



SOUTHEND-ON-SEA BOROUGH COUNCIL

AUDIT PLAN TO THE AUDIT COMMITTEE

Audit for the year ending 31 March 2015
March 2015

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EXECUTIVE SUMMARY

We are pleased to present our Audit Plan for the year ending 31 March 2015. This plan summarises the work that we propose to undertake in respect of our audit of Southend-on-Sea Borough Council for the 2014/15 financial year.

Significant Risks

Our audit is designed to respond to significant risks and identify where we intend to focus our resources in providing our opinion on the financial statements and our value for money conclusion. Summarised below are the significant risks that impact on our audit of which we are currently aware:

FINANCIAL STATEMENTS	SUMMARY OF SIGNIFICANT RISKS
Management override	Auditing standards presume that a risk of management override of controls is present in all entities and require us to respond to this risk including by testing the appropriateness of accounting journals and other adjustments to the financial statements, reviewing accounting estimates for possible bias and obtaining an understanding of the business rationale of significant transactions that appear to be unusual.
Revenue recognition	Auditing standards presume that a risk of fraud in revenue recognition is present in all entities. We will respond to this risk by ensuring the use of appropriate accounting policies and substantively testing an increased sample of income to ensure that accounting policies have been correctly applied in determining the point of recognition of income.
Pier Valuation	The Pier was revalued as part of the rolling programme at the 1 April 2014. The valuation provided by the external valuer, Wilks, Head and Eve, shows a significant increase in the value of the asset of £28m. It is possible that this will result in a prior period adjustment. Due to the specialist nature of this asset and the significant change in value, which could indicate inappropriate changes in assumptions or judgements supporting the valuation, there is a risk that this asset is incorrectly valued in the financial statements.

FINANCIAL STATEMENTS	SUMMARY OF SIGNIFICANT RISKS
Accounting for Schools	The <i>Code of practice for Local Authority Accounting 2014/15</i> requires the Council to carry out a detailed review of arrangements in place at each voluntary controlled, voluntary aided and foundation school to determine whether the schools (and therefore the Council) control their non-current assets and account for them accordingly. There is a risk of material misstatement in the balance sheet arising from the complexity of judgements that need to be made in order to implement these standards appropriately in respect of schools.

USE OF RESOURCES	SUMMARY OF SIGNIFICANT RISKS
Financial resilience	Government continues to reduce funding for local government, and combined with additional pressures arising from demographic and other service delivery changes, this will have a significant impact on the financial resilience of the Council in the medium term. There is a risk that the Council's medium term financial strategy will not be sufficiently robust to ensure its future financial resilience.

Fees

The proposed audit fee for the year is £190,421 plus VAT, which agrees to the scale fee published by the Audit Commission. This is an increase of £1,070 compared to the fee reported to the Governance Committee in our Planning Letter for 2014/15. This supplementary fee is to enable us to undertake audit procedures on material business rates disclosures within the financial statements. We previously placed reliance on the certification work on national non-domestic rates to gain the required assurance. However the Department of Communities and Local Government (DCLG) has removed the certification requirement for national non-domestic rates.

The proposed fee for the certification of claims and returns is £28,379 plus VAT, which agrees to the composite scale fee published by the Audit Commission. This is a decrease in the certification fee reported in our Planning Letter for 2014/15 due to us no longer being required to certify the Pooling of Housing Capital Receipts claim.

The fee does not include any time that may be required to investigate questions or objections from members of the public. Should any arise, time spent dealing with questions and objections will be billed separately. Where possible we will provide an estimate of the likely time required to respond to the matters before starting the work.

Key outputs

The key reports, opinions and conclusions from the audit will be:

REPORT	DATE
Report on any significant deficiencies in internal controls, if required, based on the results of our interim audit visit	April 2015
Final report to the Audit Committee	August 2015
Independent auditor's report including: <ul style="list-style-type: none"> • Opinion on the financial statements • Value for money conclusion • Certificate 	By 30 September 2015
Assurance statement on the Whole of Government Accounts return	By 7 October 2015
Summary of findings from the audit in the Annual Audit Letter	October 2015
Report on the results of our grant claims and returns certification work	December 2015

SCOPE OF THE AUDIT

Purpose of the audit plan

The purpose of this audit plan is to:

- Ensure that there is mutual understanding of the respective responsibilities relating to the audit
- Provide you with an overview of the planned scope of the audit for the year ending 31 March 2015
- Ensure that the areas of potential significant risk of material misstatement which we have identified are consistent with the areas which you perceive to be the key areas and to promote effective two-way communication between us.

