Public Document Pack

Southend-on-Sea City Council
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20 October 2023

AUDIT COMMITTEE - WEDNESDAY, 25TH OCTOBER, 2023
SUPPLEMENTARY PACK: AGENDA ITEMS 7, 8 AND 10

Please find enclosed, for consideration at the next meeting of the Audit Committee taking place on Wednesday, 25th October, 2023, the following report(s) that were unavailable when the agenda was printed.

Rob Harris
Principal Democratic Services Officer

Southend-on-Sea City Council

Agenda Item No. 7

Title:	**Deloitte: Report to the Audit Committee on the audit for the year ended 31 March 2022**
Meeting:	Audit Committee
Date:	25 October 2023
Classification:	Part 1
Key Decision:	No
Report Authors:	Deloitte External Auditor
Executive Councillor:	Councillor Cox, Leader and Cabinet Member for Special Educational Needs & Disability

1. Executive Summary

1.1. This report summarises the results of the work completed to date for the 2021/22 financial year with regard to:

- the opinion on the Statement of Accounts
- the commentary on the Council's Value for Money arrangements conclusion.

2. Recommendations

1.2. The Committee accepts the Report to the Audit Committee on the audit for the year ended 31 March 2022.

3. Background

1.3. A senior representative of Deloitte (the appointed External Auditor to the Council) will present this report to the Audit Committee and respond to Members' questions.

1.4. The Auditor's Annual Report for 2021/22 is being presented elsewhere on this agenda and includes the reporting on Deloitte's Value for Money work and commentary on the Council's arrangements.

4. Financial Implications

1.5. 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. Issues arising during the course of the audit can impact on the audit fee payable. Any increases on top of the original scale fee for 2021/22 have not yet been confirmed with the Council or approved by PSAA.

5. Legal Implications

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

6. Carbon Impact

1.7. None

7. Equalities

1.8. None

8. Consultation

1.9. The contents of this report have been discussed and agreed with the Executive Director (Finance and Resources).

9. Background Papers

None

10. Attachment: Deloitte Final Report to the Audit Committee on the audit for the year ended 31 March 2022

Deloitte.

Southend-on-Sea City Council

Southend-on-Sea City Council

Report to the Audit Committee on the 2021/2022 audit

Issued on 19 October 2023 for the meeting on 25 October 2023

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01 Final report

02 Appendices

Introduction

The key messages in this report

Audit quality is our number one priority. We plan our audit to focus on audit quality and have set the following audit quality objectives for this audit:

- A robust challenge of the key judgements taken in the preparation of the financial statements.
- A strong understanding of your internal control environment.
- A well planned and delivered audit that raises findings early with those charged with governance.

I have pleasure in presenting our final report to the Audit Committee of Southend-on-Sea City Council (the Council) for the 2021/22 audit. The scope of our audit was set out within our planning report presented to the Committee in March 2023.

Status of our Statement of Accounts audit	Our audit is substantially complete subject to the following matters: • Finalisation of our internal reviews including valuation of fixed assets and pensions; • Update on any further developments in respect of Porters Place, the implications of which may need to be reflected in the financial statements; • Receipt of final financial statements; • Completion of internal quality assurance procedures; • Receipt of signed management representation letter; and • Our review of events since 31 March 2022 through to signing. We have included a section in this report providing observations arising from the work we have undertaken on the areas of significant risk and other areas of audit focus reported to you in our audit planning report.
Status of our Value for Money audit	Our Value for Money work is complete and is reported to the Audit Committee in our Auditor's Annual Report for 2021/2022, which is being presented at this meeting. We have not identified any significant weakness in arrangements to secure economy, efficiency and effectiveness in the use of resources. We have no matters to report by exception in our financial statement audit opinion.
Whole of Government Accounts (WGA)	We are required to report our overall audit opinion and key issues from our audit to the National Audit Office (NAO) following completion of the audit. However, the NAO have not yet confirmed for 2021/22, bodies which may be subject to additional procedures for reporting to the NAO to gain comfort over the WGA. Therefore, we are not able to confirm completion of the audit in this regard.

Introduction

The key messages in this report (continued)

Conclusions from our testing	• The key judgements in the audit process related to:
	  • valuation of investment properties and Property Plant and Equipment (hereafter referred to as PPE);
	  • capitalisation of expenditure;
	  • valuation of pension liabilities.
	  • valuation of the long-term debtor in relation to Porters Place Southend-on-Sea LLP; and
	  • valuation of infrastructure assets.
	• We have identified one unadjusted misstatement noted on Page 7. All other adjustments and disclosure deficiencies noted during testing have been corrected by management in the financial statements.
	• We anticipate issuing an unmodified audit opinion, with no reference to any matters in respect of the Council's arrangements to secure economy, efficiency and effectiveness in the use of resources, or the Annual Governance Statement.

∞	
Narrative Report & Annual Governance Statement	• We have reviewed the Council's Annual Report & Annual Governance Statement to consider whether it is misleading or inconsistent with other information known to us from our audit work. • The Annual Governance Statement complies with the Delivering Good Governance guidance issued by CIPFA/SOLACE. • We have no matters to raise with you in respect of the Narrative Report.
Duties as public auditor	• We did not receive any queries or objections from local electors this year. • We have not identified any matters that would require us to issue a public interest report. We have not had to exercise any other audit powers under the Local Audit and Accountability Act 2014.

Mohammed Ramzan
Audit lead

Responsibilities of the Audit Committee

Helping you fulfil your responsibilities

Why do we interact with the Audit Committee?

- To communicate audit scope
- To provide timely and relevant observations
- To provide additional information to help you fulfil your broader responsibilities

As a result of regulatory change in recent years, the role of the Audit Committee has significantly expanded. We set out here a summary of the core areas of Audit Committee responsibility to provide a reference in respect of these broader responsibilities and highlight throughout the document where there is key information which helps the Audit Committee in fulfilling its remit.

Oversight of external audit

- At the start of each annual audit cycle, ensure that the scope of the external audit is appropriate.
- Make recommendations as to the auditor appointment and implement a policy on the engagement of the external auditor to supply non-audit services.

Integrity of reporting

- Impact assessment of key judgements and level of management challenge.
- Review of external audit findings, key judgements, level of misstatements.
- Assess the quality of the internal team, their incentives and the need for supplementary skillsets.
- Assess the completeness of disclosures, including consistency with disclosures on business model and strategy and, provide advice in respect of the fair, balanced and understandable statement.

Internal controls and risks

- Review the internal control and risk management systems (unless expressly addressed by separate board risk committee).
- Explain what actions have been, or are being taken to remedy any significant failings or weaknesses.

Oversight of internal audit

- Monitor and review the effectiveness of the internal audit activities.

Whistle-blowing and fraud

- Ensure that appropriate arrangements are in place for the proportionate and independent investigation of any concerns raised by staff in connection with improprieties.

Our audit explained

We tailor our audit to your organisation and your strategy

Identify changes in your business and environment
In our planning report we identified the key changes in your operations and articulated how these impacted our audit approach.

Scoping
Our planning report set out the scoping of our audit in line with the Code of Audit Practice. We have completed our audit in line with our audit plan.

Other findings
As well as our conclusions on the significant risks and our Value for Money work, we are required to report to you our observations on the internal control environment as well as any other findings from the audit.

Our audit report
We will be issuing an unmodified audit report.

Determine materiality
When planning our audit, we set our overall materiality for the group accounts at £8.70m (2020/21: £7.70m). We have determined our materiality based on 2% of service expenditure for the 2021/22 year and the final materiality remains unchanged from what we communicated during our planning report. The Council only materiality has been determined at £8.27m (2020/21: £7.6m). Final Group and Council performance materiality was set at £6.09m (2020/21: £5.4m) and £5.79m (2019/20: £5.3m) respectively. We will report to you all misstatements exceeding £0.44m (2020/21:£0.38m) for the Group and £0.41m (2020/21: £0.38m) for the Council.

Significant risk assessment
In our planning report we explained our risk assessment process and detailed the significant risks we have identified on this engagement.

Conclude on significant risk areas
We draw to the Audit Committee's attention our conclusions on the significant audit risks. In particular the Audit Committee must satisfy themselves that management's judgements are appropriate.

Significant risks

Valuation of property assets

Risk identified

The Council is required to hold dwellings, other land and buildings 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.

The Authority held £715m of property assets (land and buildings) at 31 March 2022 (£666m as of 31 March 2021) as per the draft accounts. This movement from the prior year is due to revaluation movements as a result of the revaluation exercise during 2022/23 (i.e. 1 April 2022), reclassifications from assets under construction and material additions and disposals during the year.

The Council updates the valuation of its properties using a rolling revaluation programme. The main assets which were revalued in the year were Schools, Sports Pavilions, Park WCs, Park Messrooms, Day Centres, Marine Activity Centre and Lagoon WCs.

Deloitte response and challenge

We are in the process of completing the following procedures:

- We have reviewed the design and implementation of the controls in place in relation to property valuations;
- We have considered the work performed by the Council’s valuer, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
- We have engaged our valuation specialists, Deloitte Real Assets Advisory, to review and challenge the appropriateness of the assumptions used in the valuation of the Council’s property assets;
- We sample tested key asset information used by the Council’s valuers in performing their valuation, such as gross internal areas, back to supporting documentation;
- We have reviewed assets not subject to valuation in 2021/22 to confirm that the remaining asset base is not materially misstated;
- Through discussions with management in the prior year, the property assets valued under the rolling valuation programme on 1 April 2022, has been updated to reflect the fair value as at 1 April 2022 to ensure these properties’ valuations align to the most up to date information. We confirmed through inspection of updates to the valuation and the latest valuation report that there were no differences noted.
- For assets not revaluated at 1 April 2022, we have performed an analysis of the indexation calculations applied to arrive at the valuation of property assets as at yearend to ensure the indexation adjustments were deemed reasonable; and
- We have reviewed the presentation of revaluation movements, and the disclosures included in the Statement of Accounts.

Conclusion

We have identified an unadjusted misstatement of £844k in relation to the Shared Revaluation. We have been informed by the management that the new version of the RAM system implemented from 01/04/2023 will address this issue in the future reporting.

Significant risks (continued)

Capitalisation of expenditure

Risk identified	At the time of publishing the 2021/22 financial statements, it has been noted that as part of the Medium Term Financial Strategy, the Council had a substantial capital programme of £202m over the next five years. The capital programme included £69.5m spend in 2021/22. Determining whether expenditure should be capitalised can involve judgement. There is also an incentive to inappropriately capitalise expenditure as the Council has greater flexibility over its use of revenue compared to capital resources. Given this incentive to capitalise costs that are not capital in nature, we specifically identify this area as a significant risk of material misstatement and a fraud risk.
Deloitte response and challenge	We have tested the design and implementation of controls around the capitalisation of costs. We have selected a sample of additions in the year to test whether they have been appropriately capitalised in accordance with the accounting requirements. This sample included Assets Under Construction.
Conclusion	After concluding our work, we have no matters to bring to the attention of the Audit Committee.

Significant risks (continued)

Management override of controls

Risk identified

Management is in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.

Although management is responsible for safeguarding the assets of the Council, we planned our audit so that we had a reasonable expectation of detecting material misstatements to the Statement of Accounts.

Deloitte response and challenge

We have considered the overall sensitivity of judgements made in preparation of the Statement of Accounts, and note that:

- The Council's results throughout the year were projecting overspends in operational areas. This was closely monitored and whilst projecting overspends, the underlying reasons were well understood; and
- Senior management's remuneration is not tied to particular financial results.

We have considered these factors and other potential sensitivities in evaluating the judgements made in the preparation of the financial statements.

Journals

- We have tested the design and implementation of controls in relation to journals.
- We have made inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments.
- We have used Spotlight data analytics tools to test a sample of journals, based upon identification of items of potential audit interest. Our analysis has covered all journals posted in the year.

Significant transactions

- We did not identify any significant transactions outside the normal course of business or any transactions where the business rationale was not clear.

Significant risks (continued)

Management override of controls (continued)

Deloitte response and challenge

Accounting estimates

- We have performed design and implementation testing of the controls over key accounting estimates and judgements.
- The key judgements in the financial statements are those selected as significant audit risks and other areas of audit interest as discussed elsewhere in this report.
- We reviewed accounting estimates for biases that could result in material misstatements due to fraud. We note that overall the changes to estimates 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.

Conclusion

After concluding our work, we have no matters to bring to the attention of the Audit Committee.

We have not identified any significant bias in the key judgements made by management and we have not identified any instances of management override of controls in relation to the specific transactions tested as part of our audit.

Other areas of audit focus

Pension liability valuation

Risk identified

The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme (LGPS).

