

**Public Document Pack  
SOUTHEND-ON-SEA BOROUGH COUNCIL**

**Audit Committee**

**Date: Wednesday, 25th July, 2018**

**Time: 6.30 pm**

**Place: Committee Room 1 - Civic Suite**

**Contact:**

**Email: [committeesection@southend.gov.uk](mailto:committeesection@southend.gov.uk)**

**AGENDA**

- 1 Apologies for Absence**
- 2 Declarations of Interest**
- 3 Minutes of the Meeting held on 25<sup>th</sup> April 2018 (Pages 1 - 4)**
- 4 Internal Audit Service, Quarterly Performance Report (Pages 5 - 14)**  
Report of the Chief Executive
- 5 Counter Fraud & Investigation Directorate, Annual Report for 2017/18 (Pages 15 - 38)**  
Report of the Chief Executive
- 6 Head of Internal Audit Annual Report 2017/18 (Pages 39 - 88)**  
Report of the Chief Executive
- 7 BDO: Audit Completion Report to the Audit Committee 2017/18 (Pages 89 - 132)**  
Report of the Chief Executive
- 8 Statutory Statement of Accounts 2017/18 (Pages 133 - 294)**  
Report of the Chief Executive
- 9 Information Items (Pages 295 - 388)**

**Members:**

Cllr M Davidson (Chair), Cllr N Folkard (Vice-Chair), Cllr B Ayling, Cllr A Bright, Cllr K Buck, Cllr L Burton, Cllr D Nelson, Cllr C Willis, Cllr R Woodley and K Pandya

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# SOUTHEND-ON-SEA BOROUGH COUNCIL

## Meeting of Audit Committee

**Date: Wednesday, 25th April, 2018**  
**Place: Committee Room 1 - Civic Suite**

# 3

**Present:** Councillor M Davidson (Chair)  
Councillors H Boyd (Vice-Chair), B Ayling, A Bright, J Moyies,  
G Phillips, C Willis and K Pandya

**In Attendance:** Mr J Chesterton, R Harris and L Everard, Ms K Lynch, Ms S  
Houlden, Ms R Gill, Mr D Kleinbery and Mr G Bhambra.

**Start/End Time:** 6.30 - 8.20 pm

### **945 Apologies for Absence**

Apologies for absence were received from Councillors Terry and Ware-Lane (no substitutes).

### **946 Minutes of the Meeting held on Wednesday, 17th January 2018**

Resolved:-

That the Minutes of the Meeting held on Wednesday 17<sup>th</sup> January 2018, be confirmed as a correct record and signed.

### **947 Declarations of Interest**

Councillor Davidson – matters in relation to South Essex Homes – Disqualifying non-pecuniary interest (was able to participate in the debate and vote by virtue of the dispensation agreed by the Standards Committee at its meeting held on 28<sup>th</sup> February 2017).

### **948 Update on Progress with Housing Allocations**

The Committee considered a report of the Deputy Chief Executive (People) providing an update on progress following the audit report for Housing Allocations issued in November 2017, with a completion date of April 2017.

Members expressed concerns that little or no progress had been made against the management actions outstanding from the previous audit.

The Committee asked a number of questions which were responded to by officers. In reference to the Developer costs for the Abris system the Director of Social Care and Housing agreed to provide the figures to the Committee.

Resolved:

That the report be noted.

**949 BDO Audit Plan 2018-19**

The Committee considered a report of the BDO External Auditor presenting the External Auditor's Audit Plan for 2017/18.

The Committee asked a number of questions which were responded to by the BDO External Auditor and officers. In relation to an immaterial fraud investigation the officers advised that the outcome would be reported to a future meeting of the Committee.

In reference to the Use of Resources section the Committee commented that the budget gap/savings figures need to be articulated more clearly in the report.

Resolved:

That the External Auditor's Audit Plan for 2017/18, be noted.

**950 BDO Progress Report**

The Committee considered a report of the BDO External Auditor on progress in delivering the 2017/18 Annual Audit Plan.

Resolved:

That the progress made in delivering the Annual Audit Plan for 2017/18, be noted.

**951 Counter Fraud Investigation Department Quarterly Status Report**

The Committee considered a report of the Chief Executive on the progress made by the Counter Fraud & Investigation Directorate (CFID) in delivering the Counter Fraud Strategy and Work Programme for 2017/18.

The Committee asked a number of questions which were responded to by officers. The Committee asked officers to include a summary of trends related to fraud for future reports and in reference to the policies and procedures the officers reported that the revisions were at an advanced stage and would be concluded in time for presentation to the next meeting of the Committee.

Resolved:

That the performance of the Counter Fraud and Investigation Directorate to date, be noted.

**952 Internal Audit Quarterly Performance Report**

The Committee considered a report of the Chief Executive on the progress made in delivering the Internal Audit Strategy for 2017/18.

The Committee asked a number of questions which were responded to by officers.

Resolved:

1. That the progress made in delivering the 2017/18 Internal Audit Strategy, be noted.
2. That the amendments to the Audit Plan, be approved.

**953 Internal Audit Charter Strategy and Audit Plan 2018-19**

The Committee considered a report of the Chief Executive presenting the Internal Audit Charter with the supporting Strategy and Audit Plan 2018/19.

Resolved:

That the Internal Audit Charter, Strategy and Audit Plan for 2018/19, be approved.

**954 Vote of Thanks**

Members of the Committee thanked the Chair for the able way in which she had conducted meetings during the Municipal Year.

The Chair, on behalf of the Committee, also extended her thanks and appreciation to Linda Everard, Head of Internal Audit, for her hard work and advice over the years and wished her all the best for the future.

**955 Information Items**

The Committee received and noted the following information items:

- Audit Committee Update – Helping Audit Committees to be Effective, Issue 24, February 2018 and Issue 25, March 2018;
- Annual Fraud Indicator 2017 – Identifying the cost of fraud to the UK economy.

**Chairman:** \_\_\_\_\_

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# Southend-on-Sea Borough Council

Agenda

Item No.

4

4

Report of the Chief Executive

to

**Audit Committee**

on

**25th July 2018**

Report prepared by: Elaine Allen, Interim Head of Internal  
Audit

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## Internal Audit Services, Quarterly Performance Report

### *A Part 1 Public Agenda Item*

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#### **1. Purpose of Report**

- 1.1 To update the Audit Committee for the final time, on the progress made in delivering the Internal Audit Strategy for 2017/18.

#### **2. Recommendations**

- 2.1 The Audit Committee notes the progress made in delivering the 2017/18 Internal Audit Strategy.

#### **3. Background**

- 3.1 To comply with the UK Public Sector Internal Audit Standards, the Head of Internal Audit's Annual Report includes details of the team's final performance during 2017/18, in delivering:

- the Audit Plan
- its targets.

#### **4. Audit Opinions and Themes**

- 4.1 Appendix 1 summarises the results of and where appropriate, the audit opinions given for each audit completed since the April 2018 Audit Committee meeting.

#### **5. Corporate Implications**

- 5.1 Contribution to Council's Aims and Priorities

Audit work contributes to the delivery of all corporate Aims and Priorities.

- 5.2 Financial Implications

The Audit Plan will be delivered within the approved budget.

Any financial implications arising from identifying and managing fraud risk will be considered through the normal financial management processes.

