SOUTHEND-ON-SEA BOROUGH COUNCIL

Progress report to those charged with governance

September 2013

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INTRODUCTION

Summary of progress

This report is intended to provide the Audit Committee with an update of the progress in delivering the 2012/13 audit.

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

- financial statements

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

We are also required to certify specified grant claims and returns as directed by the Audit Commission.

We have assessed whether the arrangements put in place by the Council will allow us to complete our work by the expected deadlines and whether there are any issues that are likely to have a significant impact on our ability to provide unmodified audit reports and opinions. This is included as a "RAG" assessment in the report.

R	A	G
RED	**AMBER**	**GREEN**
Unlikely to be able to meet reporting deadlines or modification of audit report or opinion	Some concerns around meeting reporting deadlines or potential risk of modification of audit report or opinion	On target to meet deadlines and no current concerns over issue of audit report or opinion

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2012/13 Annual Audit Plan – progress summary as at 16 September 2013

Area of work	Scope / Associated deadlines	Status	Outputs / Date	RAG
Planning	Risk assessment and formulation of the audit plan. Detailed audit plan to be issued outlining direction of the audit.	First phase of work completed. Planning for 2012/13 on-going until completion of the financial statements audit.	**Fee Letter 2012/13** No separate fee letter required by the Audit Commission for this year. **Audit Plan 2012/13** Presented to Audit Committee on 9 January 2013.	G
Financial statements				
Interim audit	Audit of the key financial systems that support the financial statements of accounts. To be completed prior to commencement of the audit of the financial statements in July 2013.	Work is complete.	We report to management any deficiencies in internal control identified during the audit. Where we identify significant deficiencies in internal control identified during the audit we also report those in our **Annual Governance Report**.	G
Financial Statements audit	Audit of the draft financial statements to determine whether they give a true and fair view of the Council's financial affairs and the income and expenditure for the year. Deadline for issue of audit opinion and publication of the statement of accounts is 30 September 2013.	Work substantially complete.	**Annual Governance Report** to those charged with governance being reported to Audit Committee on 25 September 2013. **Opinion on the financial statements** Accounts publication deadline 30 September.	G
Whole of government accounts audit	Audit of the consolidation pack for consistency with the audited statement of accounts. Consolidation pack opinion – deadline 4 October 2013.	Work due to commence following completion of the financial statements audit.	**Opinion on the WGA Consolidation Pack** To be issued by 4 October 2013.	G

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Area of work	Scope / Associated deadlines	Status	Outputs / Date	RAG
Use of Resources				
Use of resources	Review of use of resources based on: • proper arrangements in place for securing financial resilience • proper arrangements for challenging how the Council secures economy, efficiency and effectiveness. Conclusion to be given alongside the accounts opinion by the deadline of 30 September 2013.	Work substantially complete.	Results being reported in the **Annual Governance Report** to Audit Committee on 25 September 2013.	G
VFM conclusion	Review to support a conclusion on whether the Council has appropriate arrangements in place to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2013. Conclusion to be given alongside the accounts opinion by the deadline of 30 September 2013.	Work substantially complete.	Results being reported in the **Annual Governance Report** to Audit Committee on 25 September 2013. **VFM conclusion** target issue date 30 September 2013.	G
Reporting				
Annual Audit Letter	Public-facing summary of audit work and key conclusions for the year. To be finalised by 31 October 2013.	To be drafted after completion of audit work.	**Annual Audit Letter** target issue date 21 October 2013.	G
Grants certification				
Grants and returns	To audit and submit grant claims and returns by the relevant deadlines.	Work in progress and due to completed in November 2013.	All **grants claims and returns** to be audited in line with agreed schedule.	G

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Area of work	Scope / Associated deadlines	Status	Outputs / Date	RAG
Grants Report	Summary of our certification work completed on 31 March 2013 claims, to be issued by February 2014.	To be drafted after certification work concluded.	**Grants Report** to those charged with governance to be issued by February 2014.	G

The audit certificate for 2011/12 remains outstanding pending the conclusion of our response to an objector and their request for the provision of access to requested information. The objector submitted their objection on 15 February 2013. We have obtained additional information from the Council to assess the impact of the issues raised by the objector. We subsequently met with the objector to outline our preliminary conclusions. The objector submitted additional information that we are required to follow up. We are now assessing that additional information in order that we can prepare our final response.

