



# SOUTHEND-ON-SEA BOROUGH COUNCIL

Annual Audit Letter 2012/13

October 2013

# EXECUTIVE SUMMARY

## Background

This Annual Audit Letter summarises the key issues arising from the work that we have carried out during the year. It is addressed to the Council but is also intended to communicate the significant issues we have identified, in an accessible format, to key external stakeholders and members of the public.

It is the responsibility of the Council to publish this on the Council's website.

## Responsibilities of auditors and the council

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing auditors to local public bodies in England.

As the external auditors, we have a broad remit covering financial and governance matters. We target our work on areas which involve significant amounts of public money and on the basis of our assessment of the key risks to the Council achieving its objectives.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

## Scope of the audit

Our main responsibility as the appointed auditor is to plan and carry out an audit that meets the requirements of the Audit Commission's Code of Audit Practice (the Code). Under the Code, we are required to review and report on:

- the Council's Statement of Accounts
- whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

We are also required to review and report on the Council's Annual Governance Statement, Whole of Government Accounts (WGA) submission and whether we have exercised our statutory powers under the Audit Commission Act 1998 in any matter.

Our work on the audit of the grant claims and other returns is in progress and we will report the findings from this work separately.

Our aim is to deliver a high standard of audit which makes a positive and practical contribution that supports the Council's own agenda. We recognise the value of your co-operation and support and would like to take this opportunity to express our appreciation for the assistance and co-operation provided during the course of the audit.

## Key findings

	STATEMENT OF ACCOUNTS
1	<p>We issued an unqualified true and fair opinion on the financial statements on 30 September 2013.</p> <p>Four material misstatements were identified and corrected during the audit, two impacting on primary statements and two relating to disclosures. These are expanded upon in the main body of this Letter.</p> <p>We noted a number of areas where deficiencies in internal controls should be improved or where the control environment could be strengthened, specifically: Agresso bank and payroll reconciliations; raising of sales invoices; authorisation of credit notes; and valuation of charges on properties for adult social care.</p>
	USE OF RESOURCES
2	<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.</p> <p>We issued an unqualified value for money conclusion on 30 September 2013.</p>
	OTHER MATTERS
3	<p>We are satisfied that the Annual Governance Statement is not inconsistent or misleading with other information we were aware of from our audit of the financial statements and complies with "Delivering Good Governance in Local Government" (CIPFA / SOLACE).</p> <p>We issued a 'disagree' opinion in respect of the WGA return on 4 October which concluded that it was not consistent with the audited financial statements.</p>
	GRANT CERTIFICATION
4	<p>The 2011/12 Housing and Council Tax Subsidy claim and the Teachers Pension Claim were subject to qualification. The Housing Revenue Account Subsidy, National Non-Domestic Rates return and Pooled Capital Receipts return were all certified without qualifications.</p> <p>Our work on the audit of the grant claims and other returns for 2012/13 is in progress and we will report the findings from this work in December 2013.</p>

# STATEMENT OF ACCOUNTS

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## OPINION

We issued an unqualified true and fair opinion on the financial statements on 30 September 2013.

## Financial statements

The following misstatements were identified and corrected during the audit (the first two being material to the accounts):

- 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.
- the group accounts were amended to include the Trust funds, which led to the group balance sheet increasing by £14.8m in 2011/12 and 2012/13.
- the impairment calculations for two Housing Revenue Account properties were corrected. As a result, the Council dwellings gross book value reduced by £934k, of which £354k was offset by the revaluation reserve and £580k was charged to the CIES.

The following misstatements corrected during the audit only affected the disclosure within the accounts (the first two being material to the accounts):

- NHS bodies' creditors of £4.47m had been misclassified as "Other entities and individuals" within the creditors note.
- The underlying report to support the minimum lease payments due from operating leases was inaccurate, leading to the disclosure note being overstated by £35m.
- Warners Road car park with a value of £525k was reclassified from surplus assets to investment property.
- A provision of £234k which had incorrectly been included in creditors was re-classified to provisions.

A number of disclosures and presentation amendments were also made to the final audited financial statements.

Five misstatements were identified that were not corrected in the final published financial statements:

- bathroom or kitchen improvements, where the additions had been correctly accounted for in the accounts but the residual value from the old bathroom or kitchen had not

been removed from the fixed asset register. It was estimated that the potential error in the accounts would be an overstatement of council dwellings of £1.88m.

- immaterial trust funds that were not consolidated, which have an overall impact of increasing net assets by £1.01m and increasing the deficit for the year by £139k.

The following misstatements only affected the disclosure within the accounts:

- The property included in long term assets held for sale at £262k did not meet the strict criteria of an asset held for sale and therefore should have been classified as a surplus asset within PPE.
- The creditor for teachers pension contributions £392k had been incorrectly included as a local authority creditor rather than a central government creditor.
- We identified two properties that had been incorrectly included as investment properties. These should have been classified as Property, Plant and Equipment. This, extrapolated over the total population, gives a potential error of £193k.

There was also one prior year unadjusted error which would have the impact of reducing the deficit for the year by £4k and decrease net assets by £160k.

