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Southend-on-Sea Borough Council

Legal & Democratic Services

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07 January 2021

Dear Councillor

AUDIT COMMITTEE - WEDNESDAY, 13TH JANUARY, 2021

Please find enclosed, for consideration at the next meeting of the Audit Committee taking place on Wednesday, 13th January, 2021, the following report that was unavailable when the agenda was printed.

Agenda No Item

4. **Deloitte: Annual Audit Letter 2019/20 (Pages 1 - 16)**

Report of the Executive Director (Finance and Resources)

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Southend-on-Sea Borough Council

**Report of the Executive Director (Finance and
Resources)**

to

Audit Committee

on

13 January 2021

Report prepared by: Andrew Barnes, Head of Internal Audit

Deloitte: Annual Audit Letter 2019/20

A Part 1 Public Agenda Item

1. Purpose of Report

- 1.1 To present the External Auditor's Annual Audit Letter for 2019/20 to the Audit Committee.

2. Recommendations

- 2.1 **The Audit Committee approves the Annual Audit Letter for 2019/20.**

3. Background

- 3.1 This Annual Audit Letter summarises the key issues arising from the work Deloitte have carried out during the year as the Council's auditors, and highlights the key findings that should be considered by the Council.
- 3.2 It is intended to be a short document, aimed at key external stakeholders including members of the public, to inform them about the results of the audit. It will be posted onto the Council's website and will also be posted on the Public Sector Audit Appointments (PSAA) website.

4. Reasons for Recommendations

- 4.1 **The production and publication of an Annual Audit Letter is a requirement of the National Audit Office's Code of Audit Practice (the Code).**

5. Corporate Implications

- 5.1 Contribution to the Southend 2050 Road Map

Audit work provides assurance and identifies opportunities for improvements that contribute to the delivery of all Southend 2050 outcomes.

- 5.2 Financial Implications

The fee for the audit work is set by Public Sector Audit Appointments Limited and agreed with the Council before the start of the audit. The planned code audit fee for 2019/20 was £109,968. Issues arising during the course of the audit can impact on the audit fee payable and the auditors have requested a £9,000 increase as a result of additional work due to Covid-19 and other matters.

5.3 Legal Implications

The Council is required to have an external audit of its activities that complies with the requirements of the National Audit Offices (NAO)' Code of Audit Practice (the Code). By considering this report, the Committee can satisfy itself that this requirement is being discharged.

5.4 People Implications

None

5.5 Property implications

None

5.6 Consultation

The Annual Audit Letter for 2019/20 has been discussed and agreed with the Executive Director (Finance and Resources).

5.7 Equalities and Diversity Implications

None

5.8 Risk Assessment

Periodically considering whether the external auditor is delivering the agreed Annual Audit Plan helps mitigate the risk that the Council does not receive an external audit service that complies with the requirement of the NAO's Code of Audit Practice.

5.9 Value for Money

PSAA sets the fee formula for determining external audit fees for all external auditors.

5.10 Community Safety Implications

None

5.11 Environmental Impact

None

6. Background Papers

- The Accounts and Audit Regulations 2015
- UK Public Sector Internal Audit Standards
- CIPFA: Local Government Application Note for the UK Public Sector Internal Audit Standards

8. Appendices

Appendix 1: Deloitte's Annual Audit Letter 2019/20



Annual Audit Letter on the 2019/20 External Audit Southend-on-Sea Borough Council

January 2021

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1. Letter to Members

The Members
Southend-on-Sea Borough Council
Civic Centre
Victoria Avenue
Southend-on-Sea
SS2 6ER

06 January 2021

Dear Members

We have pleasure in setting out this Annual Audit Letter to summarise the key matters arising from the work that we have carried out in respect of the audit for the year ended 31 March 2020.

Although this letter is addressed to the Members of Southend-on-Sea Borough Council ("the Authority"), it is also intended to communicate the significant issues we have identified in an accessible style to key external stakeholders including members of the public.