### 5.3 Legal Implications

The UK Public Sector Internal Audit Standards require the Audit Committee to approve (but not direct) the annual Internal Audit Plan and then receive regular updates on its delivery. This report contributes to discharging this duty.

### 5.4 People and Property Implications

People and property issues that are relevant to an audit within the Audit Plan will be considered as part of the review.

### 5.5 Consultation

The audit risk assessment and the Audit Plan are periodically discussed with the Chief Executive, Deputy Chief Executives and Directors before being reported to Corporate Management Team and the Audit Committee.

All terms of reference and draft reports are discussed with the relevant Deputy Chief Executives and Directors before being finalised.

### 5.6 Equalities Impact Assessment

The relevance of equality and diversity is considered during the initial planning stage of the each audit before the Terms of Reference are agreed.

### 5.7 Risk Assessment

Failure to operate a robust assurance process (which incorporates the internal audit function) increases the risk that there are inadequacies in the internal control framework that may impact of the Council's ability to deliver its corporate aims and priorities.

The main risks the team continues to manage are the:

- potential loss of in-house staff and the ability of the service to replace this resource in a timely manner
- lack of management capacity to support and process work in a timely manner and provide strategic leadership to the team
- possibility that the external supplier won't deliver contracted in work within the required deadlines to the expected quality standards
- need to maintain relationships with clients / partners until the service has been rebuilt.

### 5.8 Value for Money

Opportunities to improve value for money in the delivery of services are identified during some reviews and recommendations made as appropriate.

Internal Audit also considers whether it provides a value for money service periodically.

### 5.9 Community Safety Implications and Environmental Impact

These issues are only considered if relevant to a specific audit review.

## 6. Background Papers

- The Accounts and Audit Regulations 2015
- UK Public Sector Internal Audit Standards



- CIPFA: Local Government Application Note for the UK Public Sector Internal Audit Standards

## 7. **Appendices**

### Appendix 1 Audit Assurances and Summaries

- a • Audits Revisited
- b • Other Audits and Grant Claims

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# Appendix 1a: Audits Revisited

## Purpose of these audits

To assess whether the actions agreed in the original audit report have been implemented and are now effectively embedded into the day-to-day operation of the service.

## IT Infrastructure and Asset Management Revisited

### Original Objective

To assess whether the IT infrastructure and asset portfolio is well managed, secured and helps deliver both effective IT and wider Southend-on-Sea Borough Council (the Council) services.

### Results

| Fully implemented | Substantially implemented | Partially implemented | Not implemented | No longer applicable |
|-------------------|---------------------------|-----------------------|-----------------|----------------------|
| 3                 | 2                         | 0                     | 0               | 0                    |

### Summary

ICT has made good progress towards implementing the recommendations raised in the original IT Infrastructure and Asset Management audit report.

An IT Asset Management Policy and Procedure have been developed which define the responsibilities of staff, management and ICT in relation to safeguarding assets and replacing existing hardware. The Policy now just needs to be formally approved by DMT and CMT.

A new asset management system (WASP) has been implemented for hardware assets, which has improved the safeguarding and management of IT assets as:

- a mandatory field ensures sufficient information is recorded regarding the location of assets
- data cleansing undertaken has improved the consistency and level of detail held about assets as well as who the assets are assigned to.

ICT carry out spot checks to obtain assurance over the completeness of the hardware asset register but these checks need to be documented.

Details of the Council's software assets including the numbers of licences have been recorded on a software asset register. The accuracy of the register is validated before software licences are renewed.

ICT will undertake spot checks going forward, to check for illegal software installed on Council machines.

## Appendix 1a: Audits Revisited

### IT Enterprise Change Management Revisited

#### Original Objective

To assess the adequacy and effectiveness of the Council's formal processes that ensure any changes to the IT environment (e.g. through applications or infrastructure) are introduced in a controlled and coordinated manner to minimise the risk of disruption to Council services.

#### Results

| IT Change Elements                                                                                                    | Assurance           | Summary Assessment                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
|-----------------------------------------------------------------------------------------------------------------------|---------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><b>Change</b><br/>Requesting, assessing and authorising changes.</p>                                               | <b>Satisfactory</b> | <p>There is still work to do across all these areas; nevertheless an appropriately designed 'change' process is in place. The enhancements identified will further improve this process and involve such things as making:</p> <ul style="list-style-type: none"> <li>• sure changes are closed on the system in a timely manner</li> <li>• instructions within some documents more explicit</li> <li>• it easier to identify the type of change by recording this separately in the system (see note below).</li> </ul> |
| <p><b>Configuration</b><br/>Maintaining an accurate record of the 'status' of systems, including changes applied.</p> | <b>Satisfactory</b> | <p>The Council has a record of the 'status' of its systems (i.e. cumulatively the version, all changes / fixes applied, issues and how they have been resolved / worked around). However, this is split across IT systems and needs to be more integrated.</p> <p>This can't be progressed until the planned software upgrade has been implemented (see note below).</p> <p>The fragmented nature of current records should be recognised as a risk on the IT Risk Register.</p>                                         |
| <p><b>Release</b><br/>Planning, testing and implementing changes.</p>                                                 | <b>Minimal</b>      | <p>This is the least mature element of the change management process.</p> <p>For it to be appropriately managed and this evidenced consistently, the software upgrade is needed (see note below).</p> <p>This short-term risk should also have corporate visibility and therefore be added to the ICT Risk Register.</p>                                                                                                                                                                                                 |

## Appendix 1a: Audits Revisited

### Summary

These new IT Enterprise Change Management arrangements were highlighted to staff in January 2018 and are still developing. The previous review undertaken earlier in 2016/17 which this follows up on identified deficiencies in all of the areas above, prior to this date.

Some issues identified reflect deficiencies in the current version of the Council's Service Desk software (Hornbill Support Works). However, a planned upgrade to Support Works 8 by November 2018 will enable many of these issued to be addressed. The software has been purchased and an action plan is in place, setting out the steps required to successfully complete the implementation by the due date.

For clarity, this review focussed on IT Enterprise Change Management, which is changes applicable to the 'environment' in which applications, for example Agresso, sits. Specific, more focussed governance / change management arrangements are in place for key applications, such as Agresso and Liquid Logic. Governance and Change Management arrangements for key applications will be risk assessed and audited separately, as needed.

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## **Appendix 1b: Other Audits and Grant Claims**

### **Airport Business Park Benefits Management**

#### **Objective**

To provide support and independent challenge to management in the development of benefits management controls, designed to help ensure the project can demonstrate achievement of its expected benefits.

#### **Results**

This work resulted in Internal Audit supporting the project in the development of a draft benefits profile, which now contains fields to capture key information in relation to the project's planned benefits.

Work focussed on which benefits could be measured for the two key elements of phase 2 of the project, which are:

#### **The Innovation Centre**

The workshop determined two planned benefits which are:

- creating a business / networking community which allows businesses to support each other and thrive
- creating additional jobs for the local community (exact number to be agreed)

The dis-benefit is the likely need for financial subsidy during the early phase of operation. The aim will be to reduce this to zero within three years of the centre opening.

#### **Infrastructure Works**

The workshop determined that the infrastructure works enables other areas of the project to realise benefits and did not directly plan to realise benefits of its own.

