ensure that they remain appropriate to the needs of the Borough.

The gap for 2013/14 has been identified as another £10.4m reduction in resource, in addition to the £12.0m reduction that was delivered in the course of 2012/13. If the 2013/14 savings are not realised, then this will increase the savings required in 2014/15 and beyond. To achieve the significant savings required in the medium term it will be necessary to identify and implement transformational changes to the way services are delivered, in order that different ways of working, that are more efficient and require reduced resource input, whilst continuing to deliver those services, are identified and implemented.

Members have a clear understanding of the Council's financial challenges and are being supportive of officers in the budgetary process and on-going financial management of delivering against the budget.

Key focus areas in the medium term include:

- ensure that the anticipated financial benefits are realised from the work being done on transforming services and rationalising and renegotiating external contracts, and which has been done to the Civic Centre and the rationalisation of accommodation requirements through new ways of working review and update the strategic priorities, ensuring key stakeholder engagement in the process and sufficient capacity and resources are invested, to align the revised financial resources to strategic priorities and
- review the latest Audit Commission value for money profiles tools to identify areas to target for potential cost reduction.

The Council further refined its formal performance management reporting during 2012/13, to reflect the reduced resource that is available to the Policy and Performance Team. As a result, the number of corporate performance indicators has been reduced from 30 to 29, alongside 10 "outward facing" indicators that the Council expects to be of interest to the public (reduced from 11 in 2011/12).

Of the 29 corporate performance indicators 24 (82.8%) met their year end targets. This was in the context of the majority of targets being increased, despite the resource constraints being faced by the Council. This performance compares to 86.6% of corporate performance indicators achieving their targets in 2011/12. Of the 26 indicators for which data is available for the previous year, 20 have maintained or improved performance in 2012/13.

Of the 10 "outward facing" indicators, 8 met their target for 2012/13. The two targets that were missed, with the following illustrating that the margin by which they were missed is comparatively narrow, were:

- The number of people supported to live independently in Southend was 4,486 compared to a target of 4,600
- Percentage of total absence in primary schools was 5.28%, compared to a target of 5%

Performance and other achievement highlights for the year include:

- The Council's HR Team won HR Team of the Year in the annual Public Service People Managers Association (PPMA) awards, in recognition of recent success in developing the Council's workforce
- The Council was 'Highly Commended' in the Workforce Transformation category at the Municipal Journal Achievement Awards, for its

approach in building a productive workplace through employee engagement and motivation

- Progress with significant projects including The Forum was delivered jointly by the Council, the University of Essex and South Essex College. The new facility will provide an integrated municipal and academic public library and learning facility, by pooling the resources of the parties involved
- The ‘channel shift’ to telephony and web based services for customers is being achieved. The number of online payments increased by almost 10% to 40,331, and customer satisfaction levels at 89% have exceeded last year’s performance and met target.
- An average of 7.85 working days lost to sickness in 2012/13, marginally behind the target of 7.26 days, but better than the sector average
- Levels of recycling have improved year on year from 28% five years ago to 48.3% in 2012/13 compared to a target of 48%
- Despite the economic climate South Essex Homes managed to reduce the level of rent arrears owed by tenants.

The continuing improvement in overall service performance, in a period of significant reductions in resource input, demonstrates that the Council is continuing to improve the value for money of the services provided.

## Health and Wellbeing Board

## Audit issues and impact on opinion

The Council has constituted a formal Board, following on from the Shadow Board that was operational prior to the go live date of 1 April 2013. The formation of the Board meets statutory requirements, although the Board has yet to become fully embedded and is yet to become fully effective.

*We have no matters to report.*

Since its formation as a Shadow Board it has overseen the:

- formation of the Board as a committee of full Council
- development and approval of the Health and Wellbeing Needs Assessment and Strategy
- appointment of a core membership in line with the Health and Social Care Act 2012, including the decision to maintain political proportionality
- development of:
  - an appropriate terms of reference
  - a forward plan setting out the information to be received and the decisions to be made at each Board meeting
  - action plans supporting each of the Health and Wellbeing Strategy’s ambitions. These map existing performance indicators that measure progress towards achievement of the ambitions and will be the basis of the performance updates
- mapping of the Health and Wellbeing Strategy to the Children and Young Peoples and Clinical Commissioning Group plans to ensure consistency and alignment of objectives with these other key plans.