This letter has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by Public Sector Audit Appointments Ltd. This is available from www.psaa.co.uk.

This letter has been discussed and agreed with the Executive Director (Finance and Resources). A copy of the letter will be provided to all Members.

This is our second year as the external auditor of the Authority following the transition to the PSAA contract in 2018/19. The announcement of the Covid-19 pandemic in March 2020 impacted the audit in many ways and led to an extension of the timetable for completing the Statement of Accounts to 30 November 2020. The Authority's Statement of Accounts was signed on 20 October 2020. We would like to take this opportunity to thank management for the assistance and support that enabled this second year of audit to run smoothly.

Yours faithfully,



Craig Wisdom
Audit Partner
for and on behalf of Deloitte LLP
St Albans, United Kingdom

2. Key Messages

Statement of Accounts

Unqualified opinion issued on 20 October 2020

In 2019/20 the Authority was required to prepare its Statement of Accounts in accordance with International Financial Reporting Standards ("IFRS") as defined in the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 and other relevant legislation.

The Statement of Accounts was prepared and audited in accordance with a timetable extended due to Covid-19. The draft accounts were issued by the Authority for public inspection on 24 June 2020. The usual required date for this is 31 May. The extended timetable required this to be published on or before 1 September 2020. The final accounts were signed on 20 October 2020. The usual required date for this is 31 July. The extended timetable required this to be finalised by 30 November 2020.

We issued our audit opinion on the financial statements on 20 October 2020. Our opinion was not qualified.

Materiality for the Authority's accounts was set at £7.6m.

Value for Money ("VfM") conclusion

Unqualified conclusion issued on 20 October 2020

We are required to base our statutory VfM conclusion on the criteria specified by the National Audit Office. This is an evaluation of whether the Authority has in place proper arrangements to ensure properly informed decisions were taken and the Authority deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

We issued an unqualified VFM conclusion on 20 October 2020.

Audit findings

We did not identify any significant weaknesses in internal control or other findings

International Standards on Auditing (UK) require us to communicate in writing to those charged with governance the significant findings from our audit. For the avoidance of doubt, in respect of the Authority's audit for 2019/20, there were no findings that we brought to the attention of the Audit Committee.

Independence and Objectivity

Independence and objectivity

An analysis of audit fees for the year ended 31 March 2020 is shown in Section 6 of this letter.

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 partner and audit staff is not impaired.

3. Responsibilities and Scope

Responsibilities of the Authority and Auditors

The Authority is responsible for maintaining the control environment and accounting records and preparing the accounting statements in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 based on IFRS and other relevant legislation.

We are appointed as the Authority's independent external auditors by PSAA, the body responsible for appointing auditors to local public bodies in England where they have opted into this programme.

As the Authority's appointed external auditor, we are responsible for planning and carrying out an audit that meets the requirements of the National Audit Office's Code of Audit Practice ("the Code"). Under the Code, we have responsibilities in two main areas:

- auditing the Authority's accounts; and
- evaluating whether the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money ("VFM") conclusion).

These responsibilities are set out in greater detail in the Statement of Responsibilities of Auditors and Audited Bodies. This document can be accessed here: <https://www.psaa.co.uk/managing-audit-quality/statement-of-responsibilities-of-auditors-and-audited-bodies/> .

The scope of our work

We conducted our audit in accordance with the NAO Code of Audit Practice and the International Standards on Auditing (UK and Ireland) as adopted by the UK Auditing Practices Board ("APB"). The audit opinion on the accounts reflects the financial reporting framework adopted by the Authority, being the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 based on IFRS and other relevant legislation.

We conducted our work on the 2019/20 VFM conclusion in line with guidance issued by the National Audit Office in April 2020.