This is also in line with the business case submitted to the South Essex Local Enterprise Partnership (SELEP) which focused on the business park as a whole with infrastructure enabling the whole development.

Further work was required to:

- finalise this draft, ensuring the proposed baselines and targets were appropriate; and agree nominated benefit owners
- develop it to include wider overall benefits set out in the project's business case and determine what could be included and measured from Phase 1
- monitor and manage their realisation as the project progresses.

### **Social Care IT Case Management System, Project Implementation “Go Live” Readiness Assessment for Adults (Liquid Logic)**

#### **Objective**

To provide a framework to enable an assessment to be made of the readiness of the new Social Care IT Case Management System for Adult's services to 'Go Live'.

## **Appendix 1b: Other Audits and Grant Claims**

To independently challenge and report on the Project Team's assessment against the success criteria within the framework, prior to any decision being made by the Project Board to 'Go

### **Results of Readiness Assessment**

The Project Team's self assessment of readiness for "Go Live" against the success factors agreed with the Project Board was found to be well documented. In addition, the team demonstrated a clear understanding of the majority of mitigating actions that were required ahead of "Go Live" and had plans in place to address many of them.

The audited "Go Live" assessment presented to the Project Board was considered alongside other inputs from the Project Team and was used by the Board to inform their final decision to "Go Live".

### **Complaints Investigated by Contractors**

#### **Issue**

The Local Government Ombudsman has issued a judgement the following judgement when investigating a complaint regarding a contractor.

*"The law is clear: it says that the actions of any firm contracted shall be treated as actions of or on behalf of the council. This means that when a complaint arises, councils have a duty to make sure that it is investigated rigorously, fairly and independently, taking into account all evidence available.*

*"We are urging councils to consider how they integrate their own complaints policies into contracts with external companies so that complaints are dealt with effectively and to ensure that the council maintains oversight".*

#### **Action being taken**

Officers are reviewing the robustness of clauses relating to complaints in standard documents issued to suppliers providing services.



# Southend-on-Sea Borough Council

Agenda  
Item No.

**5**

Report of the Chief Executive

to

**Audit Committee**

on

**25<sup>th</sup> July 2018**

Report prepared by: David Kleinberg, Assistant Director for  
Fraud & Investigations

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**Counter Fraud & Investigation Directorate: Annual Performance Report**

**Cabinet Member - Councillor John Lamb**

***A Part 1 Public Agenda Item***

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## **1. Purpose of Report**

- 1.1 To update the Audit Committee on the progress made by the Counter Fraud & Investigation Directorate (CFID) in delivering the Counter Fraud Strategy and Work Programme for 2017/18.

## **2. Recommendation**

- 2.1 The Audit Committee notes the performance of the Counter Fraud & Investigation Directorate over the last year.**

## **3. Annual Report**

- 3.1 The CFID has produced its second annual report which details the work and results of the CFID for the period 2017/18 across all partners including Southend-on-Sea Council. The report is shown at **Appendix 1**.
- 3.2 The report details year on year comparison of investigations and value of detected fraud for the periods since 2014. This shows an upwards trend in cases of detected fraud.
- 3.3 A number of case summaries are included in the report with a wide range of examples from across CFID's partners.

## **4. Investigations**

- 4.1 For the year 2017/18 good progress has been made in responding to reports of suspected fraud, with:
- **136** investigations being concluded so far in the year
  - **91** sanctions being delivered in cases of proven fraud
  - **£687,742** of fraud has been detected

## **5. Work Plan**

- 5.1 The work plan for the period 2018/19 is shown at **Appendix 2**. This work plan details the current projects of the CFID.

5.2 Some of these projects have already been implemented and progress will be updated to future audit committees. A section of the work plan, regarding questionnaires for bribery & corruption and money laundering has been carried over from the 2017/18 work plan.

## **6. Corporate Implications**

### 6.1 Contribution to Council's Aims and Priorities

6.1.1 Work undertaken to reduce fraud and enhance the Council's anti-fraud and corruption culture contributes to the delivery of all its aims and priorities.

### 6.2 Financial Implications

6.2.1 Proactive fraud and corruption work acts as a deterrent against financial impropriety and might identify financial loss and loss of assets.

6.2.2 Any financial implications arising from identifying and managing the fraud risk will be considered through the normal financial management processes.

6.2.3 Proactively managing fraud risk can result in reduced costs to the Council by reducing exposure to potential loss and insurance claims.

### 6.3 Legal Implications

6.3.1 The Accounts and Audit Regulations 2015 Section 3 requires that:

*'The relevant authority must ensure that it has a sound system of internal control which:*

- *facilitates the effective exercise of its functions and the achievement of its aims and objectives*
- *ensures that the financial and operational management of the authority is effective*
- *includes effective arrangements for the management of risk.'*

6.3.2 The work of the Directorate contributes to the delivery of this.

### 6.4 People Implications

6.4.1 Where fraud or corruption is proven the Council will:

- take the appropriate action which could include disciplinary proceedings and prosecution
- seek to recover losses using criminal and civil law
- seek compensation and costs as appropriate.

### 6.5 Property Implications

6.5.1 Properties could be recovered through the investigation of housing tenancy fraud or assets recovered as a result of criminal activity. This action will benefit the authority by means of returning housing stock to those in need or gaining the assets of those who seek to profit from their criminal behaviour.

6.6 Consultation: None

6.7 Equalities Impact Assessment: None

6.8 Risk Assessment

6.8.1 Failure to operate a strong anti-fraud and corruption culture puts the Council at risk of increased financial loss from fraudulent or other criminal activity.

6.8.2 Although risk cannot be eliminated from its activities, implementing these strategies will enable the Council to manage this more effectively.

6.9 Value for Money

6.9.1 An effective counter fraud and investigation service should save the Council money by reducing the opportunities to perpetrate fraud, detecting it promptly and applying relevant sanctions where it is proven.

6.10 Community Safety Implications and Environmental Impact: None

## **7. Background Papers**

- 2017/18 Annual Fraud Indicator – Crowe Clark & Whitehall

## **8. Appendices**

- Appendix 1: CFID Annual Report 2017/18
- Appendix 2: CFID Work Plan 2018/19

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**Counter Fraud &  
Investigation Directorate**

# Safeguarding frontline services, protecting communities

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**Annual Report 2017/18**



The Counter Fraud & Investigation Directorate was launched as an internal service but also as a separate national function in 2014 following the award of government grant. The funded programme was to install advanced capabilities for crime fighting in order to protect not only Thurrock & Southend Councils but provide assistance to other public bodies around the UK.

Since we started that journey our work has led to over £24.5m of economic crime being detected and the recovery of £3.9m of public funds from criminals.

We have provided specialist support to twenty-five local authorities, three police forces and two government departments all over the UK from Essex to London, Lancashire, Manchester and Wales. Last year we were also called upon by the Foreign & Commonwealth Office to assist the government of Malawi suffering from a serious economic crime incident.

I am proud to say that our effectiveness in countering the most serious types of crime, now across the world speaks for itself. None of that success could have been achieved without the continuing commitment of the CFID officers working 24/7 to protect the public purse supporting frontline public services.

Our work is far from complete and the ensuing year will see us pursue further collaborations to make sure that public bodies continue to acknowledge and respond better to the ever changing threats from fraud and economic crime.