The Council's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Council's Balance Sheet. Per the draft financial statements at 31 March 2022, this totalled £92.4m (2020/21: £169.6m). As a result of this being an estimated balance there is a risk that inappropriate inputs and assumptions are used, which could result in the pension liability valuation being materially misstated

Deloitte response and challenge

We are in the process of completing the following procedures:

- We obtained a copy of the actuarial report for the Council produced by Barnett Waddingham, the scheme actuary, and agreed the report to the Statement of Accounts pension disclosures.
- We reviewed the disclosures made in the Statement of Accounts against the requirements of the Code.
- We liaised with the audit team of Essex Pension Fund to obtain assurances over the information supplied to the actuary in relation to the Council.
- We assessed the independence and expertise of the actuary supporting the basis of reliance upon their work.
- We reviewed and challenged the assumptions made by Barnett Waddingham, including benchmarking as shown in the table on the following page through utilising our pension experts' team.
- We assessed the reasonableness of the Council's share of the total assets of the scheme with the Pension Fund financial statements.

Other areas of audit focus (continued)

Pension liability valuation (continued)

Review of assumptions used by actuary

As part of our testing, we reviewed the assumptions used by the actuary and have set out below our assessment of the assumptions used in the IAS19 valuation based on our specialist's preliminary report.

Assumption	Council	Benchmark	Deloitte Assessment
Discount rate (% p.a.)	2.60%	2.60-2.85%	
Retail Price Index (RPI) Inflation rate (% p.a.)	3.85%	3.75-3.85%	
Consumer Price Index (CPI) Inflation rate (% p.a.)	3.20%	Council specific	

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Assessment key

- In reasonable range
- Towards limit of reasonable range
- Optimistic or Prudent

Conclusion

Our work is currently still ongoing, however, to date we have nothing to bring to the Audit Committee's attention.

Other areas of audit focus (continued)

Porters Place Southend-on-Sea LLP

Risk identified	We have noted a long term debtor balance of £3.325m within the financial statements of the Council due to be received from Porters Place Southend-on-Sea LLP (hereafter referred to as Porters Place). Porters Place is one of the joint ventures in which the Council participates. It was a 30-year partnership with Swan Housing Association and their wholly owned subsidiary Swan BQ Limited, with the purpose to regenerate the Queensway Estate and surrounding environs. Over the last year Swan Housing Association have been in discussions with parties around a possible business combination. In February 2023 Swan joined Sanctuary housing as a subsidiary. Through discussions with management and our knowledge obtained around the possible transaction we concluded that there is a risk that balances due under the Porters Place agreement may not be recoverable.
Deloitte response and challenge	We are completing the following procedures: • We inquired of management as to the latest update on the planned business combination to understand the level of risk within the balance noted. • We inspected documentation and information available to us to substantiate the amounts at risk as well as mitigations of the risk noted. The Council has included additional disclosure in this regard within note 5 of the Statement of Accounts. • We inspected the Statement of Accounts and confirmed that the disclosures given were reasonable and in line with our expectation. • We have added a representation within the management representation letter that will need to be signed by the Council at the signing date to confirm information obtained in relation to Porters Place and any developments have been considered for any impact on the financial statements and communicated to the audit team.
Developments to date	During August 2023 we received an update on the Better Queensway scheme and noted that Sanctuary Housing Association are seeking to exit from the partnership and the Better Queensway scheme. An appropriate settlement agreement is under development that will cover the terms of Sanctuary's withdrawal. It was however noted by management that they believe the Council to still be fully committed to the Better Queensway regeneration scheme and that the Council will now explore alternative options to progress the scheme.
Conclusion	Given the developments noted above our work is currently still ongoing, however, to date we have nothing to bring to the Audit Committee's attention.

Other areas of audit focus (continued)

Infrastructure Assets

Risk identified

During our FY20/21 audit there was a discussion held at national level on the accounting for subsequent expenditure on infrastructure assets (for example the cost of renewing a road surface) and specifically whether local authorities should be assessing if there is any undepreciated cost remaining on the balance sheet for the replaced components which need to be derecognised.

The council held infrastructure assets of £128.7m (2020/21:£116.9m) at yearend.

The CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 requires authorities to derecognize the gross cost and accumulated depreciation on infrastructure assets when a major part/component of that asset has been replaced or decommissioned. In the prior year we recognised the valuation of infrastructure assets as a significant risk however after we performed a detailed assessment on the Council's processes in relation to infrastructure assets in the prior year, we deemed the risk in relation to infrastructure assets for the current year to be a higher risk rather than a significant risk.

Deloitte response and challenge

We have completed the following procedures:

- On derecognition of components: The audit team have confirmed that the Council has opted to apply the Statutory Instrument and have made the assumption that the carrying amount of any assets that have been replaced was nil. The audit team reviewed the Statement of Accounts and confirmed that this disclosure has been made.
- Gross book value and accumulated depreciation: The audit team reviewed the infrastructure assets disclosure included in the Council's financial statements and compared this to the CIPFA Bulletin example to confirm that no issues have been identified.
- Infrastructure Asset disaggregation: The audit team have challenged the disaggregation of infrastructure assets as reflected on the fixed asset register and concluded that the disaggregation was reasonable.
- The audit team reviewed and challenged the determination of the useful economic lives applied to infrastructure assets by the Council and confirmed the rationale for the determination of the useful economic lives to be appropriately supported and reasonable in light of information reviewed.
- The audit team have reviewed the accounting policy in relation to infrastructure assets and compared these to the example accounting policy included in the CIPFA Bulletin annex A and confirmed the accounting policy were in line with expectation

Conclusion

After concluding our work, we have no matters to bring to the attention of the Audit Committee.

Covid-19 pandemic

Impact on reporting and our audit

Requirements

CIPFA has issued guidance highlighting the importance of considering the impact of Covid-19 in preparation of the financial statements, including communicating risks and governance impacts in narrative reporting. This is consistent with the Financial Reporting Council's guidance to organisations on the importance of communicating the impact of Covid-19 and related uncertainties, including their impact on resilience and going concern assessments.

Entity-specific explanations of the current and expected effects of Covid-19 and the Council's plans to mitigate those effects should be included in the narrative reporting (including where relevant the Annual Governance Statement), including in the discussion on Principal Risks and Uncertainties impacting an organisation.

As well as the effects upon reserves, financial performance and financial position, examples of areas highlighted by CIPFA include the impact on service provision, changes to the workforce and how they are deployed, impacts upon the supply chain, cash flow management, and plans for recovery. Risks highlighted include those relating to subsidiaries and investments, capital programmes, and resilience of the community including partner organisations and charities.

Actions

A thorough assessment of the current and potential future effects of the Covid-19 pandemic is required including:

- A detailed analysis across the council's operations, including on its income streams, supply chains and cost base, and the consequent impacts on financial position and reserves;
- The economic scenario or scenarios assumed in making forecasts and on the sensitivities arising should other potential scenarios materialise (including different funding scenarios);
- Any material uncertainties relating to the council's financial position, the financial sustainability of the Council, and the potential requirement for a section 114 notice; and
- The effect of events after the reporting date, including the nature of non-adjusting events and an estimate of their financial effect, where possible.

Covid-19 pandemic

Impact on reporting and our audit (continued)

Impact on the Council	Impact on Statement of Accounts	Impact on our audit
We have considered the key impacts on the business such as: • Interruptions to service provision. • Supply chain disruptions. • Unavailability of personnel. • Reductions in income. • The closure of facilities and premises.	We have considered the impact of the outbreak on the Statement of Accounts (including the financial statements), discussed further on the next page including: • Principal risk disclosures • Impact on property, plant and equipment • Valuation of commercial or investment properties • Impact on pension fund investment measurement and impairment • Financial sustainability assessment • Events after the reporting period and relevant disclosures • Narrative reporting • Impairment of non-current assets • Allowance for expected credit losses	We have considered the impact on the audit including: • Resource planning • Timetable of the audit • Impact on our risk assessment • Logistics including meetings with entity personnel.

Covid-19 pandemic

Impact on reporting and our audit (continued)

	Potential Impact on Statement of Accounts	Audit response
Expected credit losses	Since 31 March 2020, there has been a significant downturn in economic activity, with many businesses and individuals significantly impacted. The Council will need to consider the provision for credit losses for receivables, including for expected credit losses for assets accounted for under IFRS 9.	For non-public sector debtors consideration is needed of the impact on the required level of provision for expected credit losses under IFRS 9. The Council reflected a decrease in debtor balances on prior year and we noted that the Council has increased level of provisioning against these balances. We have included consideration of the impact of Covid 19 on the provisioning levels against these balances and deem the provisioning to be reasonable and in line with IFRS 9.
Covid-19 grants	Our judgement is that there is a high risk at the Council relating to the recognition of grants with terms and conditions attached, specifically around the new grants received in year relating to Covid-19 where terms and conditions may be less clear and there is no historical basis for the accounting treatment. There is a risk that the Council will recognise the income before the terms and conditions of the Covid-19 grants have been met. There are also a number of grants relating to Covid-19, such as the business rates relief, where management need to determine if they are acting in the capacity of an Agent or Principal. We deemed the risk to be significant in the prior year, however given the decline in the values relating to the grants and the comfort we obtained through the prior year testing we did not deem this to be a significant risk for the current year.	We have tested the design and implementation of key controls in place around the recognition of Covid-19 grant income; We have reviewed the accounting treatment of new Covid-19-related grants for 2021/22 to confirm that they have been correctly accounted for as either an Agent or Principal arrangement; and We have tested a sample of grants including the new Covid-related grants to ensure that any terms and conditions were met prior to recognition as income.

Covid-19 pandemic

Impact on reporting and our audit (continued)

	Potential Impact on Statement of Accounts	Audit response
Narrative and other reporting issues	The following areas will need to be considered by local authorities as having been impacted on by the Covid-19 pandemic. • Narrative reporting as well as the usual reporting requirements will need to cover the effects of the pandemic on services, operations, performance, strategic direction, resources and financial sustainability. • Reporting judgements and estimation uncertainty, the Council will need to report the impact on material transactions including decisions made on the measurements of assets and liabilities.	We note that the narrative report adequately discloses matters related to Covid-19, including risks, potential impacts and other issues. The report is compliant with the guidance in this area.
Impact on pension fund investment measurement	• As a result of the Covid-19 pandemic pension fund investments have been subject to volatility. At 31 March 2022, we noted that the Council's share of pension fund assets had moved by £59m.	We engaged early with the Pension Fund auditor to not only gather information for year-end measurements but to also understand any estimation techniques and any changes to those techniques that may be needed to measure the financial instruments. Where such volatility exists it may mean that the inputs used in the fair value measurement may change and may require a change of measurement technique, and consideration of the level of uncertainty in valuations where there is significantly more estimation. Our audit work has been completed and did not identify any material misstatement.

Covid-19 pandemic

Impact on reporting and our audit (continued)

	Potential Impact on Statement of Accounts	Audit response
Valuation of commercial or investment properties	Following the Covid-19 pandemic, the fair value measurements for financial instruments and investment properties held by the Council needs to be reviewed against the conditions and assumptions at the measurement date. Although volatility continues to reduce relative to 31 March 2020, there have been market movements during the year which may impact valuations.	The Council has considered its approach to the measurement of Investment property (IP). Where property held at current value is based on market valuations the Council considered with their valuers the impact that Covid-19 has had on current value. The Council also considered whether there are any indications of impairment of assets requiring adjustment at 31 March 2022. The is no material uncertainty disclosed in the Statement of Accounts as expected relating to IP.

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Value for money

Our conclusions are reported in our Auditor’s Annual Report for 2021/2022

Value for Money requirements

We are required to consider the Council’s arrangements for securing economy, efficiency and effectiveness in the use of resources. Under the revised requirements of the Code of Audit Practice 2020 and related Auditor Guidance Note 03 (‘AGN03’), we are required to:

- Perform work to understand the Council’s arrangements to secure economy, efficiency and effectiveness in the use of resources against each of the three reporting criteria (financial sustainability, governance, and improving economy, efficiency and effectiveness);
- Undertake a risk assessment to identify whether there are any risks of significant weaknesses in arrangements;
- If any risks of significant weaknesses are identified, perform procedures to determine whether there is in fact a significant weakness in arrangements, and if so to make recommendations for improvement;
- Issue a narrative commentary in the Auditor’s Annual Report, setting out the work undertaken in respect of the reporting criteria and our findings, including any explanation needed in respect of judgements or local context for findings. If significant weaknesses are identified, the weaknesses and recommendations will be included in the reporting, together with follow-up of previous recommendations and whether they have been implemented. Where relevant, we may include reporting on any other matters arising we consider relevant to Value for Money arrangements, which might include emerging risks or issues arising; and
- Where significant weaknesses are identified, report this by exception within our financial statement audit opinion.

Work performed to obtain an understanding of the Council’s arrangements to secure economy, efficiency and effectiveness in the use of resources

As part of our risk assessment, we have reviewed the summary of Value for Money arrangements prepared by the Council, reviewed supporting documentation on arrangements, and held follow-up interviews on areas where additional information was required.

In addition, we have:

- reviewed of the Council’s draft Annual Governance Statement;
- reviewed internal audit reports through the year and the Head of Internal Audit Opinion
- considered issues identified through our other audit and assurance work; and
- considered the Council’s financial performance and management throughout 2021/22.