The main areas where work is in progress or required include:

- developing:
  - an engagement strategy, particularly defining how the board will interact with provider services, given that they are not members of the Board, but have a key role to play in the public services for the area
  - a risk register setting out the specific risks that could impede the achievement of the Health and Wellbeing Strategy ambitions
  - formal working protocols with all other relevant bodies, to ensure the Board gives and receives relevant information to ensure consistent and co-ordinated decision making
- finalising the format of, and processes to produce, required performance management information, so that the Board can properly monitor progress towards objectives
- actively directing and managing the Board's subgroups and task and finish groups
- understanding member organisations structures to identify how to achieve the more transformational objectives of greater integration of service delivery, joint commissioning and pooled budgets
- completion of the work to identify the policies, strategies, plans and procedures for each organisation that support the delivery of the Health and Wellbeing Strategy, and then to assess whether these are appropriate from a borough wide perspective.

The Council has made good progress to bring the Board to its current position, in line with the statutory requirements. A forward plan is in place that will need to be delivered to assist the Board with maintaining the momentum in developing arrangements and relationships, so that the anticipated benefits of the operation of the Board can be converted into improvements in the public services provided for the residents of the Borough.

## **BDO CONCLUSION**

Our value for money conclusion is based on considering our overall risk assessment, focusing on the two criteria set by the Audit Commission, and 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 your Annual Governance Statement.

We are satisfied that, in all significant respects, the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2013. We propose issuing an unqualified value for money conclusion.

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# APPENDICES

## APPENDIX I: DEFINITIONS

TERM	MEANING
<b>The Council</b>	Southend-on-Sea Borough Council
<b>The group</b>	The consolidated group comprising of the Council, South Essex Homes Limited, Palace Theatre Charity, Prittlewell Priory Museum Trust, Priory Park Trust and Youth Commemoration Ground Trust
<b>Management</b>	The person(s) responsible for achieving the objectives of the Council and who have the authority to establish policies and make decisions by which those objectives are to be pursued. Management is responsible for the financial statements, including designing, implementing, and maintaining effective internal control over financial reporting.
<b>ISAs (UK &amp; Ireland)</b>	International Standards on Auditing (UK & Ireland)
<b>IAS</b>	International Accounting Standards
<b>IFRS</b>	International Financial Reporting Standards as adopted by the European Union
<b>'Those charged with governance'</b>	The Audit Committee
<b>Materiality</b>	The size or nature of a misstatement that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable user of the financial statements would have been changed or influenced as a result of the misstatement.
<b>Code</b>	Code of Practice on Local Authority Accounting in the United Kingdom 2012/13
<b>CIES</b>	Comprehensive Income and Expenditure Statement
<b>SeRCoP</b>	Service Reporting Code of Practice for Local Authorities 2012/13
<b>WGA</b>	Whole of Government Accounts

## APPENDIX II: UNADJUSTED AUDIT DIFFERENCES

We are required to bring to your attention unadjusted audit differences that the Audit Committee is required to consider. A schedule of such adjustments is included below and we request that you correct them. Deliberate misstatement of known issues is not acceptable and identified misstatements should, where practicable, be corrected even if not material.

There were 2 unadjusted audit differences identified by our audit work which would decrease the draft deficit on the CIES by £4k and would decrease the draft net assets by £160k. Management considers these identified misstatements to be immaterial in the context of the financial statements taken as a whole. We concur with this judgement.