**David Kleinberg**

Assistant Director - Head of CFID

# Our Performance

Our key role is to protect Thurrock, Southend and Castle Point Councils from fraud and economic crime. We also have a national remit providing expertise to other public bodies to reduce economic crime.

This work is provided by the specialist capabilities not present in other public authorities, including:

- Criminal Intelligence – Strategic Assessment Programmes, helping organisations understand the threats they face and implementing plans to deal with them
- Digital Forensics – providing access to electronic evidence in investigations to international standards (ISO17025)
- Criminal Finances – providing officers, accredited by the National Crime Agency to investigate, restrain and confiscate criminal proceeds
- Cyber Resilience – providing advanced technology and expertise to protect public bodies from cyber crime



**£24.5m**  
Detected



**£3.9m**  
Recovered



**48**  
Convictions



**29**  
Insider Threats  
Apprehended



**81**  
Adults &  
Children  
Safeguarded



**3**  
Organised Crime  
Groups (OCGs)  
Disrupted



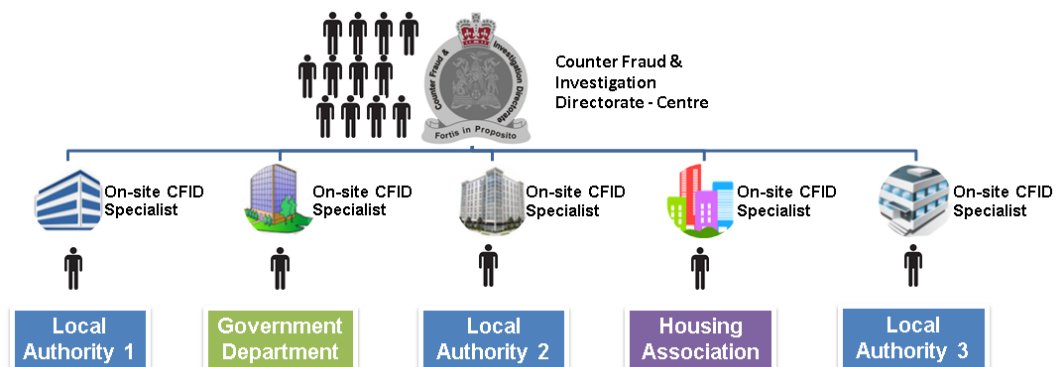
**3**  
Police  
Forces  
Supported



**27**  
Public  
Bodies  
Supported

## How we operate

In order to deliver this support to other public bodies CFID's officers will deliver specific investigative projects or will co-locate CFID officers to support ongoing operations:



# Collaboration

CFID continue to support these partners to fight economic crime:



Operational collaboration agreements are being developed with these partners:





# Governance & Accountability

A Shared Services Board was formed in May 2017 with senior executives from Thurrock Council, Southend-on-Sea Borough Council, South Essex Homes and Castle Point Borough Council.

The board considers the work of CFID across the partners as well as opportunities to develop more collaboration ensuring good quality, professional services are provided that meet each individual organisation's needs.

The provision of a national capability brings with it national responsibilities and oversight. Recognising our role and responsibilities, we sought assistance from national bodies to implement an appropriate inspection regime to provide assurance over our work.

The governance structure overseeing the directorate's work is now formed of several independent bodies:

- **Local & Central Government – Standards & Audit Committees**
  - Monitoring of Performance against each annual strategy for the bodies to provide assurance of crime risk and organisational governance
- **Her Majesty's Inspector of Constabulary**
  - Annual inspection to monitor use of police data by the Directorate and its use in investigative work
- **Investigatory Powers Commissioner's Office**
  - Inspections to monitor the use of investigatory tactics regulated by the Regulation of Investigatory Powers Act 2000, Investigatory Powers Act 2016 and Human Rights Act 1998
- **Home Office - National Police Information Risk Management Team**
  - Inspections to monitor the security of data used in the department
- **College of Policing**
  - Delivery of Accredited programmes for all the officers in the directorate, including Professionalising Investigation Practice (PIP) & Intelligence Professionalisation Programme (IPP) accreditations
- **United Kingdom Accreditation Service**
  - Inspections to monitor our forensics activity for criminal casework
- **UK Forensic Science Regulator**
  - The Regulator ensures that the provision of forensic science services by CFID across the criminal justice system is compliant to an appropriate regime of scientific quality standards.

## Inspections

CFID did not have any inspections over the last year but two inspections are planned for this year:

### **National Crime Agency – Proceeds of Crime Regulator**

CFID uses a number of powers afforded by Parts 2, 5 and 8 of the Proceeds of Crime Act 2002. The National Crime Agency is the regulator of these powers. An inspection in to CFID's use of the powers will take place in July 2018.

### **UK Accreditation Service**

CFID has its own forensic laboratory to deal with digital media recovering material from electronic devices for use in criminal justice or civil outcomes. All laboratories conducting this work in the UK must now be accredited to ISO17025 (International Standards). CFID has worked towards this accreditation for 2 years. This year the final inspection will take place to accredit CFID's laboratory to ISO17025 standards.

The CFID is hosted at Thurrock Council with staff seconded to the function from Southend-on-Sea Borough Council or other agencies. Other partners can join the service with a financial contribution or with the secondment of staff into CFID.

In some cases where CFID is providing a partner's on-site counter fraud resource CFID will have an 'on-site' budget to maintain the counter fraud & investigation operations for that partner.

## Overall CFID Budget 2017/18

|                     | <b>Contribution</b> | <b>Contributor</b> |
|---------------------|---------------------|--------------------|
|                     | £898,502            | Thurrock Council   |
|                     | £288,960            | Southend Council   |
|                     | £349,467            | Other Partners     |
| <b>Total Budget</b> | <b>£1,536,929</b>   |                    |

## Detected Fraud 2017/18

|                    |                   |                      |
|--------------------|-------------------|----------------------|
|                    | £1,499,894        | Thurrock Council     |
|                    | £687,742          | Southend Council     |
|                    | £263,400          | Castle Point Council |
|                    | £238,900          | South Essex Homes    |
|                    | £448,900          | Poplar HARCA         |
| <b>Total Fraud</b> | <b>£3,138,836</b> |                      |

**These statistics show that for every £1.00 that CFID costs it detects £2.04 in fraud and other economic crime.**

# Strategic Assessment

The Counter Fraud & Investigation Directorate's primary focus is the protection of Thurrock and its partners, around the UK, from economic crime.

Local authorities were provided with a framework in 2016 for countering fraud known as the Fighting Fraud and Corruption Locally Strategy. That strategy provided only limited assessment of the threats impacting on local government, without a national understanding of the problem or how to deal with the threat holistically. The loss figures used were also from 2013. The most notable gaps in that strategy were the understanding of fraud in Social Care, Cyber Crime and Money Laundering. All of these areas have seen an increase to CFID's casework detecting those crimes for councils around the UK.

CFID's commissioned its own assessments supported by the Cabinet Office which were concluded in April 2018. This assessment provided a better understanding of the full threat picture and its impact on local government.

CFID developed a new Fraud Loss Matrix<sup>1</sup> which provides partners a better understanding of the threats and what they should be doing about it.