We will also provide a report to management and those charged with governance on the findings of the audit which will focus on the significant matters arising from the audit of the Council regarding internal control, financial governance and reporting and accounting arrangements. We aim to provide management with clear recommendations that will add value to the Council.

Code audit

The scope of the audit is determined by the Audit Commission's Code of Audit Practice for Local Government (2010) (the 'Code'), which covers two areas: providing an opinion on the financial statements, and reviewing the arrangements for securing economy, efficiency and effectiveness in the use of resources (value for money conclusion).

Respective responsibilities

Our responsibilities, as auditors, in relation to the audit of the financial statements and other Audit Commission requirements are set out below. The audit of the financial statements does not relieve you of your responsibilities which are outlined in the Statement of Responsibilities of Auditors and Audited Bodies (2010) available from the Audit Commission's website.

Auditing Standards require auditors to communicate relevant matters relating to the audit to those charged with governance. Relevant matters include issues on auditor independence, audit planning information and findings from the audit.

We will communicate matters of governance interest that have come to our attention as a result of the performance of the audit. Communication may take the form of

discussions or, where appropriate, be in writing. The audit is not designed to identify all matters that may be relevant to you.

Our contacts for communications will be the Head of Finance and Resources and the Audit Committee. When communicating with the Audit Committee we will consider all individuals representing those charged with governance as informed and our responsibilities for communicating relevant matters will be discharged.

Financial statements

At the conclusion of the financial statements audit we give our opinion on the financial statements, including whether:

- they give a true and fair view of the financial position at the year end and the expenditure and income for the year
- they have been prepared properly in accordance with relevant legislation and applicable accounting standards

We also provide an opinion on whether the information given in the Explanatory Foreword is consistent with the financial statements.

We report by exception if we are unable to satisfy ourselves that the Annual Governance Statement is not inconsistent with our knowledge.

As part of our audit we obtain an understanding of the Council's system of internal control sufficient to plan the audit. We assess the adequacy of the design of specific controls that respond to significant risks of material misstatement and evaluate whether those controls have been implemented. Where we intend to place reliance on particular controls for the purposes of our audit, we will carry out procedures to test the operating effectiveness of those controls and use the results of those procedures to determine the nature, timing and extent of further audit procedures to be performed.

In order to achieve an efficient and cost effective audit, we aim to work closely with Internal Audit to minimise duplication and the overall level of audit resource input.

We have planned the audit on the basis that we will be able to place full reliance on the work of Internal Audit where they intend to provide assurance over key controls within the financial systems.

We will communicate to management any deficiencies in internal control identified during the audit. Where those deficiencies are significant, we will also communicate to those charged with governance.

Misstatements due to fraud

The primary responsibility for ensuring that your internal control frameworks are robust enough to prevent and detect fraud and corrupt practices lies with management and the Audit Committee.

We have a responsibility to consider specifically the potential risk of material misstatement of your financial statements as a result of fraud and error, including the risk of fraudulent financial reporting. We have discussed possible risk of material misstatement arising from fraud with the following individuals:

- Joe Chesterton- Head of Finance and Resources
- Linda Everard - Head of Internal Audit

We will write to the Chair of the Audit Committee to confirm how the Committee oversees management processes to identify and respond to the risk of fraud, and whether there is knowledge of any actual, suspected or alleged frauds affecting the Council other than those reported by management.

Please let us know if there are any other actual, suspected or alleged instances of fraud of which you are aware.

For all fraud risks, and for any actual frauds that have been identified and we have been informed of, we will consider the possible impact on your financial statements and our audit programme.

Materiality and triviality

Materiality is the expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole. In carrying out our work we will apply an appropriate level of materiality and as such the audit cannot be relied upon to identify all potential or actual misstatements.

For planning purposes, we have set materiality at £8.1 million (2% of the 2013/14 average gross expenditure in the Comprehensive Income and Expenditure Statement excluding non-recurrent expenditure).

For reporting purposes, we consider misstatements of less than £200,000 to be trivial, unless the misstatement is indicative of fraud. We are required to bring to your attention unadjusted audit differences that are more than trivial that the Audit Committee are required to consider and we will request that you correct them.