UNADJUSTED AUDIT DIFFERENCES	CURRENT YEAR			PRIOR YEAR		NET ASSETS OR RESERVES (OVER) / UNDER £'000
	CIES (OVER) / UNDER	INCOME (OVER) / UNDER	EXPENSES (OVER) / UNDER	INCOME (OVER) / (UNDER)	EXPENSES (OVER) / UNDER	
	£'000	£'000	£'000	£'000	£'000	
Deficit for the year before adjustments	6,490					257,587
<b>Impact of prior year misstatements (no adjustment required in 2012/13)</b>						
Testing identified the incorrect capitalisation of lease payments for the waste disposal facility. This should be treated as REFCUS. This payment is currently being depreciated.	(4)		(4)		164	(160)
<b>TOTAL UNADJUSTED AUDIT DIFFERENCES</b>	<b>(4)</b>		<b>(4)</b>		<b>164</b>	<b>(160)</b>
Deficit for the year and net assets if adjustments accounted for	6,486					257,427

### UNADJUSTED DISCLOSURE MATTERS

The following unadjusted disclosure matters were noted:

- £262k has been included in long term assets held for sale although it does not meet the criteria for assets held for sale. As such it should be moved to Property, Plant and Equipment. This has no impact on overall financial position only classification within the balance sheet.
- The amounts due to the Teachers' pension fund of £392k has been incorrectly included as a Local Authority creditor rather than as a Central Government creditor.

## APPENDIX III: MATERIALITY

### MATERIALITY - FINAL AND PLANNING

#### MATERIALITY (FINAL)

Materiality	£4,400,000
Clearly trivial threshold	£135,000

Planning materiality of £4.4 million for the Council was based on 1% of gross expenditure excluding the revaluation losses for the schools. The figure was based on the full year outturn per the draft financial statements and we have no reason to revise this figure for our final materiality level.

## APPENDIX IV: INDEPENDENCE

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We have not identified any potential threats to our independence as auditors of the 2012/13 financial statements.

We confirm that the firm complies with the APB Ethical Standards and, in our professional judgement, is independent and objective within the meaning of those Standards.

In our professional judgement the policies and safeguards in place ensure that we are independent within the meaning of all regulatory and professional requirements and that the objectivity of the audit engagement partner and audit staff is not impaired.

Should you have any comments or queries regarding this confirmation we would welcome their discussion in more detail.

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## APPENDIX V: ACTION PLAN

FINANCIAL STATEMENT RECOMMENDATIONS				
CONCLUSIONS FROM WORK	RECOMMENDATIONS	MANAGEMENT RESPONSE	RESPONSIBILITY	TIMING
<p><b>HRA Additions</b></p> <p>We identified that one of the HRA additions selected in our sample was not on the listing of additions provided by South Essex Homes Limited (SEH). The total of additions in the financial statements agreed to the SEH breakdown, this means that the addition has been recognised against the wrong asset.</p> <p>Recording additions against the wrong asset will lead to the incorrect profit or loss on disposal in the future which could misstate the gross book value of assets.</p>	<p>SEH to maintain a database of all properties which should then be updated as the additions occur throughout the year.</p> <p>Complete an interim review of the listing with SEH before the year end to pick up any potential discrepancies so that these can be corrected before the additions need to be posted to the fixed asset register.</p>	<p>Discussions have already taken place with SEH and they will be maintaining a spreadsheet throughout the year of the capital works and the properties they relate to.</p> <p>An interim review of the listing is planned in February 2014 to identify any problems in advance of the year end. The complete listing is then expected in May 2014.</p> <p>Discussions will be on-going with SEH regarding how well this works and the practicalities of this approach and of further improvements to the process.</p> <p>To give context to this recommendation there were over 4,400 additions on the 2012/13 listing.</p>	<p>Caroline Fozzard (Group Manager - Financial Planning &amp; Control)</p>	<p>June 2014</p>
<p><b>Capital Commitments</b></p> <p>Not all the capital commitments disclosed in the financial statements meet the definition of a commitment per the Code.</p> <p>Capital commitments should only be recognised in the financial statements where there is a contractual commitment for capital expenditure which cannot be cancelled without incurring a penalty.</p>	<p>Check all commitments that the capital team have been notified of to ensure that there is a signed contract in place before inclusion within the accounts.</p> <p>Improve the guidance sent to the relevant budget holders so that it clearly defines what conditions must be met for the commitment to be recognised in the accounts.</p>	<p>Agreed.</p> <p>However it should be noted that this led to more disclosure than was required by the code.</p>	<p>Caroline Fozzard (Group Manager - Financial Planning &amp; Control)</p>	<p>June 2014</p>