Value for money

Our conclusions are reported in our Auditor’s Annual Report for 2021/2022 (continued)

Work performed to obtain an understanding of the Council’s arrangements to secure economy, efficiency and effectiveness in the use of resources (continued)

We have also obtained an understanding of:

- The changes in governance processes as a result of Covid-19;
- The changes to control processes as a result of Covid-19; and
- The processes and controls put in place in order to deal with the Covid-19 business support schemes.

Findings of our work

Our Value for Money work is complete, and is reported in full in our Auditor’s Annual Report.

We have not identified any significant weakness in arrangements to secure economy, efficiency and effectiveness in the use of resources.

We have no matters to report by exception in our financial statement audit opinion.

Your control environment and findings

High-level impact on our approach

ISA (UK) 315 requires we obtain an understanding of internal control relevant to the audit. It is a matter of the auditor's professional judgment whether a control, individually or in combination with others, is relevant to the audit. We do not test those controls we do not consider relevant to the audit. Below we provide a view, based on our audit procedures, on the effectiveness of your system of internal control relevant to the audit risks that we have identified.

- Your control environment
- Your risk assessment process
- Your information systems and communication
- Your control activities
- Your monitoring of controls

Area	Deloitte comment	Maturity CY/PY
Valuation of property assets	No deficiency was identified in the design and implementation of the controls in the process.	● ●
Management override of controls	No deficiency was identified in the design and implementation of the controls in the process	● ●
Capitalisation of expenditure	No deficiency was identified in the design and implementation of the controls in the process	● ●

Key: ● Mature ● Developing ● Lagging

Your control environment and findings

Control deficiency

Observation	Year first communicated, severity, component of internal control	Deloitte recommendation	Management response and remediation plan
During our testing of the key controls in relation to covid-19 grants we have noted that the Council do not maintain a revenue grant register. We acknowledge that tracking of grants has been done by individual service lines, however without a central revenue grant register, the Council cannot monitor grants received; track expenditure against the amount awarded; and ensure any conditions have been met.	2021, medium, control activities	We recommend that management maintain a central revenue grant register – both for covid-19 and non-covid grants.	Management has agreed and have prepared a revenue grant register to be maintained centrally going forward.

Your control environment and findings

Area for management focus

Observation	Deloitte recommendation	Management response and remediation plan
During our infrastructure assets testing we noted that most capitalised costs to infrastructure assets are reflected as enhancements with limited additions. Given the aging of the initial assets that has been enhanced there is a risk that capital costs are incorrectly capitalised and depreciated as enhancements rather than additions. Although we have not noted a material error within the current year statement of accounts there is a risk that this can result in a material error in depreciation and subsequently the valuation of the assets in future years.	It is recommended that management confirms that amounts capitalised to infrastructure assets in future is accurately reflected as enhancements or additions. Supporting documentation needs to be retained in the instances where capital costs are reflected as enhancements rather than additions.	This has been agreed. It was noted that this will be put in place for future year end closedowns, starting with the 2022/23 financial year.

The purpose of the audit was for us to express an opinion on the financial statements. The audit included consideration of internal control relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters being reported are limited to those deficiencies that we have identified during the audit and that we have concluded are of sufficient importance to merit being reported to you.

Audit adjustments
Uncorrected misstatements

The following uncorrected misstatements were identified in relation to the prior year audit:

		Credit/(Charge) to the income statement £'m	Increase/ (Decrease) in net assets £'m	Increase/ (Decrease) in retained earnings £'m
Factual misstatements				
Other Expenses	[1]	(0.8)		
Equity	[1]			0.8

(1) Refer Page 7 for detailed description

Written representations will be obtained from the Board of Directors confirming that after considering the uncorrected items, no adjustments were required.

Our audit report

The form and content of our report

Here we discuss how the results of the audit impact on other significant sections of our audit report.

Our opinion on the financial statements

Our audit is now complete. We will issue an unmodified audit opinion.

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Emphasis of matter and other matter paragraphs

To date, there are no matters we judge to be of fundamental importance in the financial statements that we consider it necessary to draw attention to in an emphasis of matter paragraph.

There are no matters relevant to users' understanding of the audit that we consider necessary to communicate in an other matter paragraph.

Value for Money reporting by exception

Our opinion will note that our Value for Money work is completed and will be reported in our Auditor's Annual Report.

We have no matters to report by exception in our financial statement audit opinion.

Irregularities and fraud

We will explain the extent to which we considered the audit to be capable of detecting irregularities, including fraud.

In doing so, we will describe the procedures we performed in understanding the legal and regulatory framework and assessing compliance with relevant laws and regulations. We will discuss the areas identified where fraud may occur and any identified key audit matters relating to fraud.

Recent changes to ISAs (UK) mean this requirement will apply to **all** entities for periods commencing on or after 15 December 2019.

Your annual report

We are required to report by exception on any issues identified in respect of the Annual Governance Statement.

	Requirement	Deloitte response
Narrative Report	The Narrative Report is expected to address: • Organisational overview and external environment; • Governance; • Operational Model; • Risks and opportunities; • Strategy and resource allocation; • Performance; • Outlook; and • Basis of preparation	We have assessed whether the Narrative Report has been prepared in accordance with CIPFA guidance. We have also read the Narrative Report for consistency with the annual accounts and our knowledge acquired during the course of performing the audit, and is not otherwise misleading. We note that the Narrative Report was updated for the implications of Covid-19.
Annual Governance Statement	The Annual Governance Statement reports that governance arrangements provide assurance, are adequate and are operating effectively.	We have assessed whether the information given in the Annual Governance Statement meets the disclosure requirements set out in CIPFA/SOLACE guidance, is misleading, or is inconsistent with other information from our audit. No issues were noted from our review.

Purpose of our report and responsibility statement

Our report is designed to help you meet your governance duties

What we report

Our report is designed to help the Audit Committee and the Council discharge their governance duties. It also represents one way in which we fulfil our obligations under ISA (UK) 260 to communicate with you regarding your oversight of the financial reporting process and your governance requirements. Our report includes:

- Results of our work on key audit judgements and our observations on the quality of your Annual Report.
- Our internal control observations.
- Other insights we have identified from our audit.

The scope of our work

Our observations are developed in the context of our audit of the financial statements.

We described the scope of our work in our audit plan.

Use of this report

This report has been prepared for the Council, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose.

What we don't report

As you will be aware, our audit was not designed to identify all matters that may be relevant to the Audit Committee.

Also, there will be further information you need to discharge your governance responsibilities, such as matters reported on by management or by other specialist advisers.

Finally, our views on internal controls and business risk assessment should not be taken as comprehensive or as an opinion on effectiveness since they have been based solely on the audit procedures performed in the audit of the financial statements and work under the Code of Audit Practice in respect of Value for Money arrangements.

We welcome the opportunity to discuss our report with you and receive your feedback.

Deloitte LLP

Birmingham | 19 October 2023

Appendices

Independence and fees

As part of our obligations under International Standards on Auditing (UK), we are required to report to you on the matters listed below:

Independence confirmation	We confirm the audit engagement team, and others in the firm as appropriate, Deloitte LLP and, where applicable, all Deloitte network firms are independent of the Council.
Fees	There are no non-audit fees.
Non-audit services	We continue to review our independence and ensure that appropriate safeguards are in place including, but not limited to, the rotation of senior partners and professional staff and the involvement of additional partners and professional staff to carry out reviews of the work performed and to otherwise advise as necessary.
Relationships	We have no other relationships with the Authority, its members, officers and affiliates, and have not supplied any services to other known connected parties.

The professional fees expected to be charged by Deloitte, as per our Audit Plan for the period from 01 April 2021 to 31 March 2022 are as follows:

	2021/22 £k (exc VAT)	2020/21 £k (exc VAT)
Financial statement audit including Whole of Government and procedures in respect of Value for Money assessment	110*	159*
Total audit	**TBC**	**159**
Other assurance services	TBC	6
Total assurance services	**TBC**	**6**
Total fees	**TBC**	**165**

* In line with PSAA correspondence that scale fees should be negotiated by individual s151 officers based on the individual circumstances of each body, we will be discussing the final position with the Council on completion of the 2020/21 audit. We will subsequently provide an estimate of fees for the 2021/22 audit.

All additional fees are subject to agreement with PSAA.

Our other responsibilities explained

Fraud responsibilities and representations

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Responsibilities:

The primary responsibility for the prevention and detection of fraud rests with management and those charged with governance, including establishing and maintaining internal controls over the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations. As auditors, we obtain reasonable, but not absolute, assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error.

Required representations:

We have asked the Council to confirm in writing that you have disclosed to us the results of your own assessment of the risk that the financial statements may be materially misstated as a result of fraud and that you have disclosed to us all information in relation to fraud or suspected fraud that you are aware of and that affects the Council.

We have also asked the Council to confirm in writing their responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

Audit work performed:

In our planning, we identified the risk of fraud in the accounting for capital expenditure and management override of controls as a significant audit risk.

During course of our audit, we have had discussions with management and those charged with governance including the Head of Internal Audit.

In addition, we have reviewed management's own documented procedures regarding fraud and error in the financial statements.

We have reviewed the paper prepared by management for the on the process for identifying, evaluating and managing the system of internal financial control.

Concerns:

No significant concerns have been identified from our work

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Southend-on-Sea City Council

Agenda Item No.

8

Title:	**Deloitte: Auditor's Annual Report for 2021/22 to the Audit Committee**
Meeting:	Audit Committee
Date:	25 October 2023
Classification:	Part 1
Key Decision:	No
Report Authors:	Deloitte External Auditor
Executive Councillor:	Councillor Cox, Leader and Cabinet Member for Special Educational Needs & Disability

1. Executive Summary

1.1 To present the External Auditor's Annual Report for 2021/22 to the Audit Committee.

2. Recommendation

1.2 **The Committee approves the Auditor's Annual Report for 2021/22**

3. Background

1.3 This Annual Report 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. This includes the reporting on Deloitte's Value for Money work and commentary on the Council's arrangements.

1.4 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.

1.5 A senior representative of Deloitte (the appointed External Auditor to the Council) will present this report to the Audit Committee and respond to Members' questions.

4. Financial Implications

1.6 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. Issues arising during the course of the audit can impact on the audit fee payable. Any increase on top of the original scale fee for 2021/22 has not yet been confirmed with the Council or approved by PSAA.

5. Legal Implications

1.7 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). The production and publication of an Auditor's Annual Report is also a requirement of the Code. By considering this report, the Committee can satisfy itself that this requirement is being discharged.

6. Carbon Impact

1.1. None

7. Equalities

1.2. None

8. Consultation

1.3. The Auditor's Annual Report for 2021/22 has been discussed and agreed with the Executive Director (Finance and Resources).

9. Background Papers

- The National Audit Office's Code of Audit Practice 2020
- Public Sector Appointments Limited scale fees for local government bodies 2021/22

10. Appendix:

Appendix 1: Deloitte's Auditor's Annual Report 2021/22

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Southend-on-Sea City Council

Southend-on-Sea City Council
Audit planning report for the year ended 31 March 2023

Issued on 19 October 2023 for the meeting on 25 October 2023

Deloitte Confidential: Government and Public Services

Contents

01 Audit planning report

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02 Appendices

Introduction

The key messages in this report

We have pleasure in presenting our planning report to the Audit Committee for the 2022/23 audit. We would like to draw your attention to the key messages of this paper:

Audit quality is our number one priority. We plan our audit to focus on audit quality and have set the following audit quality objectives for this audit:

- A robust challenge of the key judgements taken in the preparation of the statement of accounts.
- A strong understanding of your internal control environment.
- A well planned and delivered audit that raises findings early with those charged with governance.

Scope of our work	Our audit work will be carried out in accordance with the requirements of the Code of Audit Practice (‘the Code’) and supporting guidance published by the National Audit Office (NAO) on behalf of the Comptroller and Auditor General. The Code sets the overall scope of the audit which includes an audit of the accounts of the Authority and work to satisfy ourselves that the Authority has made proper arrangements to secure value for money (VFM) in its use of resources. We understand from our planning procedures performed to date that management has prepared consolidated accounts for 2022/23 including results from its subsidiaries. However, due to the size of the subsidiaries, they are not required to be audited. Please refer to the group scoping section on page 8 for further details. Our responsibilities as auditor, and the responsibilities of the Authority, are set out in “PSAA Statement of responsibilities of auditors and audited bodies: Principal Local Authorities and Police Bodies”, published by Public Sector Audit Appointments Limited.
Progress of our audit planning procedures	We are currently concluding our audit for 2021/22 accounts. We are also currently concluding our 2022/23 planning procedures. Furthermore, our risk assessment procedures in respect of whether the Authority has made proper arrangements to secure VFM in its use of resources are nearing completion. We will update the committee once our procedures are concluded.

Introduction

The key messages in this report (continued)

Areas of focus in our work on the accounts

The Code requires that the auditor's work should be risk-based and proportionate. We tailor our work to reflect local circumstances and our assessment of risk. In relation to our audit for the year ended 31 March 2023, we have identified the following significant audit risks:

- Valuation of land and buildings
- Revenue expenditure incorrectly capitalised
- Management override of controls

Our description of the potential significant audit risks is set out on pages 11 to 13.