## Fraud Loss Matrix - Top 10 risks for local government



## Economic Crime in Local Government



The Threats **£12.9bn**  
Cost local government *annually*

**Each of the partners now have an organisation-specific strategy based on these risk, which has been presented to their Audit Committees.**

<sup>1</sup> This was supported by publications from Crowe Clark Whitehall  
<https://www.croweclarkwhitehill.co.uk/wp-content/uploads/sites/2/2017/11/Annual-fraud-indicator-2017.pdf>

## Social Housing Fraud

Last year 45 social housing properties were recovered by CFID with an additional five housing applications stopped due to fraud. Recovering properties lost due to fraud and preventing further housing stock being lost saves the public purse in terms of increased temporary accommodation costs as well as ensuring that those in real need of housing receive accommodation. Had these properties not been recovered then the potential loss to the public purse would have exceeded £1million.



**45**

**Properties Recovered**

In one particular case, in Southend-on-Sea, a sole social housing tenant died, and the housing provider served a notice to quit (NTQ) to recover the property. The deceased's estranged wife contested the NTQ, claiming that she had been continually living in the property. An investigation identified that this claim was untrue and took the matter to Court. The Court agreed with the findings of the investigation and the property was returned to the housing provider. The Defendant was also ordered to reimburse the housing provider for lost income during the false claim period.

In another case in Thurrock, it was alleged that a female tenant falsely claimed to be living in her council property but was in fact living with her partner in another property. An investigation confirmed what was suspected and the council property was recovered and put it back into circulation for a family in genuine need. CFID also identified that full council tax wasn't being paid by her partner at the property the female tenant resided in. The council recharged her partner for wrongfully claiming council tax single person discount for the period the female tenant resided at the property.

## Right to Buy Fraud

The Right to Buy Scheme provides social housing tenants the opportunity to buy their social housing property. After a qualifying period properties can be sold to the tenants at a maximum discount between £77,900 and £103,900.

CFID reviews all right to buy applications for Thurrock Council and in the future intends to do this also for Castle Point and South Essex Homes.

Last year CFID detected 6 cases of Right to Buy fraud preventing the social housing properties from being lost. This intervention prevented a significant loss to the public purse ensuring that the properties remained available to those who are in genuine need.

## Blue Badge Fraud

The Blue Badge scheme is a national initiative to help disabled people to park close to their destination, either as a passenger or driver. While the badge is intended for on-street parking only, some off-street car parks, such as those provided by local authorities, hospitals or supermarkets, also offer benefits to Blue Badge Holders.

It is a criminal offence to misuse the badge and doing so can lead to a £1,000 fine. If the badge holder is using the parking concessions as a passenger (as opposed to driving the car themselves), it is their responsibility to make sure that the driver is aware of the rules governing the scheme.

A total of 39 blue badge warnings were issued for first offences, and 19 blue badges seized where criminality was detected. CFID prosecuted one resident of Thurrock for multiple use of a deceased person's blue badge. This person received a

sentence of 120hrs unpaid work and ordered to pay over £2000 in legal costs.



**58**

**Fraud Incidents  
Detected**

CFID are working closely with Civil Enforcement Officers in Southend-on-Sea to ensure body cameras are worn and activated when enforcing blue badge crime. Training has also been provided to CEOs to ensure they provide witness statements to a criminal standard. This approach provided better outcomes for the CEOs where one member of the public was prosecuted by CFID for a public order offence when they abused a CEO for doing their job.

## Council Tax Fraud

Council tax fraud occurs when a person deliberately gives incorrect or misleading information to pay less or no council tax.

CFID works closely with the affected revenues departments and their inspectors to recover the losses and ensure an accurate liability is recorded for properties.



## Conviction

**A female who fraudulently  
claimed 100% council tax  
reduction worth £5,000**

One example in Southend-on-Sea related to a liable party who fraudulently claimed to be living alone as a full-time student to receive a 100% discount on their council tax.

CFID found that other adults were also living at the property and therefore a full charge should have been applied. The liable party was prosecuted for fraud amounting to more than £5,000. The woman was sentenced to 150 hours of unpaid work and was required to pay court costs.

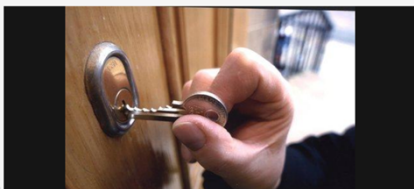
## Insider Threats

The sad reality for any large organisation is the small minority of individuals who seek to take advantage of the trust their employer places in them. It is of some comfort that these cases are extremely rare but where fraud or corruption does occur, CFID has the expertise and experience to resolve any allegations swiftly and professionally reducing the potential impact on frontline service delivery. CFID works closely with business areas in each partner agency as well as its Executive and Human Resources teams in a collaborative approach.

### THURROCK Gazette

News Sport What's On Promotions Announcements e-edition Photosales Classifieds  
Thurrock Council worker spared jail after cheating system to provide her friends with council houses

Jonathan Pickles



In one case at Thurrock, CFID found that a staff member had been manipulating housing allocations records to provide housing to her friends and associates. The investigation culminated in several arrests leading to five prosecutions at Basildon Crown Court for various fraud offences. Two social housing properties were recovered, one housing application was stopped from progressing and one staff member resigned prior to her disciplinary hearing for gross misconduct.

In another case CFID found that a member of staff working at a Theatre had been stealing money from the refreshment kiosk. A CFID operation identified irrefutable video and physical evidence of the thefts taking place. The suspect was interviewed and fully admitted the offence when presented with the video evidence. They attended the Basildon Magistrates Court pleading guilty at the earliest opportunity. The staff member was also dismissed from their employment for gross misconduct.

## Social Care Fraud

Social care fraud occurs where a person fraudulently presents their needs or financial status or does not use their awarded funding correctly. Fraud in this area also takes place where a third party financially abuses an adult or child receiving social care support.

In one Southend case, a Carer for a vulnerable adult continued to claim payments into their own bank accounts following the death of the vulnerable person. They then contacted the council claiming to be someone else stating that they had taken over the care of the vulnerable service user. CFID identified that the service user had died and that over £6,000 had been fraudulently claimed for his care since his death. The suspect was prosecuted and ordered to carry out 160 hours of unpaid work, a 12-month community order, legal costs of £4000 and ordered to pay compensation of £6,077.50.



### Conviction

Resulted in 160 hours unpaid work, £4k costs, £6k compensation

# Operational Activity

In another Southend case, CFID were asked to review a person's application for support after they claimed to be destitute. Council staff became suspicious when the person refused to answer questions surrounding their financial circumstances. CFID identified that they were not in fact destitute, with financial assets and debts with financial institutions going back a number of years. The application for support was refused resulting in a significant saving to the public purse.

## Joint Working

CFID works closely with policing partners and other law enforcement bodies to protect the public purse. Intelligence is lawfully shared under statute, including the new Data Protection Act 2018 where crime is suspected.

CFID's Criminal Intelligence Unit works closely with law enforcement to develop intelligence that will assist in protection of the public. Over the last year **32 Alerts** and guidance notes were disseminated by CFID across all our local authority and public partner service areas.

The Criminal Intelligence Unit have also disseminated **117 Intelligence Reports** to other agencies to assist with the apprehension of criminals.