4. Audit of the Accounts

Statement of Accounts	
Unqualified opinion issued on 20 October 2020	<p>We issued an unqualified opinion on the Authority's 2019/20 accounts on 20 October 2020.</p> <p>Before we give our opinion on the accounts, we are required to report to those charged with governance (here the Audit Committee) any significant matters arising from the audit. To address this requirement, reports were issued to the Audit Committee meetings held on 12 August 2020 and 21 October 2020. The report to the October meeting was an update to the August paper and confirmed that matters reported as still outstanding in August had been subsequently completed.</p> <p>The content of these papers including significant matters arising from the audit were discussed with the members of the Audit Committee in those meetings. These papers are available to view online as part of the Committee packs for those meetings.</p>
Materiality	<p>We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.</p> <p>Based on our professional judgement, materiality for the Authority's accounts was set at £7.6m which equated to 2% of estimated gross expenditure at the planning stage of the audit. Our materiality for the Group Accounts was set at the slightly higher level of £7.7m. This benchmark was chosen as the Authority is a non-profit organisation and total expenditure is a key measure of financial performance for users of the financial statements.</p> <p>We agreed with the Audit Committee that we would report to the Committee all uncorrected audit differences in excess of £390k, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We would also report to the Audit Committee on any uncorrected disclosure matters identified when assessing the overall presentation of the financial statements. For the avoidance of doubt, no such matters were identified in relation to the audit of the 2019/20 Statement of Accounts.</p>
Significant Risks	<p>Our audit work was designed to specifically address the following significant audit risks which are presented in further detail below. Significant audit risks are the areas deemed to be those with the greatest potential of being materially incorrect in the financial statements and are therefore areas of greater focus for the audit team.</p> <ol style="list-style-type: none"> 1. Property valuation: Our conclusion in this risk area is that the net book value of property assets is not materially misstated. The Council's valuation assumptions are generally reasonable and fall within the expected range. As commonly identified in valuation reports prepared at 31 March 2020, the valuer included a material uncertainty linked to property valuations due to Covid 19. The Council's disclosures regarding this are appropriate. This disclosure leads to an emphasis of matter paragraph in our audit report that

draws attention to management's disclosure. This was a common feature of 31 March 2020 audit reports in the local government sector.

- **Risk identified:**

The Council is required to hold property assets within Property, Plant and Equipment and Investment Properties at valuation. The valuations are by nature significant estimates which are based on specialist and management assumptions and which can be subject to material changes in value.

- **Deloitte response**

- We tested the design and implementation of key controls in place around the property valuation, including how the Council assures itself that there are no material impairments or changes in value for the assets not covered by the annual valuation.
- We obtained an understanding of approach adopted to the valuation, including assessing the valuer's qualifications, objectivity and independence and reviewing the methodology used.
- We tested a sample of inputs to the valuation.
- We used our valuation specialists, Deloitte Real Estate, to review and challenge the appropriateness of the assumptions used in the valuation of the Council's property assets including considering the assumptions made of movements between the valuation being performed at earlier stages in the year and the year-end.
- We tested a sample of revalued assets and reperformed the calculation of the movement to be recorded in the financial statements to check correctly recorded.
- We considered the impact of uncertainties relating to Covid 19 and the UK's exit from the EU upon property valuations in evaluating the property valuations and related disclosures.

2. **Capital Expenditure:** We concluded satisfactorily in this area and there are no findings to report.

- **Risk identified**

The Council has a substantial capital programme of £214m (latest approved position as at November 2020) over the next five years. The capital programme included £59.7m spend in 2019/20. Determining whether or not expenditure should be capitalised can involve judgement as to whether costs should be capitalised. The Council has greater flexibility over the use of revenue resource compared to capital resource. There is also, therefore, a potential incentive for officers to misclassify revenue expenditure as capital.

- **Deloitte response**

- We tested the design and implementation of controls around the capitalisation of costs.
- We selected a sample of capital items in the year to test whether they have been appropriately capitalised in accordance with the accounting requirements.