FINANCIAL STATEMENT RECOMMENDATIONS				
CONCLUSIONS FROM WORK	RECOMMENDATIONS	MANAGEMENT RESPONSE	RESPONSIBILITY	TIMING
<p><b>Title Deeds</b></p> <p>We identified that two of the land and buildings selected in our sample do not currently have title deeds registered with the land registry. If the assets are not registered it could leave other parties to make a claim that the asset belongs to them.</p>	<p>Put in place programme to review all land and buildings over the next few years to ensure that they are registered. This will ensure that there are no future legal implications regarding the ownership of council assets.</p>	<p>Many of the land and building assets have been owned by the Council for a great many years, before it was a requirement to register them with the Land Registry.</p> <p>The legal department have confirmed that the title deeds should be sufficient to prove ownership and the Council's interest will stay intact. However, if land is not registered it can affect the ease and speed of proving title, but not generally in proving ownership.</p> <p>The legal team have been undertaking a registration project and so far most of the Council's title has been registered. They have limited resources but are reviewing and dealing with this on an on-going basis.</p>	<p>Peter Tremayne (Acting Principal Solicitor)</p>	<p>On-going</p>
<p><b>Unpresented cheques</b></p> <p>At the year end there are 317 cheques older than 1 year, included within unpresented cheques list. These cheques total a trivial amount of £90,327.36.</p> <p>Given the age of these cheques they are unlikely to be cashed now.</p>	<p>Review the unpresented cheque list for all cheques over one year old and cancel these items.</p>	<p>A review is currently underway of the cheque reconciliation process and this includes those cheques deemed to be 'out of date'. Once this review has been completed, these items will be actioned appropriately.</p> <p>This understatement should be viewed in the context of the overall cash and cash equivalents balance at 31/3/13 of £34 million.</p>	<p>Caroline Fozzard (Group Manager - Financial Planning &amp; Control)</p>	<p>June 2014</p>
<p><b>Related party declaration forms</b></p> <p>An officer who left the Council during the year failed to return their declaration forms as at the date of the audit.</p> <p>There is the potential that related party transactions may be taking place without the council's knowledge, leading to error in disclosure.</p>	<p>Include the requirement for a related party form to be completed by relevant staff within the staff leaving procedures.</p>	<p>Agreed.</p>	<p>Joanna Ruffle (Head of People and Policy)</p>	<p>December 2013</p>



FINANCIAL STATEMENT RECOMMENDATIONS				
CONCLUSIONS FROM WORK	RECOMMENDATIONS	MANAGEMENT RESPONSE	RESPONSIBILITY	TIMING
<p><b>Related party transactions</b></p> <p>For a number of transactions disclosed as related parties it was not clear from the information available to us whether they meet the definition of a related party.</p> <p>There is the potential that related party transactions may be over disclosed</p>	<p>During the accounts production process consider how the proposed transaction meets the definition within the Code of a related party transaction to be disclosed.</p>	<p>Agreed. An appropriate management review will be undertaken.</p>	<p>Ian Ambrose (Group Manager: Financial Management)</p>	<p>June 2014</p>
INTERNAL CONTROL RECOMMENDATIONS				
CONCLUSIONS FROM WORK	RECOMMENDATIONS	MANAGEMENT RESPONSE	RESPONSIBILITY	TIMING
<p><b>Raising of invoices</b></p> <p>There are no checks in place to ensure that all invoice requests are raised and have been raised accurately.</p> <p>This could lead to invoices not being raised leading to a reduction in the income received by the Council.</p>	<p>Internal Audit has raised that a check needs to be put in place to ensure:</p> <ul style="list-style-type: none"> <li>• delays when raising invoices are detected</li> <li>• errors made when raising of invoices are corrected</li> <li>• all invoices requested are produced</li> </ul>	<p>Agreed. Revised processes went live on Civica, the Council's EDRMS system, in July.</p> <p>The effectiveness of the revised control procedures will be monitored on an on-going basis.</p>	<p>Christine Lynch (Group Manager: Revenues)</p>	<p>March 2014</p>
<p><b>Raising of credit notes</b></p> <p>Internal audit identified a number of credit notes which had not been appropriately authorised.</p> <p>Credit notes are inappropriately raised reducing the income due to the council.</p>	<p>Internal Audit has recommended that a Scheme of Delegation with appropriate authorisation levels is determined and implemented and evidence of this exercise and the approvals sought is retained.</p>	<p>Agreed. All relevant budget holders have been contacted seeking the scheme of delegation for credit note approval.</p>	<p>Christine Lynch (Group Manager: Revenues)</p>	<p>March 2014</p>