In addition, the same objector's representative has informed us that, pending completion of further research relating to use of bailiffs by the Council, he may raise an objection to the Council's 2012/13 accounts.
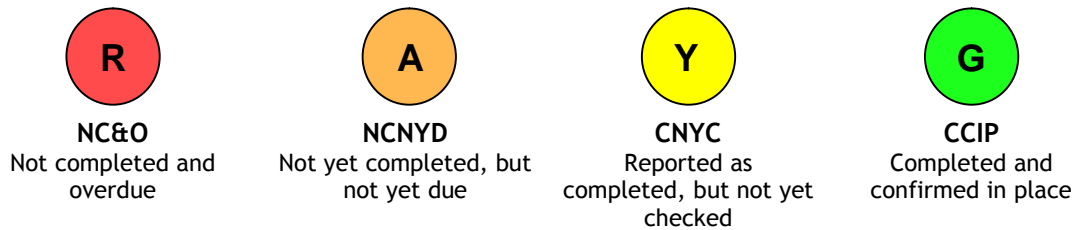
Our certificates for 2011/12 and 2012/13 can only be issued once we have fully completed the work necessary to consider and respond to the ongoing objection and, for 2012/13, any work necessary to address the potential objection referred to.

Appendix A: Action Plan

Summary of progress with implementing audit recommendations

This report is intended to provide the Audit Committee with an update of the progress that the Council has made in implementing our recommendations from the 2011/12 audit.

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

R	**A**	**Y**	**G**
NC&O	**NCNYD**	**CNYC**	**CCIP**
Not completed and overdue	Not yet completed, but not yet due	Reported as completed, but not yet checked	Completed and confirmed in place

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Conclusions from work	Recommendations	Management responses	Responsibility	Timing	Latest management update	RAG status
Financial statements						
1. Fixed asset register As reported in the prior year, the Real Asset Management system (RAM) had not been fully operated and kept up to date through the 2011/12 financial year, because of resourcing issues faced by the finance team at the Council. As a result the information contained within the system had become out of date and needed additional work at the year end, resulting in a delay in providing the information for audit.	The RAM system should be used throughout the year to record the transactions undertaken relevant to the Council's fixed assets. This will ensure that the year end production of the financial statements is less time consuming and can more easily demonstrate that all assets and transactions have been included within the financial statements.	Agreed - as each asset event (e.g. revaluations, depreciation, additions etc.) is undertaken throughout the year, the RAM system and the general ledger will be updated at that time. The RAM system and the general ledger will be reconciled after each of these events to ensure they remain in balance.	Caroline Fozzard (Group Manager - Financial Planning & Control)	September 2012	The revaluations as a result of the five year rolling programme have been updated on the Fixed Asset Register (FAR) and the general ledger. The depreciation for 2012/13 has been run on the FAR and posted to the general ledger. The FAR and general ledger has been reconciled after these asset events and they remain in balance. The FAR and the general ledger have also been updated for transfers of asset category (following the review in recommendation 2) and for impairments identified to date. The FAR and general ledger has been reconciled after these asset events and they remain in balance. June 2013	**G** **CCIP**

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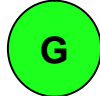| Conclusions from work	Recommendations	Management responses	Responsibility	Timing	Latest management update	RAG status
2. Fixed assets classification Our testing identified some assets that were categorised within other land and buildings, when they were fixtures and fittings and therefore should have been classified as vehicles, plant and equipment. The Council should ensure that all assets are correctly classified on the fixed asset register to ensure correct inclusion in the financial statements.	Ensure that all assets recorded on RAM are correctly classified to ensure correct inclusion in the PPE notes within the financial statements.	Agreed - a review of the fixed asset register will be undertaken during 2012/13 and a sample of assets will be checked each financial year.	Caroline Fozzard (Group Manager - Financial Planning & Control)	March 2013	The review has been completed as part of the identification of the assets to be re-valued in 2013/14. June 2013	**G** **CCIP**

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Conclusions from work	Recommendations	Management responses	Responsibility	Timing	Latest management update	RAG status
3. Fixed asset register Our testing identified that additions amounting to £3.6m were again added to the grouped infrastructure assets in the fixed asset register. Grouping of assets is no longer appropriate and makes it impossible to identify the specific assets that are recorded in the fixed asset register, and therefore the financial statements. It is also not possible to identify whether the register is correctly recording all of the assets that are owned by the Council and whether the assets recorded on the register continue to exist.	We recommend that as far as possible the Council populate the RAM system with accurate records on each individual asset held by the Council to ensure the FAR is fully complete and that the assets recorded continue to exist.	It would not be practical or possible to do this for assets already recorded on the RAM system – for example we do not have the information to disaggregate the infrastructure asset that relates to the road network transferred to the Council when it became a Unitary Authority. We accept the recommendation but wish to avoid a situation where the RAM system records every individual road link and piece of street furniture separately, as this would become unwieldy to administer. A pragmatic approach has been agreed whereby broad asset types within infrastructure assets will be identified and used from the 2012/13 financial year. For example, 'road network', 'street furniture' etc.	Caroline Fozzard (Group Manager - Financial Planning & Control)	March 2013	The broad asset types within infrastructure assets have been agreed with BDO as part of their early audit work on fixed assets. They have been used in the 2012/13 capitalisation process as part of the closure of accounts. June 2013	**G** **CCIP**