International Standards on Auditing set a rebuttable presumption of the risk of fraud in the recognition of revenue.

At the planning stage we have not identified the valuation of pension liabilities as a significant risk but we will keep this under review during the audit process. This has, however, been identified as an area of audit focus as described on page 14.

The implementation of International Financial Reporting Standard 16 – Leases (IFRS 16) has been deferred by CIPFA LASAAC until 1 April 2024. The new standard, IFRS 16, will require adjustments to recognise on balance sheet arrangements currently treated as operating leases. Therefore, whilst for 2022/23 this is still not applicable, we recommend the Council makes the necessary arrangements to assess the impact on the Authority's accounts due to IFRS 16 implementation from its implementation date of 1 April 2024.

Areas of focus in our work on Value For Money (VFM)

The Code requires that the auditor's work should be risk-based and proportionate. We tailor our work to reflect local circumstances and our assessment of risk.

The National Audit Office (NAO) issued a revised Code of Audit Practice from 2020/21 onwards, with a revised approach to "Value for Money" work. This has moved to a regime of narrative reporting in a new public "Annual Auditor's Report".

We will continue to follow the revised code guidance for our VFM work.

Responsibilities of the Audit Committee

Helping you fulfil your responsibilities

Why do we interact with the Audit Committee?

- To communicate audit scope
- To provide timely and relevant observations
- To provide additional information to help you fulfil your broader responsibilities

As a result of regulatory change in recent years, the role of the Audit Committee has significantly expanded. We set out here a summary of the core areas of Audit Committee responsibility to provide a reference in respect of these broader responsibilities and highlight throughout the document where there is key information which helps the Audit Committee in fulfilling its remit.

Oversight of external audit

- At the start of each annual audit cycle, ensure that the scope of the external audit is appropriate.

- Make recommendations as to the auditor appointment and implement a policy on the engagement of the external auditor to supply non-audit services.

Integrity of reporting

- Impact assessment of key judgements and level of management challenge.

- Review of external audit findings, key judgements, level of misstatements.

- Assess the quality of the internal team, their incentives and the need for supplementary skillsets.

- Assess the completeness of disclosures, including consistency with disclosures on business model and strategy and, where requested by the Cabinet, provide advice in respect of the fair, balanced and understandable statement.

Internal controls and risks

- Review the internal control and risk management systems (unless expressly addressed by separate risk committee).

- Explain what actions have been, or are being taken to remedy any significant failings or weaknesses.

Oversight of internal audit

- Consider annually whether there is a need for an internal audit function and make a recommendation accordingly to the Cabinet.

- Monitor and review the effectiveness of the internal audit activities.

Whistle-blowing and fraud

- Ensure that appropriate arrangements are in place for the proportionate and independent investigation of any concerns raised by staff in connection with improprieties.

Your control environment
What we consider when we plan the audit

We expect officers and those charged with governance to recognise the importance of a strong control environment and take proactive steps to deal with deficiencies identified on a timely basis.

Responsibilities of officers

Auditing standards require us to only accept or continue with an audit engagement when the preconditions for an audit are present. These preconditions include obtaining the agreement of officers and those charged with governance that they acknowledge and understand their responsibilities for, amongst other things, internal control as is necessary to enable the preparation of annual accounts that are free from material misstatement, whether due to fraud or error.

Responsibilities of the Audit Committee

As explained further in the Responsibilities of the Audit Committee slide on the previous page, the Audit Committee is responsible for:

- Reviewing the internal control and risk management systems (unless expressly addressed by a separate risk committee).
- Explaining what actions have been, or are being taken to remedy any significant failings or weaknesses.

As stakeholders tell us that they to wish to understand how external audit challenges and responds to the quality of an entity's control environment, we are seeking to enhance how we plan and report on the results of the audit in response. We will be placing increased focus on how the control environment impacts the audit, from our initial risk assessment, to our testing approach and how we report on misstatements and control deficiencies.

Reliance on controls	We test the design and test the implementation of key controls for the audit. We have historically not adopted a control reliant approach, on the basis of efficiency.
Performance materiality	We set performance materiality as a percentage of materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed materiality. We determine performance materiality, with reference to factors such as the quality of the control environment and the historical error rate. Where we are unable to rely on controls, we may use a lower level of performance materiality.

Our audit explained

We tailor our audit to your Authority

Identify changes in your business and environment

In our planning report we identified the key changes in your operations and articulated how these impacted our audit approach

Scoping

We anticipate our scope to be in line with the Code of Audit Practice issued by the NAO.

In our final report

In our final report to you we will conclude on the significant risks identified in this paper, report to you our other findings, and detail those items we will be including in our audit report, including key audit matters if applicable.

Determine materiality

We will use materiality levels in planning our audit as per page 8. Our planning materiality is based on 2% of Gross Expenditure of the Group/Authority as reported in the draft accounts for 2022/23. Our performance materiality will be 75% of our planning materiality.

Significant risk assessment

We have made a preliminary assessment of significant audit risks in relation to the Authority. Our risk assessment at planning stage remains consistent with last year. We will continue our risk assessment procedures during the audit and will update you if there is any change in our risk assessment. More detail is given on pages 12 to 17.

Quality and Independence

We confirm all Deloitte network firms and engagement team members are independent of Southend-on-Sea City Council. We take our independence and the quality of the audit work we perform very seriously. Audit quality is our number one priority.

Materiality

Our approach to materiality

Basis of our materiality benchmark

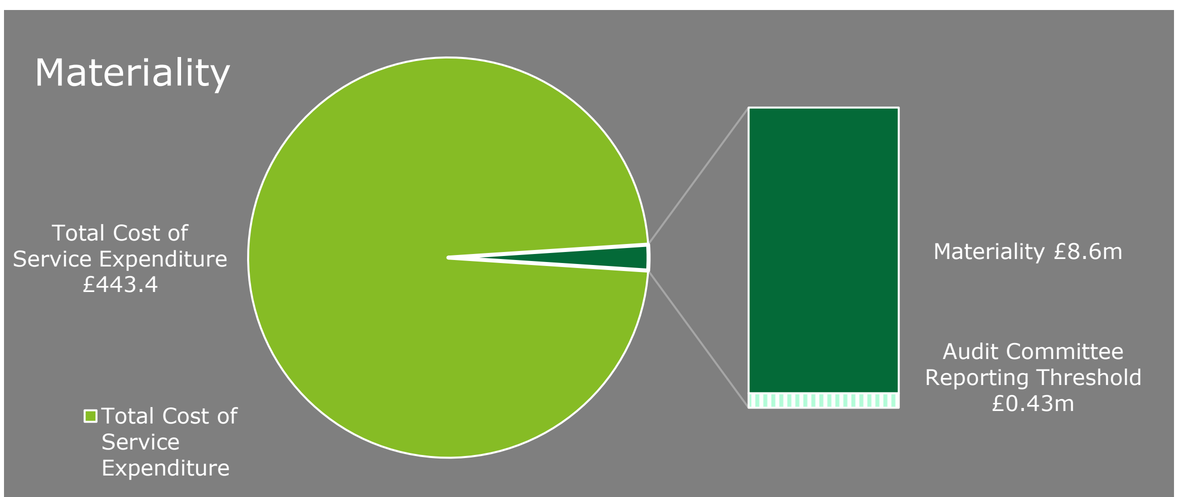
- For Group, the Audit Lead has determined materiality as £9.10m (2021/22: £8.70m) and performance materiality as £6.82m (2021/22: £6.09m), based on professional judgement, the requirements of auditing standards and the financial measures most relevant to users of the annual accounts.
- For Council, our planning materiality and performance materiality are £8.6m (2021/22: £8.27m) and £6.6m (2021/22: £5.79m) respectively.
- We have used 2% of total cost of service expenditure based on the 2022/23 accounts as the benchmark for determining materiality.
- We will re-visit the determined materiality based on review of final outturn information when available.

Reporting to those charged with governance

- We will report to you all misstatements found in excess of:
  - ➢ For Group - £0.45m (2021/22: £0.44m); and
  - ➢ For Council - £0.43m (2021/22: £0.41m)
- We will report to you misstatements below this threshold if we consider them to be material by nature.

Group scoping

The Council has two wholly owned subsidiaries as South Essex Homes (SEH) and Southend Care (SC). Furthermore, SEH has a wholly owned subsidiary South Essex Property Services (SEPS). The Council also has a 50% holding in Porters Place Southend LLP and 100% holding in a series of Trusts. The results of these entities are consolidated in the group accounts. Our group scoping for 2022/23 is still in progress, we will report on the outcome of our group scoping exercise to the Council in our future communication



Although materiality is the judgement of the audit lead, the Audit Committee must satisfy themselves that the level of materiality chosen is appropriate for the scope of the audit.

Scope of work and approach

We have the following areas of responsibility under the Audit Code

Statement of accounts

We will conduct our audit in accordance with the Code of Audit Practice and supporting guidance issued by the National Audit Office ("NAO") and International Standards on Auditing (UK) ("ISA (UK)") as adopted by the UK Auditing Practices Board ("APB").

We report on whether the financial statements:

- Give a true and fair view of the financial position and income and expenditure
- Are prepared properly in accordance with the Code of Practice on Local Authority Accounting ("the Code").

Whole Government Accounts

We are required to issue a separate assurance report to the NAO on the Authority's separate return required for the purposes of its audit of the Whole of Government Accounts.

HM Treasury (HMT) have not yet issued the guidance for local government for the year ended 31 March 2023. We will commence our work on the WGA after the issuance of the guidance.

Annual Governance Statement

We are required to consider whether there are any inconsistencies between the Annual Governance Statement and the financial statements and information that we are aware of from our work on the statement of accounts, VfM conclusion and other work.

We will also review any reports from relevant regulatory bodies and any related action plans developed by the Authority.

Value for Money conclusion

For our Value for Money procedures, we are required to consider the following:

- arrangements that the Authority has made securing financial resilience and economy, efficiency and effectiveness in its use of resources;
- If we identify any significant weaknesses to make recommendations; and
- to provide a narrative commentary on arrangements.

To perform this work, we are required to:

- Obtain an understanding of the Authority's arrangements sufficient to support our risk assessment and commentary;
- Assess whether there are risks of a significant weakness in the Authority's arrangements, and perform additional procedures if a risk is identified. If a significant weakness is identified, we report this and an accompanying recommendation;
- Report in our audit opinion if we have reported any significant weaknesses.
- Issue a narrative commentary in our Annual Auditor's Report on the arrangements in place.

This will require a minimum level of work at every local public body, with additional risk based work where relevant.

Our responsibilities as auditor, and the responsibilities of the Council, are set out in "PSAA Statement of responsibilities of auditors and audited bodies: Principal Local Authorities and Police Bodies", published by PSAA

Scope of work and approach

Our approach

Liaison with internal audit

The Auditing Standards Board's version of ISA (UK) 610 "Using the work of internal auditors" prohibits use of internal audit to provide "direct assistance" to the audit. Our approach to the use of the work of Internal Audit has been designed to be compatible with these requirements.

We plan to meet with the Head of Internal Audit to discuss the internal audit work performed and we will review the internal audit reports issued in the period. We will consider the findings from their work and where significant control weaknesses are identified, we consider the impact on the scope of our own work.

Approach to controls testing

For controls considered to be 'relevant to the audit', our work involves evaluating the design of these controls and determining whether they have been implemented ("D & I").

We do not expect to place reliance on the operating effectiveness of controls in the current year.

Our assessment of the internal control environment has not been concluded. We will report to the Audit Committee any findings arising from further procedures.

We will consider any major changes to IT systems in year. This forms part of our ongoing risk assessment of IT systems and will involve Deloitte IT specialists as required.

Risk assessment

We consider a number of factors when deciding on the significant audit risks. These factors include:

- Conclusion of our audit planning procedures;
- the significant risks and uncertainties previously reported in the statement of accounts;
- the IAS 1 critical accounting estimates previously reported in the statement of accounts;
- our assessment of materiality; and
- the changes that have occurred in the Authority's operations and external environment since the last statement of accounts.

Significant audit risks
Risk 1 – Property Valuation

Risk identified

The Council is required to hold dwellings, other land and buildings 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.

The Authority held £717m of property assets (land and buildings) at 31 March 2023 (£715m as of 31 March 2022) as per the draft accounts. This movement from the prior year is due to revaluation movements as a result of the revaluation exercise during 2022/23, reclassifications from assets under construction and material additions and disposals during the year. The Council updates the valuation of its properties using a rolling revaluation programme.

Our response

The following procedures will be completed:

- We will review the design and implementation of the key controls in place in relation to property valuations;
- We will consider the work performed by the Council’s valuer, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
- We will engage with 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;
- We will sample test key asset information used by the Council’s valuers in performing their valuation, such as gross internal areas, back to supporting documentation;
- We will review assets not subject to valuation in 2022/23 to confirm that the remaining asset base is not materially misstated;
- We will confirm through updates to the valuation and the latest valuation report that there are no difference.
- We will perform an analysis of the indexation calculation applied to arrive at the valuation of the property assets as at year end to ensure the indexation adjustments were deemed reasonable
- We will review the presentation of revaluation movements, and the disclosures included in the Statement of Accounts.