CFID's specialist expertise has been used by other local authority services to protect the public including tactical support to other enforcement teams in Planning, Trading Standards and Housing to Human Resources, Procurement and ICT.



CFID has also delivered an enhanced national assessment of the economic crime risks faced by local government using data from its national work as well as reports by professional bodies like CroweClarkWhitehall. This new **Fraud Loss Matrix** is being adopted by councils around the UK and government.

## Disruption Operations

In some cases, the most effective way to deal with fraud and other economic crime affecting the public purse is through disruption tactics.

CFID were asked by Environmental Services at Thurrock Council to investigate reports of trade waste being illegally dumped at a local refuse site. CFID deployed tactics to identify prolific offenders. This information was collated and a day of action took place whereby nine fixed penalty notices, with a value of more than £3,000 were issued, two vehicles were seized and six requirements to produce certificates were issued.



# Operational Activity

The information obtained by CFID was used to support the recent decision to implement a permit system for vans and commercial vehicles at the site.

Another case concerned NNDR in Castle Point, where a resident business attempted to claim that the landlord was actually operating at the premises, and they were due to pay the NNDR. They provided what was suspected to be false documents. CFID took action to disrupt this criminality and the business quickly moved from the address. The property was seen as an easy target as the landlord was out of the country. NNDR records were updated accordingly to prevent this from occurring at this property again.



# Results

CFID presents all of its cases to Legal Services across the different partners, or in some cases the Crown Prosecution Service where fraud or other criminality is identified. A framework of different sanctions, redress and punishment outcomes are then considered by a Lawyer independently. This process includes the use of the Code for Crown Prosecutors in consideration of criminal litigation.

In 2017/18 the number of fraud cases identified by CFID increased, as did the number of sanctions delivered.

The overall fraud detected figure for 2017/18 is £3,138,836.

This figure is reduced from the 2016/17 figure of £5,558,808. This change has been attributed to the inclusion of one case last year that was valued at £3.2m alone. The increased disruption activity, where controls are changed, and deterrence factors are included will also have had an impact.

The table below details the sanctions, investigations and compliance activities completed by CFID across each partner for 2017/18. The table has been developed to show details of all sanction types as opposed to previous reports which only showed prosecutions, value and 'other'. This table enables a clearly understanding of the work conducted by CFID as it relates to solely CFID investigations:

| Sanctions Applied – Fraud Proven                               | Thurrock Council | Southend Council | Castle Point Council | South Essex Homes | Poplar HARCA | TOTAL      |
|----------------------------------------------------------------|------------------|------------------|----------------------|-------------------|--------------|------------|
| Blue Badge Seizure                                             | 4                | 15               | 0                    | N/A               | N/A          | 19         |
| Blue Badge Warning                                             | 3                | 33               | 0                    | N/A               | N/A          | 36         |
| Civil Action                                                   | 0                | 1                | 1                    | N/A               | N/A          | 2          |
| Disruption Activity                                            | 10               | 7                | 1                    | N/A               | N/A          | 18         |
| Dismissal (Staff)                                              | 7                | 2                | 0                    | N/A               | N/A          | 9          |
| Financial Penalty                                              | 1                | 2                | 0                    | N/A               | N/A          | 3          |
| Fixed Penalty Notice                                           | 9                | 0                | 0                    | N/A               | N/A          | 9          |
| Formal Caution                                                 | 1                | 1                | 0                    | N/A               | N/A          | 2          |
| Goods Recovered                                                | 1                | 0                | 0                    | N/A               | N/A          | 1          |
| Housing App Stopped                                            | 3                | 2                | 0                    | 0                 | 0            | 5          |
| Overpayment Recovery                                           | 2                | 11               | 0                    | N/A               | N/A          | 13         |
| Parking App Stopped                                            | 0                | 1                | 0                    | N/A               | N/A          | 1          |
| Parking Permit Seized                                          | 1                | 2                | 0                    | N/A               | N/A          | 3          |
| Property Recovered                                             | 26               | 2                | 1                    | 6                 | 10           | 45         |
| Prosecution (Criminal)                                         | 10               | 5                | 0                    | 0                 | 0            | 15         |
| Prosecution (Joint)                                            | 2                | 0                | 0                    | N/A               | N/A          | 2          |
| Referral to HR                                                 | 8                | 3                | 2                    | N/A               | N/A          | 13         |
| Repayment of Monies                                            | 2                | 2                | 1                    | N/A               | N/A          | 5          |
| Resignation (Staff)                                            | 3                | 2                | 0                    | N/A               | N/A          | 5          |
| Right to Buy Stopped                                           | 3                | 0                | 2                    | 0                 | 1            | 6          |
| Tenancy Sanction                                               | 2                | 0                | 0                    | 0                 | 0            | 2          |
| Vehicle Seized                                                 | 2                | 0                | 0                    | N/A               | N/A          | 2          |
| <b>TOTAL SANCTIONS</b>                                         | <b>100</b>       | <b>91</b>        | <b>8</b>             | <b>6</b>          | <b>11</b>    | <b>216</b> |
| VALUE                                                          | £1,499,894       | £687,742         | £263,400             | £238,900          | £448,900     | £3,138,836 |
| <b>Investigations Completed with No Further Action 2017-18</b> | 42               | 45               | 4                    | 7                 | 10           | 108        |
| <b>All Investigations Completed 2017-18 (Sanction + NFA)</b>   | 142              | 136              | 12                   | 13                | 21           | 324        |

# Results

| Compliance Activity        | Thurrock Council | Southend Council | Castle Point Council | South Essex Homes | Poplar HARCA | TOTAL      |
|----------------------------|------------------|------------------|----------------------|-------------------|--------------|------------|
| <b>NNDR Reviews</b>        | 0                | 0                | 22                   | N/A               | N/A          | 22         |
| <b>Tenancy Audits</b>      | 221              | 0                | 0                    | 0                 | 0            | 221        |
| <b>Right to Buy Review</b> | 65               | 0                | 0                    | 0                 | 0            | 65         |
| <b>Council Tax Review</b>  | 23               | 0                | 0                    | 0                 | 0            | 23         |
| <b>Referral to DWP</b>     | 48               | 4                | 0                    | 0                 | 0            | 52         |
| <b>TOTAL</b>               | <b>357</b>       | <b>4</b>         | <b>22</b>            | <b>0</b>          | <b>0</b>     | <b>383</b> |

## Comparison to Previous Years

The table below shows the detected fraud value year on year since the inception of CFID, for investigations solely conducted by CFID

| Year    | Thurrock Council | Southend Council | Castle Point Council | Poplar HARCA | Other Partners | Total              |
|---------|------------------|------------------|----------------------|--------------|----------------|--------------------|
| 2014/15 | £1,823,300       | £585,697         | N/A                  | N/A          | 1,230,930      | £3,639,927         |
| 2015/16 | £1,312,038       | £1,887,589       | N/A                  | N/A          | £5,569,330     | £8,768,957         |
| 2016/17 | £4,562,031       | £375,302         | £40,000              | £191,000     | £1,790,475     | £6,958,808         |
| 2017/18 | £1,499,894       | £687,742         | £263,400             | £448,900     | £2,238,900     | £5,138,836         |
|         |                  |                  |                      |              |                | <b>£24,506,528</b> |

The total value of fraud detected during **April 2014 to March 2018 is £24,506,528.**

The table below shows the number of investigations completed year on year, since the inception of CFID,

| Year    | Thurrock Council | Southend Council | Castle Point Council | Poplar HARCA | Other Partners | Total |
|---------|------------------|------------------|----------------------|--------------|----------------|-------|
| 2014/15 | 205              | 339              | N/A                  | N/A          | 0              | 544   |
| 2015/16 | 256              | 225              | N/A                  | 15           | 18             | 514   |
| 2016/17 | 110              | 112              | 15                   | 27           | 38             | 302   |
| 2017/18 | 142              | 136              | 12                   | 21           | 13             | 324   |

# Joint Working & Assistance

In addition to CFID's own investigations, support and expertise has been provided to other law enforcement agencies such as the Police and Local Authorities.