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Conclusions from work	Recommendations	Management responses	Responsibility	Timing	Latest management update	RAG status
4. Related Party Transactions Our testing identified some that five members had not returned the documents requesting disclosure of relationships that may impact on their work as Members.	Ensure that all Members return their disclosure forms declaring potential relationships that should be disclosed as related party transactions, to ensure the completeness of the notes within the financial statements.	Agreed – guidance to Members will be updated to further stress the need to provide this information	Ian Ambrose (Group Manager – Financial Management)	March 2013	Guidance reviewed and updated prior to RPT letters being sent to Members and Senior Officers in March 2013. Tracking of responses in place and escalation process in place to Head of Finance & Resources. Escalation process activated for last two outstanding returns. September 2013	**G** CCIP
5. Debtor with DCLG for Business Rates As in the prior year, there is a difference between the debtor recorded in the financial statements for business rates compared to that expected to be recorded as a debtor under the NNDR agency arrangements. In the prior year, this amounted to £482k, however this difference has now increased to £1,129k (including the prior year difference). The difference has arisen within the Northgate system. However, the Council is unable to identify exactly what this relates to. The Council is working with Northgate to resolve this difference.	Liaise with Northgate to resolve the recurring difference within the Northgate system to ensure that this is rectified before the compilation of the 2012/13 financial statements.	Agreed.	Caroline Fozzard (Group Manager - Financial Planning & Control) Ian Ambrose (Group Manager – Financial Management)	March 2013	Findings of reconciliation review shared and agreed with BDO. Adjustment in full has been made to the 2012/13 NNDR 3 return to enable recovery of debtor owed from DCLG. September 2013	**G** CCIP

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Conclusions from work	Recommendations	Management responses	Responsibility	Timing	Latest management update	RAG status
6. Car Park Income Our testing identified that the Council do not complete a reconciliation between the amount of income received from the company which runs the credit card services for the Council's parking machines, and the amount of credit card payments made per the audit ticket from the individual parking machines. This means that the Council could be losing income if the correct amount is not being paid over by the credit card company.	Complete a reconciliation on a regular basis between the actual income received and the income per the receipts (minus any fee taken by the company) to ensure that income received through this means is at the level expected.	Agreed – ETE will carry out a monthly reconciliation of electronic car parking payments.	Derek Kenyon (Car Parking Manager)	October 2012	The car park office is supplying a monthly audit sheet to confirm payments made by credit / debit card on Pay & Display machines. This is cross checked to the card handling company's statement on a monthly basis. September 2013	**Y** CNYC See note [1]

[1] Discussions with the car parking manager have confirmed that the reconciliation is taking place, but that no evidence is currently retained to demonstrate this.

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Conclusions from work	Recommendations	Management responses	Responsibility	Timing	Latest management update	RAG status
7. Analysis of Debtors and Creditors Our testing identified instances where debtors and creditors were misclassified in the analysis notes within the financial statements. In particular, the accounts receivable and payable codes were all posted as 'general' debtors and creditors without being appropriately analysed into the sub-headings within their associated notes. Some receipts in advance with central government were included as central government creditors and some were classified as receipts in advance. The differences arise due to Group Accountants treating items differently when they post items to the ledger codes. Although the Council did amend for all misclassifications above triviality, the Council should endeavour to ensure that the classifications within these notes are accurate.	Ensure that Group Accountants use a consistent approach when posting debtor and creditor balances on the ledger to ensure that they are correctly classified within the debtor and creditor analysis notes. Complete a check on the amounts included within the accounts payable and receivable codes to ensure that they are re-analysed in the debtor and creditor notes as appropriate.	Agreed - year end guidance to the finance teams will be updated to stress the necessity of consistent analysis of debtor and creditor balances to ensure correct treatment in the analysis notes of the Financial Statements.	Ian Ambrose (Group Manager – Financial Management)	June 2013	Training session on year-end processes including consistent approach to Debtors and Creditors were held in January and March 2013. June 2013	G CCIP