Significant audit risks

Risk 2 – Revenue expenditure incorrectly capitalised

Risk identified	At the time of publishing the 2022/23 financial statements, it has been noted that as part of the Medium Term Financial Strategy, the Council had a substantial capital programme of £169m over the next five years. The capital programme included £52.1m spend in 2022/23. Determining whether expenditure should be capitalised can involve judgement. There is also an incentive to inappropriately capitalise expenditure as the Council has greater flexibility over its use of revenue compared to capital resources. Given this incentive to capitalise costs that are not capital in nature, we specifically identify this area as a significant risk of material misstatement and a fraud risk.
Our response	The following procedures will be completed: • We will test the design and implementation of controls in place by the entity to ensure balances have been capitalised that meet the conditions for capitalisation. • We will test a sample of items capitalised to check they are valid and meet the conditions for capitalisation.

Significant risks
Risk 3 – Management override of controls

Risk identified

In accordance with ISA 240 (UK) management override is a significant risk. 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 Authority’s controls for specific transactions.

The key judgments in the financial statements are those which we have selected to be the significant audit risks; capitalisation of expenditure and valuation of the Authority’s property assets. These are inherently the areas in which management has the potential to use their judgment to influence the financial statements.

Our response

In considering the risk of management override, we plan to perform the following audit procedures that directly address this risk:

Test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the annual accounts. In designing and performing audit procedures for such tests, we plan to:

- Test the design and implementation of controls over journal entry processing;
- Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments;
- Select journal entries and other adjustments made at the end of a reporting period; and
- Consider the need to test journal entries and other adjustments throughout the period.

Review accounting estimates for biases and evaluate whether the circumstances producing the bias, if any, represent a risk of material misstatement due to fraud. In performing this review, we plan to:

- Evaluate whether the judgments and decisions made by officers in making the accounting estimates included in the annual accounts, even if they are individually reasonable, indicate a possible bias on the part of the entity's management that may represent a risk of material misstatement due to fraud. If so, we will re-evaluate the accounting estimates taken as a whole; and
- Perform a retrospective review of management judgements and assumptions related to significant accounting estimates reflected in the annual accounts of the prior year.

For significant transactions that are outside the normal course of business for the entity, or that otherwise appear to be unusual given our understanding of the entity and its environment and other information obtained during the audit, we shall evaluate whether the business rationale (or the lack thereof) of the transactions suggests that they may have been entered into to engage in fraudulent financial reporting or to conceal misappropriation of assets.

Other areas of focus
Pension liability

Risk identified

The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme (LGPS). The Council's pension fund deficit / gain is a material estimated balance and the Code requires that this liability / asset be disclosed on the Council's Balance Sheet. Per the draft financial statements at 31 March 2023, the asset totalled £122.5m (Liability 2021/22: £92.4m). As a result of this being an estimated balance there is a risk that inappropriate inputs and assumptions are used, which could result in the pension liability valuation being materially misstated

Deloitte response and challenge

We will complete the following procedures:

- We will obtain a copy of the actuarial report for the Council produced by Barnett Waddingham, the scheme actuary, and agreed the report to the Statement of Accounts pension disclosures.
- We will review the disclosures made in the Statement of Accounts against the requirements of the Code.
- We will liaise with the audit team of Essex Pension Fund to obtain assurances over the information supplied to the actuary in relation to the Council.
- We will assess the independence and expertise of the actuary supporting the basis of reliance upon their work.
- We will review and challenged the assumptions made by Barnett Waddingham, including benchmarking.
- We will assess the reasonableness of the Council's share of the total assets of the scheme with the Pension Fund financial statements.

Other areas of audit focus (continued)

Porters Place Southend-on-Sea LLP

Risk identified

We have noted a long term debtor balance of £3.775m within the financial statements of the Council due to be received from Porters Place Southend-on-Sea LLP (hereafter referred to as Porters Place). Porters Place is one of the joint ventures in which the Council participates. It is a 30-year partnership with Swan Housing Association and their wholly owned subsidiary Swan BQ Limited, with the purpose to regenerate the Queensway Estate and surrounding environs. Over the last year Swan Housing Association have been in discussions with parties around a possible business combination. In February 2023 Swan joined Sanctuary housing as a subsidiary.During August 2023 we received an update on the Better Queensway scheme and noted that Sanctuary Housing Association are seeking to exit from the partnership and the Better Queensway scheme. An appropriate settlement agreement is under development that will cover the terms of Sanctuary's withdrawal. Through discussions with management and our knowledge obtained around the possible transaction we concluded that there is a risk that balances due under the Porters Place agreement may not be recoverable.

Deloitte response and challenge

We will complete the following procedures:

- We will inquire of management as to the latest update on the planned business combination and search for a new partner to understand the level of risk within the balances noted.
- We will inspect documentation and information available to us substantiate the amounts at risk as well as mitigations of the risk noted. The Council has included additional disclosure in this regard within note 5 of the statement of accounts.
- We will inspect the statement of accounts and confirm that the disclosure given were reasonable and in line with our expectation.
- We will add a representation within the management representation letter that will need to be signed by the Council at the signing date to confirm information obtained in relation to Porters Place and any developments have been considered for any impact on the financial statements and communicated to the audit team.

Value for Money

We are required to consider the Council's arrangements for securing economy, efficiency and effectiveness in the use of resources. Under the revised requirements of the Code of Audit Practice 2020 and related Auditor Guidance Note 03, we are required to:

- Perform work to understand the Council's arrangements to secure economy, efficiency and effectiveness in the use of resources against each of the three reporting criteria:
    - Financial sustainability: How the body plans and manages its resources to ensure it can continue to deliver its services.
    - Governance: How the body ensures that it makes informed decisions and properly manages its risks.
    - Improving economy, efficiency and effectiveness: How the body uses information about its costs and performance to improve the way it manages and delivers its services.
- Undertake a risk assessment to identify whether there are any risks of significant weaknesses in arrangements;
- If any risks of significant weaknesses are identified, perform procedures to determine whether there is in fact a significant weakness in arrangements, and if so to make recommendations for improvement;
- Issue a narrative commentary in the Auditor's Annual Report, setting out the work undertaken in respect of the reporting criteria and our findings, including any explanation needed in respect of judgements or local context for findings. If significant weaknesses are identified, the weaknesses and recommendations will be included in the reporting, together with follow-up of previous recommendations and whether they have been implemented. Where relevant, we may include reporting on any other matters arising we consider relevant to VfM arrangements, which might include emerging risks or issues.
- Where significant weaknesses are identified, report this by exception within our financial statement audit opinion.

AGN03 requires auditors to set out the results of their risk assessment as part of the audit planning report. Our work is currently in progress and discussion has been held with officers around the VfM reporting requirements. We will report to a later Audit Committee on any matters arising from this work. Specific areas that we expect to focus on in understanding the Authority's arrangements include: Financial sustainability and OFSTED finding on Children Services.

Prior year audit adjustments

Uncorrected misstatements

The following uncorrected misstatements were identified in relation to the prior year audit:

		Credit/(Charge) to the income statement £’m	Increase/ (Decrease) in net assets £’m	Increase/ (Decrease) in retained earnings £’m
Factual misstatements				
Other Expenses	[1]	(0.8)		
Equity	[1]			0.8

(1) We identified an unadjusted misstatement of £844k in relation to the Shared Revaluation. We were informed by the management that the new version of the RAM system implemented from 01/04/2023 will address this issue going forwards.

Audit quality

Our commitment to audit quality

Our objective is to deliver a distinctive, quality audit to you. Every member of the engagement team will contribute, to achieve the highest standard of professional excellence.

In particular, for your audit, we consider that the following steps will contribute to the overall quality:

We will apply professional scepticism on the valuation of land and building and other significant judgements

- We will obtain a deep understanding of your business, its environment and of your processes such as Revenue, Fixed Assets, Financial Reporting enabling us to develop a risk-focused approach tailored to the Authority.
- Our engagement team is selected to ensure that we have the right subject matter expertise and industry knowledge. We will involve IT specialists and also Deloitte Real Estate to support the audit team in our work on valuation and pensions specialists in our work on the pension fund liability.
- In order to deliver a quality audit to you, each member of the core audit team has received tailored learning to develop their expertise in audit skills.

Engagement Quality Control Review

We have developed a tailored Engagement Quality Control approach. Our dedicated Professional Standards Review (PSR) function will provide a 'hot' review before any audit or other opinion is signed. PSR is operationally independent of the audit team, and supports our high standards of professional scepticism and audit quality by providing a rigorous independent challenge.

Purpose of our report and responsibility statement

Our report is designed to help you meet your governance duties

What we report

Our respective responsibilities are set out in "PSAA Statement of responsibilities of auditors and audited bodies: Principal Local Authorities and Police Bodies.” The responsibilities of auditors are derived from statute, principally the Local Audit and Accountability Act 2014 and from the NAO Code of Audit Practice. The responsibilities of audited bodies are derived principally the Local Audit and Accountability Act 2014 and from the Accounts and Audit Regulations 2015.

Our report is designed to communicate our preliminary audit plan and to take the opportunity to ask you questions at the planning stage of our audit. Our report includes our preliminary audit plan, including key audit judgements and the planned scope.

Use of this report

This report has been prepared for the Audit Committee, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose. Except where required by law or regulation, it should not be made available to any other parties without our prior written consent.

What we don’t report

As you will be aware, our audit is not designed to identify all matters that may be relevant to the Authority.

Also, there will be further information you need to discharge your governance responsibilities, such as matters reported on by officers or by other specialist advisers.

Finally, the views on internal controls and business risk assessment in our final report should not be taken as comprehensive or as an opinion on effectiveness since they will be based solely on the audit procedures performed in the audit of the statement of accounts and the other procedures performed in fulfilling our audit plan.

Other relevant communications

We will update you if there are any significant changes to the audit plan.

Deloitte LLP

19 October 2023


Appendices

Appendix 1 - Fraud responsibilities and representations

Your Responsibilities:

The primary responsibility for the prevention and detection of fraud rests with management and those charged with governance, including establishing and maintaining internal controls over the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations.

Our responsibilities:

- We are required to obtain representations from your management regarding internal controls, assessment of risk and any known or suspected fraud or misstatement.
- As auditors, we obtain reasonable, but not absolute, assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error.
- As set out in the significant risks section of this document, we have identified risks of material misstatement due to fraud in valuation of property, revenue expenditure incorrectly capitalized and management override of controls.
- We will explain in our audit report how we considered the audit capable of detecting irregularities, including fraud. In doing so, we will describe the procedures we performed in understanding the legal and regulatory framework and assessing compliance with relevant laws and regulations.
- We will communicate to you any other matters related to fraud that are, in our judgment, relevant to your responsibilities. In doing so, we shall consider the matters, if any, regarding management's process for identifying and responding to the risks of fraud and our assessment of the risks of material misstatement due to fraud.

Fraud Characteristics:

- Misstatements in the financial statements can arise from either fraud or error. The distinguishing factor between fraud and error is whether the underlying action that results in the misstatement of the financial statements is intentional or unintentional.
- Two types of intentional misstatements are relevant to us as auditors – misstatements resulting from fraudulent financial reporting and misstatements resulting from misappropriation of assets.

Appendix 1 - Fraud responsibilities and representations

We will make the following inquiries regarding fraud and non-compliance with laws and regulations:

Management and other personnel:

- Management's assessment of the risk that the financial statements may be materially misstated due to fraud, including the nature, extent and frequency of such assessments.
- Management's process for identifying and responding to risks of fraud.
- Management's communication, if any, to those charged with governance regarding its processes for identifying and responding to the risks of fraud.
- Management's communication, if any, to employees regarding its views on business practices and ethical behaviour.
- Whether management has knowledge of any actual, suspected or alleged fraud affecting the entity.
- We will also make inquiries of personnel who are expected to deal with allegations of fraud raised by employees or other parties, if any.

Internal audit

- Whether internal audit has knowledge of any actual, suspected or alleged fraud affecting the entity, and to obtain its views about the risks of fraud.

Those charged with governance

- How those charged with governance exercise oversight of management's processes for identifying and responding to the risks of fraud in the entity and the internal control that management has established to mitigate these risks.
- Whether those charged with governance have knowledge of any actual, suspected or alleged fraud affecting the entity.
- The views of those charged with governance on the most significant fraud risk factors affecting the entity, including those specific to the sector.

Appendix 2 – Independence and fees

As part of our obligations under International Standards on Auditing (UK), we are required to report to you on the matters listed below:

Independence confirmation	We confirm that we comply with FRC Ethical Standards for Auditors and that, in our professional judgement, we and, where applicable, all Deloitte network firms are independent and our objectivity is not compromised.
Fees	There are no non-audit fees.
Non-audit services	We continue to review our independence and ensure that appropriate safeguards are in place including, but not limited to, the rotation of senior partners and professional staff and the involvement of additional partners and professional staff to carry out reviews of the work performed and to otherwise advise as necessary.
Relationships	We are required to provide written details of all relationships (including the provision of non-audit services) between us and the organisation, its board and senior management and its affiliates, including all services provided by us and the DTTL network to the Council, its members and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on our objectivity and independence. We are not aware of any relationships which are required to be disclosed.