Use of resources

The Code requires auditors to issue a conclusion on whether the audited body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

This is based on the following two reporting criteria:

- The organisation has proper arrangements in place for securing financial resilience; 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 has proper arrangements for challenging how it secures economy, efficiency and effectiveness; the organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

The scope of our work on use of resources will include local risk based work to review Council's Medium Term Financial Strategy to assess the reasonableness of assumptions used to support it and to assess the financial impact of changes to service delivery being made by the Council..

Whole of Government Accounts

Local authorities are required to prepare information to allow HM Treasury to prepare consolidated Whole of Government Accounts (WGA) based on the statutory financial statements.

The WGA return is audited in accordance with Audit Commission specified procedures. We provide an assurance report to the National Audit Office to confirm that the WGA return is consistent with the audited financial statements and that it is properly prepared.

Certification of grant claims and returns

As an agent of the Audit Commission we will undertake a review of the Housing Benefit subsidy claim form in accordance with the certification instruction issued by the Audit Commission. We are also required to certify the Teachers' Pension return and we undertake this as an independent reporting accountant providing a non-audit service to the Council. We express a conclusion as to whether the claim or return: is in accordance with the underlying records (claims and returns above the minimum level and below the threshold); or is fairly stated and in accordance with the relevant terms and conditions (claims and returns over the threshold).

Engagement partner

Lisa Clampin is the engagement partner and is the person in the firm who is responsible for the audit engagement and its performance and for the report that will be issued on behalf of the firm.

We aim to provide a high quality of service to you at all times. If, for any reason or at any time, you would like to discuss how we might improve the service, or if you are in any way dissatisfied, please contact Lisa Clampin in the first instance. Alternatively you may wish to contact our Managing Partner, Simon Michaels. Any complaint will be investigated carefully and promptly.

If you are not satisfied you may take up the matter with the Institute of Chartered Accountants in England and Wales (“ICAEW”).

In addition, the Audit Commission’s complaints handling procedure is detailed in their leaflet “How to complain: What to do if you want to complain about the Audit Commission or its appointed auditors”, which is available on their website <http://www.audit-commission.gov.uk/about-us/contact-us/complaints>

Local Audit and Accountability Act 2014

The Act received Royal Assent on 30 January 2014. The Act makes it possible for the Audit Commission to close, in line with Government expectations, on 31 March 2015.

There will be a new framework for local public audit, due to start after the Audit Commission’s current contracts with audit suppliers end in 2016/17, or potentially in 2019/20 if all the contracts are extended. A transitional body will oversee the contracts in the intervening period. The transitional body is the Public Sector Audit Appointments Limited and is an independent, private company created by the Local Government Association.

Several of the Audit Commission’s functions will continue after its closure. The Local Audit and Accountability Act gave the Comptroller and Auditor General a duty to prepare and issue Codes of Audit Practice and guidance to auditors; and a power to carry out examinations into the economy, efficiency and effectiveness with which relevant authorities have used their resources.

The Act also provides for the Audit Commission’s data matching powers, and therefore the National Fraud Initiative, to transfer to the Cabinet Office. The government has announced that the Commission’s counter-fraud function will transfer to a new public sector ‘Counter Fraud Centre’ to be established by the Chartered Institute of Public Finance and Accountancy.

Independence and objectivity

We are required to communicate to those charged with governance, at least annually, all relationships that may bear on the firm’s independence and the objectivity of the audit engagement partner and audit staff.

In relation to the audit of the financial statements for Southend-on-Sea Borough Council for the financial year ending 31 March 2015, we are able to confirm that the Audit Commission’s requirements in relation to independence and objectivity have been complied with and we are not aware of any relationships that would affect our independence. Should this change we will update you accordingly.

RISK ASSESSMENT

We are committed to targeting work to where it will have the greatest effect, based upon assessments of risk and performance. This means planning our audit work to address areas of risk relevant to our audit responsibilities and reflecting this in the audit fees. The determination of significant risks is a matter for auditors' professional judgement.

For each of the significant risks identified, we consider the arrangements put in place to mitigate the risk and plan our work accordingly.

If you consider there to be other significant risks of material misstatement in the financial statements or, arrangements for securing economy, efficiency and effectiveness in the use of resources, whether due to fraud or error, please let us know.

Summarised below are the significant audit risks that impact on our audit of which we are currently aware.