	<p>3. Management override of controls: We concluded satisfactorily in this area. We did not identify any significant bias in the key judgements made by management based on work performed. Furthermore, we have not identified any instances of management override of controls in relation to the specific transactions tested based on work performed. There are no other findings to report</p> <ul style="list-style-type: none"> • Risk identified <p>This risk area includes the potential for management to use their judgement to influence the financial statements as well as the potential to override the Council's controls for specific transactions.</p> • Deloitte response <ul style="list-style-type: none"> ○ We have considered the overall sensitivity of judgements made in preparation of the financial statements. This included the following areas: <ul style="list-style-type: none"> ▪ Significant and unusual transactions: We did not identify any significant transactions outside the normal course of business or any transactions where the business rationale was not clear. ▪ Journals: We performed testing of the controls in place for journal approval. We used data analytics to risk assess journals and select items for detailed follow up testing. The journal entries were selected using computer-assisted profiling based on areas which we consider to be of increased interest. We have tested the appropriateness of journal entries recorded in the general ledger, and other adjustments made in the preparation of financial reporting. ▪ Accounting estimates: We performed design and implementation testing of the controls over key accounting estimates and judgements. We reviewed accounting estimates for biases that could result in material misstatements. We note that, overall, the areas more subject to estimation in the period were balanced and did not indicate a bias to achieve a particular result. We tested accounting estimates and judgements, focusing on the areas of greatest judgement and value. Our procedures included comparing amounts recorded or inputs to estimates to relevant supporting information from third party sources.
Overall opinion	<p>We issued an unqualified opinion on the Authority's 2019/20 accounts on 20 October 2020, in accordance with the deadline set for local government bodies. Our opinion confirms that the accounts present a true and fair view of the financial position of the Authority as at 31 March 2020 and its income and expenditure for the year then ended.</p>

Annual Governance Statement and Other Information	
No issues were identified in relation to this work	As appointed auditors, we review the Annual Governance Statement ("AGS") and other information presented with the financial statements to check that information is consistent with the financial statements. We do not have any findings to report in relation to this.
Powers and Duties	
We did not receive any questions about the accounts or make any public interest reports	<p>Under the Local Audit and Accountability Act 2014, auditors have specific powers and duties, including to give electors the opportunity to raise questions about the accounts and to consider and decide upon objections received in relation to the accounts. We did not receive any such questions or objections.</p> <p>We have a duty to consider whether to issue a report in the public interest about something we believe the Authority should consider, or if the public should know about.</p> <p>We have not identified any matters that would require us to issue a public interest report.</p>
Whole of Government ("WGA") accounts return	
The Authority is below the audit threshold	The Authority prepares a consolidation pack to support the production of Whole of Government Accounts by HM Treasury. We are not required to review this pack as the Authority falls below the threshold where an audit is required. As required by the guidance, we confirmed this with the National Audit Office on 18 November 2020 within the national deadline of 4 December 2020.
Audit Certificate	
We have issued our certificate	Our audit opinion on the Statement of Accounts issue as at 20 October 2020 notes a delay in the issue of the audit certificate as we had not completed the WGA accounts return at that stage. We issued our certificate on 18 November 2020 shortly after submitting the WGA accounts return. The certificate confirms that we have concluded the audit for 2019/20 in accordance with the requirements of the Local Audit & Accountability Act 2014 and the Code of Audit Practice.

5. Value for Money

Background and approach

We are required to issue a value for money ("VfM") conclusion within our report on the financial statements. We are required to base our VfM conclusion on criteria specified by the National Audit Office ("NAO") where we are required to be satisfied that proper arrangements have been made to secure economy, efficiency and effectiveness in the use of resources. Our assessment is based on the following reporting criterion:

"In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people."

The following sub-criteria are then used to inform and guide our work and inform our overall judgement although there is no requirement to separate these nor to report against each sub-criteria:

- Informed decision making
- Sustainable resource deployment
- Working with partners and other third parties.

We would emphasise that it is the arrangements in place that we are required to assess, and not the actual decisions made by the Authority.

We planned our local programme of work based on our risk assessment, which was informed by a series of risk factors determined by the National Audit Office.