The potential impact of correcting for these remaining misstatements would result in the Council's Group Accounts reporting a £139k higher deficit for the year. We consider that these misstatements did not have a material impact on our opinion on the financial statements.

Management considered that these uncorrected misstatements did not have a material impact on the financial statements, either individually or in aggregate, and the Audit Committee accepted their assertion that the misstatements need not be corrected for this reason.

## Internal controls

We noted a number of areas where deficiencies in internal controls should be improved or where the control environment could be strengthened, particularly: Agresso bank and payroll reconciliations; raising of sales invoices; authorisation of credit notes; and valuation of charges on properties for adult social care.

Management has agreed to review and strengthen these internal controls. We were able to satisfy ourselves through alternative assurance procedures that these deficiencies did not have a material impact on the Council's financial statements.

# USE OF RESOURCES

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## CONCLUSION

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. We issued an unqualified value for money conclusion on 30 September 2013.

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:

- 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.

We also updated our knowledge of the Council's governance arrangements, financial, performance and risk management arrangements and reviewed the Audit Commission's financial ratios data and value for money tool and discussed the findings with management.

## Financial resilience

In 2012/13 the Council underspent against the budget overall for the year by £355,000, 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.

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

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.

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

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's general fund balance at 31 March 2013 is £11.8m, which is between the Council's approved target optimum level of £10.0m 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.

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.

## Challenging economy - efficiency - effectiveness

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. 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.

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.

## Health and Wellbeing Board

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 fully effective.

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.

# OTHER MATTERS

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## REPORT BY EXCEPTION

Other matters are detailed below.

### Annual Governance Statement

We are satisfied that the Annual Governance Statement is not inconsistent or misleading with other information we were aware of from our audit of the financial statements and complies with “Delivering Good Governance in Local Government” (CIPFA / SOLACE).

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.

### Objection

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.

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.

### Whole of Government Accounts

The Council submitted its initial Whole of Government Accounts (WGA) return for audit on 27 August 2013 and a revised return was provided on 1 October to incorporate amendments to the final version of the financial statements.

We identified the following inconsistencies between the Data Collection Tool (DCT) and the audited statutory accounts:

- “LP I&E NCS” subjective analysis tab: Income and expenditure reported in the DCT are both £10.649m lower in total than that reported in the audited statutory accounts. The net cost of services reported in the DCT is consistent with the net cost of services reported in the statutory accounts (to within a trivial £41,000 difference)
- There was an error in last year’s WGA submission which reported that ‘other provisions’ totalling £3.462m were long term, rather than short term. This has been corrected by posting an adjustment in LP-Balance Sheet in the 2012/13 DCT

As a result we issued a ‘disagree’ opinion in respect of the WGA return on 4 October which concluded that it was not consistent with the audited financial statements.

# GRANT CERTIFICATION

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## SUMMARY FINDINGS

The 2011/12 Housing and Council Tax Subsidy claim and the Teachers Pension Claim were subject to qualification. The Housing Revenue Account Subsidy, National Non-Domestic Rates return and Pooled Capital Receipts return were all certified without qualifications.

This Annual Audit Letter reports on the findings of our 2011/12 certification work which was completed and reported to the Audit Committee since the issue of our 2011/12 Annual Audit Letter. Our work on certifying 2012/13 grant claims is ongoing and findings will be reported when this work is complete.

## Housing and Council Tax Benefits

The Housing and Council Tax Benefit Subsidy Return was qualified, as a result of six errors identified from our testing. Extended testing was carried out and errors were extrapolated as these were systematic issues. The extrapolated errors all related to over-claim of subsidy.

These were all reported to the Department for Work and Pensions and had the potential impact of reducing the total subsidy claimable by £389,014 because the Council breached the overpayments threshold within the scheme. This is in the context of a £105m claim, so only a potential 0.37% reduction in subsidy. Viewed in the context of the total caseload that the benefits team processes, we were able to conclude that no significant concerns were highlighted.

## Teachers Pension Claim

A large number of errors were found with the Teachers' pension return that was submitted for audit. This was because the figures originally included could not be supported by reports from the payroll system. As a result, the figures required amendment in order that the reported entries included in the return agreed back to source documents.

Overall we concluded that the control environment for this grant claim was weak and that improvements needed to be made.

## Other schemes

The Housing Revenue Account subsidy, National Non-Domestic Rates (NNDR) return and Pooled Capital Receipts returns for 2011/12 were all certified without qualifications.

The National Non-Domestic Rates return was certified without qualification. An amendment was made as a result of our audit, which was caused by a transposition error which resulted in a £54,000 amendment to the claim form.

The Pooled Capital Receipts return was certified without qualification. Two small errors were identified from our testing which were corrected for before certification.


The Housing Subsidy return was certified without qualification. Although an amendment was made as a result of our review, this had no impact on the overall subsidy claimable.

# APPENDIX

## Reports issued

We issued the following reports in respect of the 2012/13 financial year.

REPORT	DATE
Audit Plan	December 2012
Grant Claims and Returns Certification Report	December 2012
Final Audit Report	September 2013
Annual Audit Letter	October 2013



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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