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Conclusions from work	Recommendations	Management responses	Responsibility	Timing	Latest management update	RAG status
Internal controls						
1. Reconciliations Our audit work identified that the bank and payroll reconciliations were not being completed on a monthly basis. This resulted in a delay in receiving the year end reconciliations for these areas and adjustments being required to be made to the financial statements as a result. We also identified that, since the implementation of Agresso, Officers have not been utilising the reconciliation / checks between the feeder modules as the system intends. Instead manual reconciliations were being used.	Ensure that all reconciliations are completed on a monthly basis and that the year end reconciliations are completed in time for the closure of the 2012/13 financial statements. Ensure that reconciliations within the Agresso system are completed as the system intended, making use of the automated reconciliation controls within the system.	Agreed. We are working towards that position, however there needs to be changes to systems outside of Agresso so that the cashbook information can be disaggregated in a way that enables automated reconciliation. Until automation can be successfully enabled, reconciliations will continue to be manually compiled.	Caroline Fozzard (Group Manager - Financial Planning & Control)	March 2013	Monthly reconciliations are being undertaken and work is on-going to ensure timely completion for the 2012/13 financial statements, which has resulted in a minimal balance for final reconciliation. Systems mapping work has been undertaken relating to the cash code on the general ledger. This has identified areas of further work to assist the reconciliation process. To enable the cashbook information to be disaggregated in a way that enables automated reconciliation, changes are needed to the cash receipting system. This system is now out to tender and will be upgraded for go-live April 2014. September 2013	**G** CCIP **R** NC&O See note [2]

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[2] As documented in the Annual Governance Report, the reconciliations are now being performed on a timely basis with only trivial un-reconciled differences remaining. The final solution to achieve the automatic reconciliation sought is currently being developed by management.

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Conclusions from work	Recommendations	Management responses	Responsibility	Timing	Latest management update	RAG status
2. Accounts Receivable **- Invoice / credit notes** Testing identified that 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. This also applies to credit notes, which can be requested by any member of staff that has access to Agresso and is processed by accounts receivable, with only reasonableness checks being completed. Stronger controls were present when the Council used Cedar as the invoice request forms and credit note requests were restricted to authorised officers only.	Review user access to the invoice request module on Agresso and ensure that access is limited to appropriate officers or introduce checks within individual departments on the invoice request forms before they are processed by the accounts receivable department.	Agreed – a review will be undertaken to establish an appropriate control arrangement.	Christine Lynch (Revenues Manager)	December 2012	Invoices – Procedure Note now in place regarding raising One Off invoices with guidance on challenging requests and seeking approval from authorised signatory if necessary. Credit Notes – Procedure Note now in place, all requests must be agreed by authorised signatory. June 2013	**G** **CCIP**

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Conclusions from work	Recommendations	Management responses	Responsibility	Timing	Latest management update	RAG status
3. Accounts Payable Officers continue to process a large number of orders outside of the electronic Agresso E-Procurement system. This results in an additional workload for the Accounts Payable team as all orders then have to be input on the Agresso system. The Council should work towards using the E-Procurement system to its full potential.	Remind staff the importance of using the Agresso E-Procurement system for raising orders and work towards restricting staff from raising orders outside of this system.	Agreed – continued action around the cultural shift, training and guidance throughout the organisation for compliance with E-Procurement system.	Joe Chesterton (Head of Finance and Resources)	March 2013	Agresso launch – for next stage of developments (November 2012) to Heads of Services, Group Managers and Senior project and budget managers. This included launch of No PO no Pay project with a move to an all organisational approach of raising PO's through Agresso. Project re-scoped and approved at Agresso Programme Board in May 2013 as "Requisition & Payment" to extend the work in this area for a more in depth cultural shift. No PO No PAY successfully launched in July 2013. September 2013	**G** **CCIP**

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BDO UK

23 Offices   **250** Partners
              3,500 Staff

No.1 for exceptional
          client service [1]

90% of our clients **and** **72%** already have [2]
would recommend us [2]

BDO INTERNATIONAL

US$6 bn[7] 2012 revenue

138 Countries   **1,200** Offices
                55,000 Staff

AN AWARD WINNING UK FIRM

in 2012 we won:

► **AUDIT OF THE YEAR AWARD** [3]
► **ACCOUNTANT OF THE YEAR AWARD** [4]
► **TAX ADVISER OF THE YEAR** [5]
► **BEST INNOVATION IN CLIENT SERVICE OR RELATIONSHIP MANAGEMENT** [6]

1. Independent research carried out by Lighthouse Global (Mid Market Monitor 2012)
2. Client Listening Programme 2011
3. British Accountancy Awards 2012
4. M&A Awards 2012
5. International Accounting Bulletin 2012
6. Managing Partners Forum (MPF) European Leadership Awards 2012
7. $6.01bn (€4.63bn) total combined fee income 2012

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