The professional fees expected to be charged by Deloitte for the period from 01 April 2022 to 31 March 2023 are as follows:

	2022/23 £k (exc VAT)	2021/22 £k (exc VAT)
Financial statement audit including Whole of Government and procedures in respect of Value for Money assessment	110*	110*
Total audit	**TBC**	**TBC**
Audit related assurance services	-	-
Other assurance services	TBC	TBC
Total assurance services	**TBC**	**TBC**
Total fees	**TBC**	**TBC**

* In line with PSAA correspondence that scale fees should be negotiated by individual s151 officers based on the individual circumstances of each body, we will be discussing the final position with the Council in respect of the additional inputs for the 2020/21, fees for 2021/22 and fee estimate for 2022/23. We will subsequently provide an update to the Audit Committee.

All additional fees are subject to agreement with PSAA.

Our approach to quality

FRC 2022/23 Audit Quality Inspection and Supervision report

Audit quality is at the heart of everything we do. We are committed to acting with the highest levels of integrity in the public interest to deliver confidence and trust in business.

In July 2023, the Financial Reporting Council ("FRC") issued individual reports on each of the seven largest firms, including Deloitte on Audit Quality Inspection and Supervision, providing a summary of the findings of its Audit Quality Review ("AQR") team for the 2022/23 cycle of reviews.

We greatly value the FRC reviews of our audit engagements and firm wide quality control systems, a key aspect of evaluating our audit quality.

In that context, our inspection results for our audits selected by the FRC as part of the 2022/23 inspection cycle remain consistent year-on-year, with 82% of all inspections in the cycle assessed as good or needing limited improvement. This reflects the ongoing investment we continue to make in audit quality, with a relentless focus on continuous improvement. Our audit culture and the audit quality environment we create are critical to our resilience and reputation as a business and we remain committed to our role in protecting the public interest and creating pride in our profession.

We value the observations raised by both the FRC AQR and Supervision teams, both in identifying areas for improvement and also the increasing focus on sharing good practice to drive further and continuous improvement.

We are pleased to see the positive impact of actions taken over the last 12-18 months to address findings raised by the FRC in the prior year relating to EQCR, Independence & Ethics and Group Audits, with none of these areas identified as key findings in this year's engagement inspection cycle. The reduction in findings in this area reflects the ongoing effectiveness of the actions taken, particularly the successful rollout of our group audit coaching programme. Our EQCR transformation programme, which commenced in the second half of 2021, has served to further enhance the effectiveness of our EQCR process and led to improved evidence on our audit files demonstrating the EQCR challenge.

We welcome the breadth and depth of good practice points raised by the FRC, particularly in respect of effective group oversight and effective procedures for impairments, where we have made sustained efforts and investment to drive consistency and high-quality execution.

All the AQR public reports are available on the FRC's website:

[Audit Firm Specific Reports - Tier 1 audit firms | Financial Reporting Council (frc.org.uk)]

Our approach to quality

FRC 2022/23 Audit Quality Inspection and Supervision report

The AQR's 2022/23 Audit Quality Inspection and Supervision Report on Deloitte LLP

"In the 2021/22 public report, we concluded that the firm had continued to show improvement in relation to its audit execution and firm-wide procedures.

82% of audits inspected were found to require no more than limited improvements. None of the audits we inspected this year were found to require significant improvements and 82% required no more than limited improvements, the same as last year. This was the case for 78% of FTSE 350 audits (91% last year). The firm has maintained its focus on audit quality on individual audits, with consistent FRC inspection results.

The areas of the audit that contributed most to the audits assessed as requiring improvements were revenue and margin recognition, and provisions. There continues to be findings related to the audit of provisions, which was a key finding last year, although in different areas of provisioning. At the same time, we identified a range of good practice in these and other areas."

Inspection results: review of the firm's quality control procedures

"This year, our firm-wide work focused primarily on evaluating the firm's actions to implement the FRC's Revised Ethical Standard; partner and staff matters; acceptance, continuance, and resignation procedures; and audit methodology relating to settlement and clearing processes.

Our key findings related to compliance with the FRC's Revised Ethical Standard, timely continuance procedures, and audit methodology relating to settlement and clearing processes.

We identified good practice points in the areas of compliance with the FRC's Revised Ethical Standard, partner and staff matters, and acceptance, continuance and resignation procedures."

Deloitte.

Agenda Item No.

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Title:	**Deloitte: Audit Planning Report to the Audit Committee for the year ended 31 March 2023**
Meeting:	Audit Committee
Date:	25 October 2023
Classification:	Part 1
Key Decision:	No
Report Authors:	Deloitte External Auditor
Executive Councillor:	Councillor Cox, Leader and Cabinet Member for Special Educational Needs & Disability

1. Executive Summary

1.1 To present the External Auditor's Audit planning report for 2022/23 to the Audit Committee.

2. Recommendation

1.2 **The Committee notes Deloitte's Audit planning report for 2022/23.**

3. Background

1.3 As required by the National Audit Office's Code of Audit Practice (the Code), the external auditor must produce an audit planning document. This should set out how the auditors intend to carry out their responsibilities in light of their assessment of risk.

1.4 The report provides an update on the planned scope of Deloitte's work and their audit planning work performed to date.

1.5 A senior representative of Deloitte will present this report to the Audit Committee and respond to Members' questions.

4. Financial Implications

1.6 The prescribed requirements of what needs to be undertaken by the external auditor is defined by the National Audit Office (NAO). The plan and fees proposed reflect the application of these requirements to this Council based upon an assessment of risk which is set out in the Audit Plan for 2022/23.

1.7 The fee estimate for 2022/23 has not yet been discussed with the Council or approved by PSAA.

5. Legal Implications

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

6. Carbon Impact

1.1. None

7. Equalities

1.2. None

8. Consultation

1.3. The planned audit work has been discussed and agreed with the Executive Director (Finance and Resources).

9. Background Papers

- The National Audit Office's Code of Audit Practice 2020
- Public Sector Appointments Limited scale fees for local government bodies 2022/23

10. Appendix:

Deloitte's Audit Planning Report to the Audit Committee for the year ending 31 March 2023

Southend-on-Sea City Council

Audit planning report for the year ended 31 March 2023

Issued on 19 October 2023 for the meeting on 25 October 2023

Deloitte Confidential: Government and Public Services

Contents

01 Audit planning report

02 Appendices

Introduction

The key messages in this report

We have pleasure in presenting our planning report to the Audit Committee for the 2022/23 audit. We would like to draw your attention to the key messages of this paper:

Audit quality is our number one priority. We plan our audit to focus on audit quality and have set the following audit quality objectives for this audit:

- A robust challenge of the key judgements taken in the preparation of the statement of accounts.
- A strong understanding of your internal control environment.
- A well planned and delivered audit that raises findings early with those charged with governance.

Scope of our work	Our audit work will be carried out in accordance with the requirements of the Code of Audit Practice ('the Code') and supporting guidance published by the National Audit Office (NAO) on behalf of the Comptroller and Auditor General. The Code sets the overall scope of the audit which includes an audit of the accounts of the Authority and work to satisfy ourselves that the Authority has made proper arrangements to secure value for money (VFM) in its use of resources. We understand from our planning procedures performed to date that management has prepared consolidated accounts for 2022/23 including results from its subsidiaries. However, due to the size of the subsidiaries, they are not required to be audited. Please refer to the group scoping section on page 8 for further details. Our responsibilities as auditor, and the responsibilities of the Authority, are set out in "PSAA Statement of responsibilities of auditors and audited bodies: Principal Local Authorities and Police Bodies", published by Public Sector Audit Appointments Limited.
Progress of our audit planning procedures	We are currently concluding our audit for 2021/22 accounts. We are also currently concluding our 2022/23 planning procedures. Furthermore, our risk assessment procedures in respect of whether the Authority has made proper arrangements to secure VFM in its use of resources are nearing completion. We will update the committee once our procedures are concluded.

Introduction
The key messages in this report (continued)

Areas of focus in our work on the accounts

The Code requires that the auditor’s work should be risk-based and proportionate. We tailor our work to reflect local circumstances and our assessment of risk. In relation to our audit for the year ended 31 March 2023, we have identified the following significant audit risks:

- Valuation of land and buildings
- Revenue expenditure incorrectly capitalised
- Management override of controls

Our description of the potential significant audit risks is set out on pages 11 to 13.

International Standards on Auditing set a rebuttable presumption of the risk of fraud in the recognition of revenue.

At the planning stage we have not identified the valuation of pension liabilities as a significant risk but we will keep this under review during the audit process. This has, however, been identified as an area of audit focus as described on page 14.

The implementation of International Financial Reporting Standard 16 – Leases (IFRS 16) has been deferred by CIPFA LASAAC until 1 April 2024. The new standard, IFRS 16, will require adjustments to recognise on balance sheet arrangements currently treated as operating leases. Therefore, whilst for 2022/23 this is still not applicable, we recommend the Council makes the necessary arrangements to assess the impact on the Authority’s accounts due to IFRS 16 implementation from its implementation date of 1 April 2024.

Areas of focus in our work on Value For Money (VFM)

The Code requires that the auditor’s work should be risk-based and proportionate. We tailor our work to reflect local circumstances and our assessment of risk.

The National Audit Office (NAO) issued a revised Code of Audit Practice from 2020/21 onwards, with a revised approach to “Value for Money” work. This has moved to a regime of narrative reporting in a new public “Annual Auditor’s Report”.

We will continue to follow the revised code guidance for our VFM work.

Responsibilities of the Audit Committee

Helping you fulfil your responsibilities

Why do we interact with the Audit Committee?

As a result of regulatory change in recent years, the role of the Audit Committee has significantly expanded. We set out here a summary of the core areas of Audit Committee responsibility to provide a reference in respect of these broader responsibilities and highlight throughout the document where there is key information which helps the Audit Committee in fulfilling its remit.

- To communicate audit scope
- To provide timely and relevant observations
- To provide additional information to help you fulfil your broader responsibilities

Oversight of external audit

- At the start of each annual audit cycle, ensure that the scope of the external audit is appropriate.

- Make recommendations as to the auditor appointment and implement a policy on the engagement of the external auditor to supply non-audit services.

Integrity of reporting

- Impact assessment of key judgements and level of management challenge.

- Review of external audit findings, key judgements, level of misstatements.

- Assess the quality of the internal team, their incentives and the need for supplementary skillsets.

- Assess the completeness of disclosures, including consistency with disclosures on business model and strategy and, where requested by the Cabinet, provide advice in respect of the fair, balanced and understandable statement.

Internal controls and risks

- Review the internal control and risk management systems (unless expressly addressed by separate risk committee).

- Explain what actions have been, or are being taken to remedy any significant failings or weaknesses.

Oversight of internal audit

- Consider annually whether there is a need for an internal audit function and make a recommendation accordingly to the Cabinet.

- Monitor and review the effectiveness of the internal audit activities.

Whistle-blowing and fraud

- Ensure that appropriate arrangements are in place for the proportionate and independent investigation of any concerns raised by staff in connection with improprieties.

Your control environment

What we consider when we plan the audit

We expect officers and those charged with governance to recognise the importance of a strong control environment and take proactive steps to deal with deficiencies identified on a timely basis.

Responsibilities of officers

Auditing standards require us to only accept or continue with an audit engagement when the preconditions for an audit are present. These preconditions include obtaining the agreement of officers and those charged with governance that they acknowledge and understand their responsibilities for, amongst other things, internal control as is necessary to enable the preparation of annual accounts that are free from material misstatement, whether due to fraud or error.

Responsibilities of the Audit Committee

As explained further in the Responsibilities of the Audit Committee slide on the previous page, the Audit Committee is responsible for:

- Reviewing the internal control and risk management systems (unless expressly addressed by a separate risk committee).
- Explaining what actions have been, or are being taken to remedy any significant failings or weaknesses.

As stakeholders tell us that they to wish to understand how external audit challenges and responds to the quality of an entity's control environment, we are seeking to enhance how we plan and report on the results of the audit in response. We will be placing increased focus on how the control environment impacts the audit, from our initial risk assessment, to our testing approach and how we report on misstatements and control deficiencies.

Reliance on controls	We test the design and test the implementation of key controls for the audit. We have historically not adopted a control reliant approach, on the basis of efficiency.
Performance materiality	We set performance materiality as a percentage of materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed materiality. We determine performance materiality, with reference to factors such as the quality of the control environment and the historical error rate. Where we are unable to rely on controls, we may use a lower level of performance materiality.

Our audit explained

We tailor our audit to your Authority

Identify changes in your business and environment

In our planning report we identified the key changes in your operations and articulated how these impacted our audit approach

Scoping

We anticipate our scope to be in line with the Code of Audit Practice issued by the NAO.