We did not identify any significant risks as part of our risk assessment.

The VfM conclusion

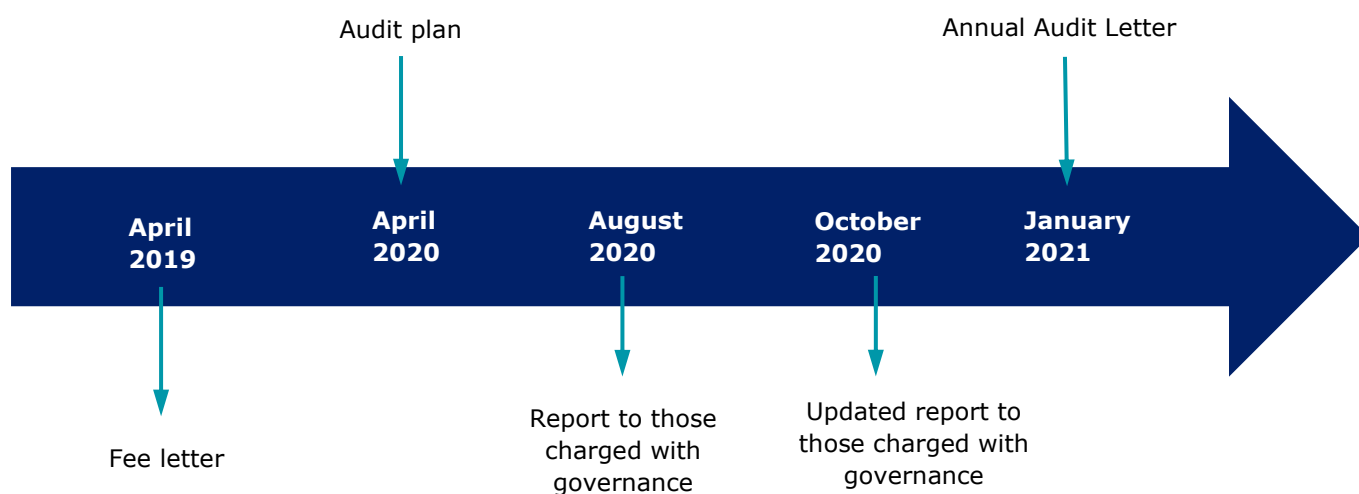
Having performed our work in line with guidance received from the National Audit Office we issued an unqualified value for money conclusion for the 2019/20 financial year.

6. Other Matters

Reports issued

Reports issued during the course of the 2019/20 audit included:

- Audit Fee letter;
- Annual Audit Plan;
- The Report to Those Charged with Governance on the 2019/20 audit of the Authority issued in August;
- An update to the August report noted above issued in October; and
- This Annual Audit Letter.



Analysis of audit fees

Audit fees charged to date are as follows:

	2019/20 £000
Scale fees for the audit of the Authority's annual accounts, VfM conclusion and Whole of Government Accounts return	110
Additional costs due to Covid – 19*	9
TOTAL	119

*This part of the fee is subject to final agreement with PSAA

Statement of Responsibilities

The Statement of Responsibilities of Auditors and Audited Bodies issued by PSAA explains the respective responsibilities of auditors and of the audited body and this report is prepared on the basis of, and our audit work is carried out in accordance with, that statement.

The matters raised in this report are only those that came to our attention during our audit and are not necessarily a comprehensive statement of all weaknesses that exist or of all improvements that might be made. You should assess recommendations for improvements for their full implications before they are implemented. In particular, we would emphasise that we are not responsible for the adequacy and appropriateness of the national data and methodology supporting our value for money conclusion as they are derived solely from the National Audit Office.

This report has been prepared for the Members, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other party.

An audit does not provide assurance on the maintenance and integrity of the website, including controls used to achieve this, and in particular on whether any changes may have occurred to the Annual Audit Letter since first published. These matters are the responsibility of the Authority but no control procedures can provide absolute assurance in this area.



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