This assistance has been to agencies that have their investigation capability but require specialist tools and resources that exist within CFID to conclude casework.

One such example was an organised welfare fraud committed against the London Borough of Redbridge. CFID provided digital forensic support to the investigation team from Redbridge and identified key pieces of evidence from seized devices which ultimately led to guilty verdicts for a **fraud valued at £1,124,000**

## Assistance to other council service areas

CFID have provided support to other service areas within the partner agencies requiring assistance.

## Private Sector Housing Enforcement

CFID have worked with the private sector housing team to provide guidance on interviewing suspects under conditions in-line with the Police & Criminal Evidence Act, known as 'interviews under caution'. CFID officers have mentored these officers and conducted interviews under caution to pursue prosecution for offences under the various Housing Acts.

This has been a successful project and has greatly up-skilled the Environmental Health Officers enabling them to more effectively deal with offences, including unlicensed Houses in Multiple Occupation, unlawful eviction & harassment and breaches of notices.

Additionally CFID have provided support to the officers in using different tactics to obtain intelligence and evidence to support prosecutions, this includes the use of the Data Protection Act 1998 (now DPA 2018) to obtain evidence.

## Trading Standards

CFID's Financial Investigation Unit has assisted Thurrock Council's Trading Standards during several investigations. CFID are the only unit with Thurrock Council that are accredited by the National Crime Agency to use powers under the Proceeds of Crime Act 2002.

One example relates to an investigation by Trading Standards into the sale of counterfeit cigarettes. CFID assisted with a premises search and used powers under the Proceeds of Crime Act to seize more than £20,000 in cash from the suspect's home address.

## Cabinet Office

**David Kleinberg** – Assistant Director and Head of CFID, was seconded to HM Government – Fraud, Error and Debt Taskforce as the Head of Standards (Punishment, Sanction and Redress) in January 2016. David's role is to assist government in the creation of a 'Counter Fraud Profession'.

David also sits on the HM Government, Cross-Sector Group and the College of Policing' Cyber Crime Careers Pathway, Programme Board with other senior members from law enforcement including from the City of London Police, National Crime Agency, government and private sector.

## National Anti-Fraud Network (NAFN.gov)

**Daniel Helps** – Senior Manager, was elected to the national executive board for NAFN.gov. This organisation was selected by David Anderson QC (*the government's independent reviewer of RIPA & covert policing*) to be the national body with the powers to acquire communications data for local government.

## National Tenancy Fraud Forum

**Daniel Helps** – Senior Manager, is an executive board member of the national forum for fighting tenancy fraud, formed of every social housing provider in the UK. The forum develops national practice and strategic assessment for response to fraud and other economic crime against social housing.

## College of Policing

**David Nash** – who heads our digital forensics & cyber crime units for CFID, sits on the national group for 'Cyber & Digital Careers Pathway in Policing'. This board is sponsored by Home Office grant to improve the training for all cyber crime and digital investigation practitioners in policing bodies (including CFID).

There are 12 members of the group (including CFID) out of the 43 police forces in the UK.

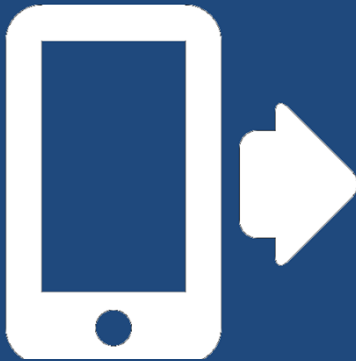
# How to Report Fraud



**See it**



**Report it - Email**  
**[reportfraud@cfid.uk](mailto:reportfraud@cfid.uk)**



**Report it - Call**  
**03000 999111**

©2018

CFID  
Civic Offices  
New Road  
Grays, Essex  
Tel: 03000 999111

## Appendix 2 - Counter Fraud & Investigation Directorate Counter Fraud Work Plan

| Risk area                | Tasks                                                                                                                         | Planned for              | Current status                                                                                                                                                                                                                                                                                                     |
|--------------------------|-------------------------------------------------------------------------------------------------------------------------------|--------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Council-wide             | Fraud risk matrix assessment to be delivered to all service areas                                                             | July – Sep 2018          | Meetings to be booked for DMT with relevant Directors and Assistant Directors                                                                                                                                                                                                                                      |
| Council-wide             | UK Bribery Act (UKBA) Compliance Review. A questionnaire will be distributed to all Managers to ensure UKBA compliance.       | In Progress              | This item is delayed due to the ICT system implementation difficulties.                                                                                                                                                                                                                                            |
| Council-wide             | Counter Money Laundering (CML) Compliance Review. A questionnaire will be distributed to all staff to ensure CML compliance.  | In Progress              | This item is delayed due to the ICT system implementation difficulties.                                                                                                                                                                                                                                            |
| Proactive Fraud Drives   | Conduct proactive activity to disrupt and detect fraud affecting the council.                                                 | In Progress              | Proactive work continues to be undertaken across the high-risk areas. So far this year activity has been conducted in: <ul style="list-style-type: none"> <li>• NRPF</li> <li>• Social Care Finance</li> <li>• Parking Enforcement of Blue Badge misuse</li> <li>• Payment Card Fraud/ Money Laundering</li> </ul> |
| Investigation Review     | Review of insider threat investigations with Human Resources to reviews action and learning points                            | Ongoing monthly          | Monthly meetings are taking place with the CFID Senior Manager and HR SPOC where all investigations are reviewed                                                                                                                                                                                                   |
| Fraud Awareness Training | Training to be delivered to high risk areas – housing officers, housing allocations, temporary accommodation and right to buy | Ongoing to December 2018 | Meeting has taken place between CFID Senior Manager and housing management team and bespoke training is being developed for each team.                                                                                                                                                                             |

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# Southend-on-Sea Borough Council

Agenda  
Item No.

6

Report of the Chief Executive

to

**Audit Committee**

on

**25th July 2018**

Report prepared by: Linda Everard, Head of Internal Audit

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**Head of Internal Audit Annual Report 2017/18**

**Cabinet Member - Councillor John Lamb**

*A Part 1 Public Agenda Item*

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## **1. Purpose of Report**

1.1 To provide for the 2017/18 financial year:

- the rationale for and an audit opinion on the adequacy and effectiveness of Southend-on-Sea Borough Council's (the Council's) risk management, control and governance processes
- a statement on conformance with the UK Public Sector Internal Audit Standards (the Standards) and the results of the Quality Assurance and Improvement Programme.