In our final report

In our final report to you we will conclude on the significant risks identified in this paper, report to you our other findings, and detail those items we will be including in our audit report, including key audit matters if applicable.

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Determine materiality

We will use materiality levels in planning our audit as per page 8. Our planning materiality is based on 2% of Gross Expenditure of the Group/Authority as reported in the draft accounts for 2022/23. Our performance materiality will be 75% of our planning materiality.

Significant risk assessment

We have made a preliminary assessment of significant audit risks in relation to the Authority. Our risk assessment at planning stage remains consistent with last year. We will continue our risk assessment procedures during the audit and will update you if there is any change in our risk assessment. More detail is given on pages 12 to 17.

Quality and Independence

We confirm all Deloitte network firms and engagement team members are independent of Southend-on-Sea City Council. We take our independence and the quality of the audit work we perform very seriously. Audit quality is our number one priority.

Materiality

Our approach to materiality

Basis of our materiality benchmark

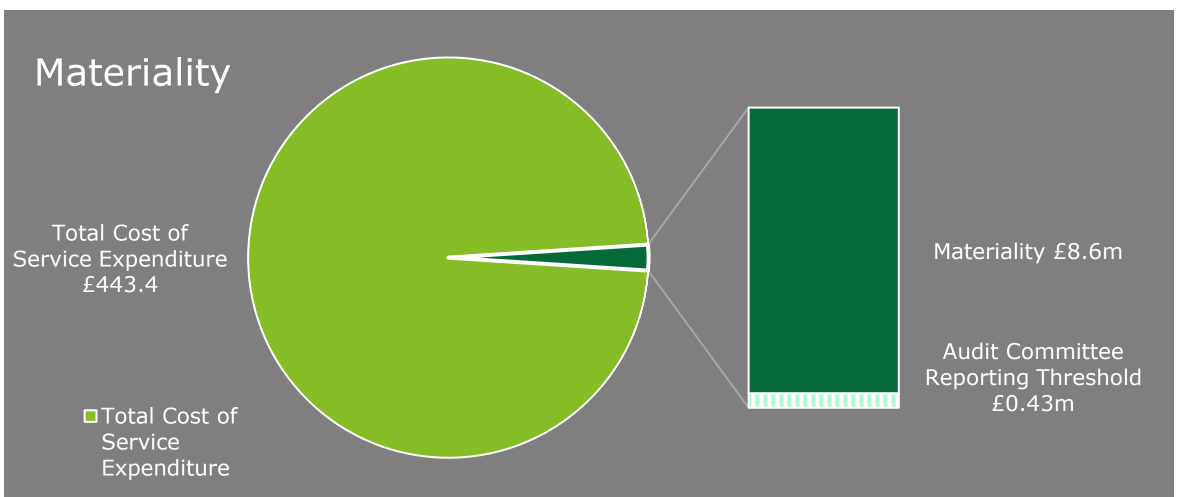
- For Group, the Audit Lead has determined materiality as £9.10m (2021/22: £8.70m) and performance materiality as £6.82m (2021/22: £6.09m), based on professional judgement, the requirements of auditing standards and the financial measures most relevant to users of the annual accounts.
- For Council, our planning materiality and performance materiality are £8.6m (2021/22: £8.27m) and £6.6m (2021/22: £5.79m) respectively.
- We have used 2% of total cost of service expenditure based on the 2022/23 accounts as the benchmark for determining materiality.
- We will re-visit the determined materiality based on review of final outturn information when available.

Reporting to those charged with governance

- We will report to you all misstatements found in excess of:
  - For Group - £0.45m (2021/22: £0.44m); and
  - For Council - £0.43m (2021/22: £0.41m)
- We will report to you misstatements below this threshold if we consider them to be material by nature.

Group scoping

The Council has two wholly owned subsidiaries as South Essex Homes (SEH) and Southend Care (SC). Furthermore, SEH has a wholly owned subsidiary South Essex Property Services (SEPS). The Council also has a 50% holding in Porters Place Southend LLP and 100% holding in a series of Trusts. The results of these entities are consolidated in the group accounts. Our group scoping for 2022/23 is still in progress, we will report on the outcome of our group scoping exercise to the Council in our future communication



Although materiality is the judgement of the audit lead, the Audit Committee must satisfy themselves that the level of materiality chosen is appropriate for the scope of the audit.

Scope of work and approach

We have the following areas of responsibility under the Audit Code

Statement of accounts

We will conduct our audit in accordance with the Code of Audit Practice and supporting guidance issued by the National Audit Office ("NAO") and International Standards on Auditing (UK) ("ISA (UK)") as adopted by the UK Auditing Practices Board ("APB").

We report on whether the financial statements:

- Give a true and fair view of the financial position and income and expenditure
- Are prepared properly in accordance with the Code of Practice on Local Authority Accounting ("the Code").

Whole Government Accounts

We are required to issue a separate assurance report to the NAO on the Authority's separate return required for the purposes of its audit of the Whole of Government Accounts.

HM Treasury (HMT) have not yet issued the guidance for local government for the year ended 31 March 2023. We will commence our work on the WGA after the issuance of the guidance.

Annual Governance Statement

We are required to consider whether there are any inconsistencies between the Annual Governance Statement and the financial statements and information that we are aware of from our work on the statement of accounts, VfM conclusion and other work.

We will also review any reports from relevant regulatory bodies and any related action plans developed by the Authority.

Value for Money conclusion

For our Value for Money procedures, we are required to consider the following:

- arrangements that the Authority has made securing financial resilience and economy, efficiency and effectiveness in its use of resources;
- If we identify any significant weaknesses to make recommendations; and
- to provide a narrative commentary on arrangements.

To perform this work, we are required to:

- Obtain an understanding of the Authority's arrangements sufficient to support our risk assessment and commentary;
- Assess whether there are risks of a significant weakness in the Authority's arrangements, and perform additional procedures if a risk is identified. If a significant weakness is identified, we report this and an accompanying recommendation;
- Report in our audit opinion if we have reported any significant weaknesses.
- Issue a narrative commentary in our Annual Auditor's Report on the arrangements in place.

This will require a minimum level of work at every local public body, with additional risk based work where relevant.

Our responsibilities as auditor, and the responsibilities of the Council, are set out in "PSAA Statement of responsibilities of auditors and audited bodies: Principal Local Authorities and Police Bodies", published by PSAA

Scope of work and approach

Our approach

Liaison with internal audit

The Auditing Standards Board's version of ISA (UK) 610 "Using the work of internal auditors" prohibits use of internal audit to provide "direct assistance" to the audit. Our approach to the use of the work of Internal Audit has been designed to be compatible with these requirements.

We plan to meet with the Head of Internal Audit to discuss the internal audit work performed and we will review the internal audit reports issued in the period. We will consider the findings from their work and where significant control weaknesses are identified, we consider the impact on the scope of our own work.

Approach to controls testing

For controls considered to be 'relevant to the audit', our work involves evaluating the design of these controls and determining whether they have been implemented ("D & I").

We do not expect to place reliance on the operating effectiveness of controls in the current year.

Our assessment of the internal control environment has not been concluded. We will report to the Audit Committee any findings arising from further procedures.

We will consider any major changes to IT systems in year. This forms part of our ongoing risk assessment of IT systems and will involve Deloitte IT specialists as required.

Risk assessment

We consider a number of factors when deciding on the significant audit risks. These factors include:

- Conclusion of our audit planning procedures;
- the significant risks and uncertainties previously reported in the statement of accounts;
- the IAS 1 critical accounting estimates previously reported in the statement of accounts;
- our assessment of materiality; and
- the changes that have occurred in the Authority's operations and external environment since the last statement of accounts.

Significant audit risks

Risk 1 – Property Valuation

Risk identified

The Council is required to hold dwellings, other land and buildings 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.

The Authority held £717m of property assets (land and buildings) at 31 March 2023 (£715m as of 31 March 2022) as per the draft accounts. This movement from the prior year is due to revaluation movements as a result of the revaluation exercise during 2022/23, reclassifications from assets under construction and material additions and disposals during the year. The Council updates the valuation of its properties using a rolling revaluation programme.

Our response

The following procedures will be completed:

- We will review the design and implementation of the key controls in place in relation to property valuations;
- We will consider the work performed by the Council's valuer, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
- We will engage with 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;
- We will sample test key asset information used by the Council's valuers in performing their valuation, such as gross internal areas, back to supporting documentation;
- We will review assets not subject to valuation in 2022/23 to confirm that the remaining asset base is not materially misstated;
- We will confirm through updates to the valuation and the latest valuation report that there are no difference.
- We will perform an analysis of the indexation calculation applied to arrive at the valuation of the property assets as at year end to ensure the indexation adjustments were deemed reasonable
- We will review the presentation of revaluation movements, and the disclosures included in the Statement of Accounts.

Significant audit risks
Risk 2 – Revenue expenditure incorrectly capitalised

Risk identified	At the time of publishing the 2022/23 financial statements, it has been noted that as part of the Medium Term Financial Strategy, the Council had a substantial capital programme of £169m over the next five years. The capital programme included £52.1m spend in 2022/23. Determining whether expenditure should be capitalised can involve judgement. There is also an incentive to inappropriately capitalise expenditure as the Council has greater flexibility over its use of revenue compared to capital resources. Given this incentive to capitalise costs that are not capital in nature, we specifically identify this area as a significant risk of material misstatement and a fraud risk.
Our response	The following procedures will be completed: • We will test the design and implementation of controls in place by the entity to ensure balances have been capitalised that meet the conditions for capitalisation. • We will test a sample of items capitalised to check they are valid and meet the conditions for capitalisation.

Significant risks

Risk 3 – Management override of controls

Risk identified

In accordance with ISA 240 (UK) management override is a significant risk. 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 Authority's controls for specific transactions.

The key judgments in the financial statements are those which we have selected to be the significant audit risks; capitalisation of expenditure and valuation of the Authority's property assets. These are inherently the areas in which management has the potential to use their judgment to influence the financial statements.

Our response

In considering the risk of management override, we plan to perform the following audit procedures that directly address this risk:

Test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the annual accounts. In designing and performing audit procedures for such tests, we plan to:

- Test the design and implementation of controls over journal entry processing;
- Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments;
- Select journal entries and other adjustments made at the end of a reporting period; and
- Consider the need to test journal entries and other adjustments throughout the period.

Review accounting estimates for biases and evaluate whether the circumstances producing the bias, if any, represent a risk of material misstatement due to fraud. In performing this review, we plan to:

- Evaluate whether the judgments and decisions made by officers in making the accounting estimates included in the annual accounts, even if they are individually reasonable, indicate a possible bias on the part of the entity's management that may represent a risk of material misstatement due to fraud. If so, we will re-evaluate the accounting estimates taken as a whole; and
- Perform a retrospective review of management judgements and assumptions related to significant accounting estimates reflected in the annual accounts of the prior year.

For significant transactions that are outside the normal course of business for the entity, or that otherwise appear to be unusual given our understanding of the entity and its environment and other information obtained during the audit, we shall evaluate whether the business rationale (or the lack thereof) of the transactions suggests that they may have been entered into to engage in fraudulent financial reporting or to conceal misappropriation of assets.

Other areas of focus
Pension liability

Risk identified

The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme (LGPS). The Council's pension fund deficit / gain is a material estimated balance and the Code requires that this liability / asset be disclosed on the Council's Balance Sheet. Per the draft financial statements at 31 March 2023, the asset totalled £122.5m (Liability 2021/22: £92.4m). As a result of this being an estimated balance there is a risk that inappropriate inputs and assumptions are used, which could result in the pension liability valuation being materially misstated

Deloitte response and challenge

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We will complete the following procedures:

- We will obtain a copy of the actuarial report for the Council produced by Barnett Waddingham, the scheme actuary, and agreed the report to the Statement of Accounts pension disclosures.
- We will review the disclosures made in the Statement of Accounts against the requirements of the Code.
- We will liaise with the audit team of Essex Pension Fund to obtain assurances over the information supplied to the actuary in relation to the Council.
- We will assess the independence and expertise of the actuary supporting the basis of reliance upon their work.
- We will review and challenged the assumptions made by Barnett Waddingham, including benchmarking.
- We will assess the reasonableness of the Council's share of the total assets of the scheme with the Pension Fund financial statements.

Other areas of audit focus (continued)

Porters Place Southend-on-Sea LLP

Risk identified	We have noted a long term debtor balance of £3.775m within the financial statements of the Council due to be received from Porters Place Southend-on-Sea LLP (hereafter referred to as Porters Place). Porters Place is one of the joint ventures in which the Council participates. It is a 30-year partnership with Swan Housing Association and their wholly owned subsidiary Swan BQ Limited, with the purpose to regenerate the Queensway Estate and surrounding environs. Over the last year Swan Housing Association have been in discussions with parties around a possible business combination. In February 2023 Swan joined Sanctuary housing as a subsidiary.During August 2023 we received an update on the Better Queensway scheme and noted that Sanctuary Housing Association are seeking to exit from the partnership and the Better Queensway scheme. An appropriate settlement agreement is under development that will cover the terms of Sanctuary's withdrawal. Through discussions with management and our knowledge obtained around the possible transaction we concluded that there is a risk that balances due under the Porters Place agreement may not be recoverable.
Deloitte response and challenge	We will complete the following procedures: • We will inquire of management as to the latest update on the planned business combination and search for a new partner to understand the level of risk within the balances noted. • We will inspect documentation and information available to us substantiate the amounts at risk as well as mitigations of the risk noted. The Council has included additional disclosure in this regard within note 5 of the statement of accounts. • We will inspect the statement of accounts and confirm that the disclosure given were reasonable and in line with our expectation. • We will add a representation within the management representation letter that will need to be signed by the Council at the signing date to confirm information obtained in relation to Porters Place and any developments have been considered for any impact on the financial statements and communicated to the audit team.