INTERNAL CONTROL RECOMMENDATIONS				
CONCLUSIONS FROM WORK	RECOMMENDATIONS	MANAGEMENT RESPONSE	RESPONSIBILITY	TIMING
<p><b>Adult Social Care Debt</b></p> <p>Through our testing of adult social care income it was identified that the property value used as a cap when calculating the debt to be recognised is based upon the representations of the client about the property value and is not verified to an external valuers opinion.</p> <p>This could mean that the council is unable to reclaim all of the debt if the property cannot be sold for as much as the client is claiming. It could also mean that the value of debt may be understated if the value of the property is more than the client claims it is worth.</p>	<p>Obtain a valuation of the property when the client first enters the care system and subsequently review this valuation every 5 years on a rolling basis, in accordance with the suggestions from the Group Manager (Department for People).</p>	<p>We are now requesting those who have been on a deferred payment for more than a year for a valuation from an estate agent and we will continue to ask for them on an annual basis thereafter.</p>	<p>Sarah Baker (Group Manager: Department for People)</p>	<p>Immediate</p>

## APPENDIX VI: STATUTORY AND PROFESSIONALLY REQUIRED COMMUNICATIONS

COMMUNICATION REQUIRED	DATE COMMUNICATED	TO WHOM	METHOD
	25 September 2013	Management and those charged with governance	Report to Audit Committee
Potential effect on the financial statements of any material risks and exposures, such as pending litigation, that are required to be disclosed in the financial statements.	Not an issue	Not an issue	Not an issue
Misstatements, whether or not recorded by the entity	✓	✓	✓
The final draft of the representation letter	✓	✓	✓
Material uncertainties related to events and conditions that may cast significant doubt on the entity's ability to continue as a going concern	Not an issue	Not an issue	Not an issue
Disagreements with management about matters that, individually or in aggregate, could be significant to the entity's financial statements or our audit report	Not an issue	Not an issue	Not an issue
Expected modifications to our audit report or inclusions of emphasis of matter / other matter	Not an issue	Not an issue	Not an issue
Significant deficiencies in internal control	✓	✓	✓
Any other matters warranting attention by those charged with governance, such as questions regarding management integrity, and fraud involving management	Not an issue	Not an issue	Not an issue
Management judgements and accounting estimates	✓	✓	✓
Other information in documents containing audited financial information	✓	✓	✓
Consultation with other accountants	Not an issue	Not an issue	Not an issue
Major issues discussed with management	Not an issue	Not an issue	Not an issue

# APPENDIX VII: DRAFT REPRESENTATION LETTER

BDO LLP  
16 The Havens  
Ransomes Europark  
Ipswich  
Suffolk  
IP3 9SJ

25 September 2013

Dear Sirs

## Financial statements of Southend-on-Sea Borough Council for the period ended 31 March 2013

This representation letter is provided in connection with your audit of the financial statements of Southend-on-Sea Borough Council for the year ended 31 March 2013 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view, have been properly prepared in accordance with the relevant financial reporting framework and have been prepared in accordance with the requirements of applicable law.

I confirm to the best of my knowledge and belief, and having made appropriate enquiries of directors and officers of the Council, the following representations given to you in connection with your audit of the Council's financial statements:

### FINANCIAL STATEMENTS

#### Responsibility for financial statements

I acknowledge as the Head of Finance and Resources and s151 Officer my responsibilities for the Statement of Accounts, which include the financial statements, and for ensuring that these are prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom and have been prepared in accordance with the requirements of applicable law.