FINANCIAL STATEMENTS SIGNIFICANT AUDIT RISKS			
RISK	RISK DETAIL	ACCOUNTS AREA AND ASSERTIONS	AUDIT RESPONSE
MANAGEMENT OVERRIDE	Auditing standards presume that a risk of management override of controls is present in all entities and require us to respond by testing the appropriateness of accounting journals and other adjustments to the financial statements, reviewing accounting estimates for possible bias and obtaining an understanding of the business rationale of significant transactions that appear to be unusual.	Financial statement level risk across all account headings and assertions.	We will carry out audit procedures to review significant journals and other adjustments in preparing the financial statements, review the reasonableness of assumptions used by management when including accounting estimates, and obtain an understanding of unusual transactions.
REVENUE RECOGNITION	Auditing standards presume that there are risks of fraud in revenue recognition. These risks may arise from the use of inappropriate accounting policies, failure to apply the stated accounting policies or from an inappropriate use of estimates in calculating revenue.	Existence, completeness and accuracy of income.	We will substantively test an increased sample of income received and debtor accruals to ensure that accounting policies have been correctly applied in determining the point of recognition of income.
PIER VALUATION	The Pier was revalued as part of the rolling programme at the 1 April 2014. The valuation provided by the external valuers', Wilks Head and Eve, shows a significant increase in the value of the asset of £28m. It is possible that this will result in a prior period adjustment. Due to the specialist nature of this asset and the significant change in value, which could indicate inappropriate changes in assumptions or judgements supporting the valuation, there is a risk that this asset is incorrectly valued in the financial statements.	Valuation of property, plant and equipment.	We are in the process of reviewing the paper prepared by the Council on the valuation of the Pier. As part of this we will review and challenge the assumptions made by the external valuer to ensure that these are reasonable.

FINANCIAL STATEMENTS SIGNIFICANT AUDIT RISKS			
RISK	RISK DETAIL	ACCOUNTS AREA AND ASSERTIONS	AUDIT RESPONSE
ACCOUNTING FOR SCHOOLS	The <i>Code of practice for Local Authority Accounting 2014/15 (the Code)</i> requires the Council to carry out a detailed review of arrangements in place at each voluntary controlled, voluntary aided and foundation school to determine whether the schools (and therefore the Council) control their non-current assets. This may result in a material value of school buildings being brought on the Balance Sheet, including restatement of comparatives by way of prior period adjustments.	Completeness and valuation of property, plant and equipment.	We are in the process of reviewing a paper prepared by the Council on the treatment of the schools. We will review the judgements made by the council to decide if the assets will be on the balance sheet and compare this to the requirements of the Code and LAAP Bulletin 101. Where assets need to be included on the balance sheet we will review and challenge any assumptions made by the external valuer.


USE OF RESOURCES SIGNIFICANT RISKS		
RISK	RISK DETAIL	AUDIT RESPONSE
FINANCIAL RESILIENCE	Central government continues to reduce funding for local government, and combined with additional pressures arising from demographic and other changes, will have a significant impact on the financial resilience of the Council in the medium term. There is a risk that the Council's medium term financial strategy will not be sufficiently robust to support its future financial resilience.	We will review the Council's Medium Term Financial Strategy to assess the reasonableness of assumptions used support it and to assess the financial impact of changes to service delivery being made by the Council.

AUDIT TIMETABLE

The timetable for key reports, opinions and conclusions from the audit will be:

OUTPUT	DATES
FINANCIAL STATEMENTS	
Review of internal controls	March - April 2015
Final audit visit	July - August 2015
Audit report covering: <ul style="list-style-type: none"> • 'True and fair' opinion on the financial statements • Information in the Statement of Accounts being consistent with auditor's knowledge • Annual governance statement is prepared in accordance with guidance and not inconsistent with auditor's knowledge 	Clearance meeting to be held late August 2015 By 30 September 2015
Opinion on the Whole of Government Accounts return.	By 7 October 2015
USE OF RESOURCES	
Review of economy, efficiency and effectiveness	March- July 2015
Value for money conclusion	By 30 September 2015
GRANTS	
Audit of grant claims and returns	August to December 2015
REPORTING	
Report on any significant deficiencies in control (if required)	April 2015
Final report to the Audit Committee	August 2015
Annual Audit Letter	October 2015

We will agree specific dates for our visits with officers in advance of each part of our programme, and we will work closely with officers during the year to ensure that all key deadlines are met. We will also meet regularly with senior officers to discuss progress on the audit and obtain an update on relevant issues.



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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