Value for Money

We are required to consider the Council’s arrangements for securing economy, efficiency and effectiveness in the use of resources. Under the revised requirements of the Code of Audit Practice 2020 and related Auditor Guidance Note 03, we are required to:

- Perform work to understand the Council’s arrangements to secure economy, efficiency and effectiveness in the use of resources against each of the three reporting criteria:
  - Financial sustainability: How the body plans and manages its resources to ensure it can continue to deliver its services.
  - Governance: How the body ensures that it makes informed decisions and properly manages its risks.
  - Improving economy, efficiency and effectiveness: How the body uses information about its costs and performance to improve the way it manages and delivers its services.
- Undertake a risk assessment to identify whether there are any risks of significant weaknesses in arrangements;
- If any risks of significant weaknesses are identified, perform procedures to determine whether there is in fact a significant weakness in arrangements, and if so to make recommendations for improvement;
- Issue a narrative commentary in the Auditor’s Annual Report, setting out the work undertaken in respect of the reporting criteria and our findings, including any explanation needed in respect of judgements or local context for findings. If significant weaknesses are identified, the weaknesses and recommendations will be included in the reporting, together with follow-up of previous recommendations and whether they have been implemented. Where relevant, we may include reporting on any other matters arising we consider relevant to VfM arrangements, which might include emerging risks or issues.
- Where significant weaknesses are identified, report this by exception within our financial statement audit opinion.

AGN03 requires auditors to set out the results of their risk assessment as part of the audit planning report. Our work is currently in progress and discussion has been held with officers around the VfM reporting requirements. We will report to a later Audit Committee on any matters arising from this work. Specific areas that we expect to focus on in understanding the Authority’s arrangements include: Financial sustainability and OFSTED finding on Children Services.

Prior year audit adjustments

Uncorrected misstatements

The following uncorrected misstatements were identified in relation to the prior year audit:

		Credit/(Charge) to the income statement £'m	Increase/ (Decrease) in net assets £'m	Increase/ (Decrease) in retained earnings £'m
Factual misstatements				
Other Expenses	[1]	(0.8)		
Equity	[1]			0.8

(1) We identified an unadjusted misstatement of £844k in relation to the Shared Revaluation. We were informed by the management that the new version of the RAM system implemented from 01/04/2023 will address this issue going forwards.

Audit quality

Our commitment to audit quality

Our objective is to deliver a distinctive, quality audit to you. Every member of the engagement team will contribute, to achieve the highest standard of professional excellence.

In particular, for your audit, we consider that the following steps will contribute to the overall quality:

We will apply professional scepticism on the valuation of land and building and other significant judgements

- 84 We will obtain a deep understanding of your business, its environment and of your processes such as Revenue, Fixed Assets, Financial Reporting enabling us to develop a risk-focused approach tailored to the Authority.

- Our engagement team is selected to ensure that we have the right subject matter expertise and industry knowledge. We will involve IT specialists and also Deloitte Real Estate to support the audit team in our work on valuation and pensions specialists in our work on the pension fund liability.

- In order to deliver a quality audit to you, each member of the core audit team has received tailored learning to develop their expertise in audit skills.

Engagement Quality Control Review

We have developed a tailored Engagement Quality Control approach. Our dedicated Professional Standards Review (PSR) function will provide a 'hot' review before any audit or other opinion is signed. PSR is operationally independent of the audit team, and supports our high standards of professional scepticism and audit quality by providing a rigorous independent challenge.

Purpose of our report and responsibility statement

Our report is designed to help you meet your governance duties

What we report

Our respective responsibilities are set out in "PSAA Statement of responsibilities of auditors and audited bodies: Principal Local Authorities and Police Bodies.” The responsibilities of auditors are derived from statute, principally the Local Audit and Accountability Act 2014 and from the NAO Code of Audit Practice. The responsibilities of audited bodies are derived principally the Local Audit and Accountability Act 2014 and from the Accounts and Audit Regulations 2015.

Our report is designed to communicate our preliminary audit plan and to take the opportunity to ask you questions at the planning stage of our audit. Our report includes our preliminary audit plan, including key audit judgements and the planned scope.

Use of this report

This report has been prepared for the Audit Committee, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose. Except where required by law or regulation, it should not be made available to any other parties without our prior written consent.

What we don’t report

As you will be aware, our audit is not designed to identify all matters that may be relevant to the Authority.

Also, there will be further information you need to discharge your governance responsibilities, such as matters reported on by officers or by other specialist advisers.

Finally, the views on internal controls and business risk assessment in our final report should not be taken as comprehensive or as an opinion on effectiveness since they will be based solely on the audit procedures performed in the audit of the statement of accounts and the other procedures performed in fulfilling our audit plan.

Other relevant communications

We will update you if there are any significant changes to the audit plan.

Deloitte LLP

19 October 2023

Appendices

Appendix 1 - Fraud responsibilities and representations

Your Responsibilities:

The primary responsibility for the prevention and detection of fraud rests with management and those charged with governance, including establishing and maintaining internal controls over the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations.

Our responsibilities:

- We are required to obtain representations from your management regarding internal controls, assessment of risk and any known or suspected fraud or misstatement.
- As auditors, we obtain reasonable, but not absolute, assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error.
- As set out in the significant risks section of this document, we have identified risks of material misstatement due to fraud in valuation of property, revenue expenditure incorrectly capitalized and management override of controls.
- We will explain in our audit report how we considered the audit capable of detecting irregularities, including fraud. In doing so, we will describe the procedures we performed in understanding the legal and regulatory framework and assessing compliance with relevant laws and regulations.
- We will communicate to you any other matters related to fraud that are, in our judgment, relevant to your responsibilities. In doing so, we shall consider the matters, if any, regarding management's process for identifying and responding to the risks of fraud and our assessment of the risks of material misstatement due to fraud.

Fraud Characteristics:

- Misstatements in the financial statements can arise from either fraud or error. The distinguishing factor between fraud and error is whether the underlying action that results in the misstatement of the financial statements is intentional or unintentional.
- Two types of intentional misstatements are relevant to us as auditors – misstatements resulting from fraudulent financial reporting and misstatements resulting from misappropriation of assets.

Appendix 1 - Fraud responsibilities and representations

We will make the following inquiries regarding fraud and non-compliance with laws and regulations:

Management and other personnel:

- Management's assessment of the risk that the financial statements may be materially misstated due to fraud, including the nature, extent and frequency of such assessments.
- Management's process for identifying and responding to risks of fraud.
- Management's communication, if any, to those charged with governance regarding its processes for identifying and responding to the risks of fraud.
- Management's communication, if any, to employees regarding its views on business practices and ethical behaviour.
- Whether management has knowledge of any actual, suspected or alleged fraud affecting the entity.
- We will also make inquiries of personnel who are expected to deal with allegations of fraud raised by employees or other parties, if any.

Internal audit

- Whether internal audit has knowledge of any actual, suspected or alleged fraud affecting the entity, and to obtain its views about the risks of fraud.

Those charged with governance

- How those charged with governance exercise oversight of management's processes for identifying and responding to the risks of fraud in the entity and the internal control that management has established to mitigate these risks.
- Whether those charged with governance have knowledge of any actual, suspected or alleged fraud affecting the entity.
- The views of those charged with governance on the most significant fraud risk factors affecting the entity, including those specific to the sector.

Appendix 2 – Independence and fees

As part of our obligations under International Standards on Auditing (UK), we are required to report to you on the matters listed below:

Independence confirmation	We confirm that we comply with FRC Ethical Standards for Auditors and that, in our professional judgement, we and, where applicable, all Deloitte network firms are independent and our objectivity is not compromised.
Fees	There are no non-audit fees.
Non-audit services	We continue to review our independence and ensure that appropriate safeguards are in place including, but not limited to, the rotation of senior partners and professional staff and the involvement of additional partners and professional staff to carry out reviews of the work performed and to otherwise advise as necessary.
Relationships	We are required to provide written details of all relationships (including the provision of non-audit services) between us and the organisation, its board and senior management and its affiliates, including all services provided by us and the DTTL network to the Council, its members and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on our objectivity and independence. We are not aware of any relationships which are required to be disclosed.

The professional fees expected to be charged by Deloitte for the period from 01 April 2022 to 31 March 2023 are as follows:

	2022/23 £k (exc VAT)	2021/22 £k (exc VAT)
Financial statement audit including Whole of Government and procedures in respect of Value for Money assessment	110*	110*
Total audit	**TBC**	**TBC**
Audit related assurance services	-	-
Other assurance services	TBC	TBC
Total assurance services	**TBC**	**TBC**
Total fees	**TBC**	**TBC**

* In line with PSAA correspondence that scale fees should be negotiated by individual s151 officers based on the individual circumstances of each body, we will be discussing the final position with the Council in respect of the additional inputs for the 2020/21, fees for 2021/22 and fee estimate for 2022/23. We will subsequently provide an update to the Audit Committee.

All additional fees are subject to agreement with PSAA.

Our approach to quality
FRC 2022/23 Audit Quality Inspection and Supervision report

Audit quality is at the heart of everything we do. We are committed to acting with the highest levels of integrity in the public interest to deliver confidence and trust in business.

In July 2023, the Financial Reporting Council ("FRC") issued individual reports on each of the seven largest firms, including Deloitte on Audit Quality Inspection and Supervision, providing a summary of the findings of its Audit Quality Review ("AQR") team for the 2022/23 cycle of reviews.

We greatly value the FRC reviews of our audit engagements and firm wide quality control systems, a key aspect of evaluating our audit quality.

In that context, our inspection results for our audits selected by the FRC as part of the 2022/23 inspection cycle remain consistent year-on-year, with 82% of all inspections in the cycle assessed as good or needing limited improvement. This reflects the ongoing investment we continue to make in audit quality, with a relentless focus on continuous improvement. Our audit culture and the audit quality environment we create are critical to our resilience and reputation as a business and we remain committed to our role in protecting the public interest and creating pride in our profession.

We value the observations raised by both the FRC AQR and Supervision teams, both in identifying areas for improvement and also the increasing focus on sharing good practice to drive further and continuous improvement.

We are pleased to see the positive impact of actions taken over the last 12-18 months to address findings raised by the FRC in the prior year relating to EQCR, Independence & Ethics and Group Audits, with none of these areas identified as key findings in this year's engagement inspection cycle. The reduction in findings in this area reflects the ongoing effectiveness of the actions taken, particularly the successful rollout of our group audit coaching programme. Our EQCR transformation programme, which commenced in the second half of 2021, has served to further enhance the effectiveness of our EQCR process and led to improved evidence on our audit files demonstrating the EQCR challenge.

We welcome the breadth and depth of good practice points raised by the FRC, particularly in respect of effective group oversight and effective procedures for impairments, where we have made sustained efforts and investment to drive consistency and high-quality execution.

All the AQR public reports are available on the FRC's website:

[Audit Firm Specific Reports - Tier 1 audit firms | Financial Reporting Council (frc.org.uk)]

Our approach to quality

FRC 2022/23 Audit Quality Inspection and Supervision report

The AQR's 2022/23 Audit Quality Inspection and Supervision Report on Deloitte LLP

"In the 2021/22 public report, we concluded that the firm had continued to show improvement in relation to its audit execution and firm-wide procedures.

82% of audits inspected were found to require no more than limited improvements. None of the audits we inspected this year were found to require significant improvements and 82% required no more than limited improvements, the same as last year. This was the case for 78% of FTSE 350 audits (91% last year). The firm has maintained its focus on audit quality on individual audits, with consistent FRC inspection results.

The areas of the audit that contributed most to the audits assessed as requiring improvements were revenue and margin recognition, and provisions. There continues to be findings related to the audit of provisions, which was a key finding last year, although in different areas of provisioning. At the same time, we identified a range of good practice in these and other areas."

Inspection results: review of the firm's quality control procedures

"This year, our firm-wide work focused primarily on evaluating the firm's actions to implement the FRC's Revised Ethical Standard; partner and staff matters; acceptance, continuance, and resignation procedures; and audit methodology relating to settlement and clearing processes.

Our key findings related to compliance with the FRC's Revised Ethical Standard, timely continuance procedures, and audit methodology relating to settlement and clearing processes.

We identified good practice points in the areas of compliance with the FRC's Revised Ethical Standard, partner and staff matters, and acceptance, continuance and resignation procedures."

Deloitte.

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