#### Significant assumptions

I confirm that the significant assumptions used in making accounting estimates, including those measured at fair value, are reasonable.

#### a) 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 business. These assumptions include:

• Rate of inflation (RPI)	3.4%
• Rate of inflation (CPI)	2.6%
• Rate of increase in salaries	4.4%
• Rate of increase in pensions	2.6%
• Rate for discounting scheme liabilities	4.4%
• 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.

b) Fair value measurements and disclosures

I am satisfied that the carrying value of land and buildings is materially consistent with the fair value at 31 March 2013, and that no adjustment is required to those assets that were revalued as part of the five-year rolling programme in previous years.

c) Valuation of housing stock

The useful economic lives of the housing stock and its constituent components, used in the valuation of the housing stock and the calculation of the depreciation charge for the year are consistent with those advised to me by the expert valuer appointed by the Council to provide this information.

**Accounting policies**

I confirm that the selection and application of the accounting policies used in the preparation of the financial statements are appropriate.

**Plans or intentions**

I confirm that the Council has no plans or intentions that may materially alter the carrying value and, where relevant, the fair value measurements or classification of assets and liabilities reflected in the financial statements.

**Litigation and claims**

I have disclosed to you all known actual or possible litigation and claims, the effects of which should be considered when preparing the financial statements and these have been accounted for and disclosed in accordance with the applicable financial reporting framework.

**Related parties**

I confirm that related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of the applicable financial reporting framework.

**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.

**Uncorrected misstatements**

You have brought to my attention potential misstatements in the financial statements as listed in the appendix to this letter. I do not wish to amend the financial statements to reflect any of these items as I believe that they are immaterial both individually and in aggregate to the view given by the financial statements as a whole. A list of these items is attached as an appendix to this letter.

**Going concern**

I confirm that we are satisfied that it is appropriate for the financial statements to have been drawn up on the going concern basis. In reaching this conclusion I have taken into account all relevant matters of which I am aware and have considered a future period of at least one year from the date on which the financial statements will be approved.

**Comparative information**

I confirm that, in respect of the restatement for the valuation of school playing fields, the adjustments relates to a correction in valuation assumptions as I believe that the revised assumption is more appropriate and in line with previous valuation guidance.

## **INFORMATION PROVIDED**

### **Completeness of information**

All the accounting records have been made available to you for the purpose of your audit. I have provided you with all other information requested and given unrestricted access to persons within the Council from whom you determined it necessary to obtain audit evidence. 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.

All transactions undertaken by the Council have been recorded in the accounting records and are reflected in the financial statements.

There is no relevant audit information needed by you in connection with preparing your audit report of which you are unaware.

### **Internal Control**

I acknowledge my responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

I have communicated to you all significant deficiencies in internal control of which I am aware

### **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 have disclosed to you my knowledge of fraud or suspected fraud affecting the Council involving management, employees who have significant roles in internal control or others where the fraud could have a material effect on the financial statements

I have disclosed to you my knowledge of any allegations of fraud, or suspected fraud affecting the financial statements communicated to me by employees, former employees, analysts, regulators or others.

### **Compliance with laws and regulations**

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

### **Related parties**

I confirm that I have disclosed to you the identity of the Council's related parties, related party relationships and transactions of which I am aware.

### **Liabilities, contingent liabilities or guarantees**

There are no liabilities, contingencies or guarantees to third parties other than those disclosed in the financial statements.

### **Title to assets**

The Council has satisfactory title to all assets and there are no liens or encumbrances on the assets except for those disclosed in the financial statements.

### **Contractual agreements**

The Council has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance.

Yours faithfully

**Joe Chesterton**  
**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 Statement of Accounts, which include the financial statements. The Head of Finance and Resources is responsible for the preparation of the Statement of Accounts, which include the financial statements, in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom.

### **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 Finance and 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

**Councillor Paul Collins**  
**Audit Committee Chair**

For and on behalf of the Audit Committee, Southend-on-Sea Borough Council



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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