## **2. Recommendation**

**2.1 The Audit Committee accepts the Head of Internal Audit's Annual Report for 2017/18.**

## **3. Background**

3.1 The Head of Internal Audit's Annual Report and Opinion provides the Council with an independent source of evidence regarding both the design of its risk management, control and governance framework and how well it has operated throughout the year.

3.2 The opinion is predominantly based upon the audit work performed during the year as set out in the risk based Audit Plan discussed with the Corporate Management Team and approved by the Audit Committee.

3.3 As outlined in the Internal Audit Charter, audit coverage is determined by prioritising the significance of Council's activities to its ability to deliver its Aims and Priorities. This is done:

- using a combination of Internal Audit and management risk assessments (including those set out in risk registers)
- in consultation with Directors, Deputy Chief Executives and the Chief Executive, to ensure work is focused on key risks.

3.4 Quarterly meetings are then held with the Chief Executive, the Deputy Chief Executives and the Director of Finance & Resources to:

- reflect on the original risk profile and work planned
  - determine whether any changes are required to it or the Audit Plan.
- 3.5 Organisationally, this reflects a very mature approach to operating an internal audit function.
- 3.6 All individual audit reports are discussed with the relevant Group Managers, Directors and Deputy Chief Executives before being finalised.
- 3.7 The opinion and summary findings from audit reviews are reported to the Corporate Management Team and the Audit Committee throughout the year.

#### **4 Head of Internal Audit Opinion for the year ended 31 March 2018**

**4.1 *Governance comprises of the arrangements put in place to ensure that the intended outcomes for stakeholders are defined and achieved. Such arrangements can take many forms and still be effective. Appropriate assurance is then required that these processes are fit for purpose and being applied throughout the organisation. My 2016/17 Annual Report highlighted the need to review the Council's governance and assurance arrangements including the role of the Audit Committee.***

***Whilst some changes have been made to this framework in 2017/18, senior management will undertake a more substantial review of the risk management, control and governance arrangements once the new vision and strategic framework for the Council is in place. Therefore, the remainder of this report should be read within this context.***

***With regards to the assurance provided by audit work undertaken, in these areas, the design and operation of the Council's risk management, control and governance framework was satisfactory overall.***

**4.2 The basis for forming this opinion is an assessment of:**

- the design and operation of the underpinning governance and assurance framework
- the range of individual opinions arising from risk based and other audit assignments that have been reported during the year taking into account the relative significance of these areas
- whether management properly implement actions arising from audit work completed, to mitigate identified control risks within reasonable timescales.

4.3 The Head of Internal Audit has not reviewed all risks and assurances relating to the Council's activities in coming to her opinion.

#### **5. Supporting Commentary**

5.1 **Appendix 1** summarises the audit opinions issued this year.

5.2 The following paragraphs then:

- summarise findings from all the work completed this year
- highlight the key areas requiring improvement.

5.3 Where necessary, actions have been agreed with services to improve the arrangements where the more serious control issues were identified during the audits.

## Managing the Business

- 5.4 Previously it was reported that the arrangements for identifying, recording and monitoring **corporate or strategic risks** were good and in compliance with the Council's Risk Management Strategy and Toolkit. The level of understanding about how to apply this was also sound. But the process was not being applied as well or consistently at **service** level, thus reducing the assurance available that these **risks** were being properly documented and communicated; and as a result, efficiently and effectively mitigated or managed.
- 5.5 In a practical sense, there was a strong understanding of risks being faced by individual Directors and a discipline around the production of the Corporate Risk Register, but the value of the process was not optimised. Better arrangements were needed to effectively move risks up and down the organisation as required. There were some gaps in assurance and insufficient evidence of managing the impact for some risks, despite the regular update and reporting. Some managers and team leaders still needed assistance to:
- fully understand the objectives of and risks relating to the services they were delivering
  - understand what evidence they needed to obtain to provide assurance that these processes were designed and / or being applied properly by their staff, consistently throughout the year.
- 5.6 Therefore, there is still a need to develop the risk management framework in a proportionate, practical way, focussing on adding value and minimising the investment of resources required to support the service and corporate process. Senior management will take this into account when reviewing the Council's risk management arrangements.
- 5.7 The Local Government Ombudsman has urged local authorities to assure themselves that **complaints investigations carried out by their contractors** are conducted rigorously. In order to clarify how the Council complies with this ruling in an appropriate, practical and cost effective manner, Officers are:
- reviewing the standard contract as well as Agresso purchase order terms and conditions to see if they need revising
  - looking to clarify the Council's expectations in the Comments, Complaints and Compliments Procedure.
- 5.8 The **Department of Place** (DoP) had satisfactory internal management assurance arrangements in place for effectively monitoring the progress and successful **delivery of its projects**. Action was being taken to:
- ensure the quality of the project data / information produced for all board meetings was robust and fit for purpose
  - formalise its terms of reference and clarify its role in relation to individual programme and project boards.
- 5.9 The Council was already in the process of re-engineering its **emergency planning** processes. These arrangements would be enhanced by:
- producing a Southend emergency planning risk register that includes local risks as well as a rolling Emergency Planning Action Plan
  - establishing a Resilience Working Group to facilitate joint working
  - agreeing what information the Corporate Management Team wants to receive and how often it should be provided.

- 5.10 The Council had various plans in place to respond to civil emergencies and a few opportunities to further enhance these were being actioned. More formalised arrangements for testing them as well as training staff and members will be established. A multimedia communications strategy will also be developed for use in event of a civil emergency. An assessment will be made as to whether the level of resources required to deal with an emergency response are still sufficient and will be available when required.
- 5.11 As at February 2018, the Council was progressing well with its preparations for implementing the **General Data Protection Regulations (GDPR)**. It had taken a proactive, structured approach to this by:
- appointing appropriately experienced staff
  - having dedicated work programme which, overall was one of the stronger ones seen at this time
  - developing an implementation plan which, when completed, will put the Council in a strong position for compliance with the GDPR legislation.
- 5.12 A corporate **IT risk assessment** was undertaken this year.
- 5.13 Work was continuing to strengthen the Council's **Business Continuity** arrangements. Since the original review:
- the focus had been on updating Business Impact Assessments (BIA) and producing group level Business Continuity Plans (BCP)
  - responsibility for this function was being transferred to the Emergency Planning Officer and permanent additional staff resources were being allocated to this work.
- 5.14 Once the new team is established, its work plan will include a more structured approach to:
- holding Directors to account for maintaining BIA's and BCP's and providing training for responders
  - testing plans in different scenarios and reviewing test outcomes, implementing action arising and amending documents accordingly.

### **Service Delivery Risks**

- 5.15 A key objective for Internal Audit is to give a view on whether the Council's risk management and control processes are robust enough to enable services to effectively contribute to the delivery of its corporate Aims and Priorities. The remainder of the report therefore, structures the audits undertaken of services areas under the corporate Aims they help deliver so this connection can be made.

### **SAFE**

- 5.16 Good arrangements had been established to oversee and challenge proposed **child residential care placements**. Overall, the Placement Panel and Acute and Complex Placement Panel were operating effectively to ensure that appropriate placement decisions were made. Placement decisions made outside the panel meetings were also robust and consistent.
- 5.17 Action was being taken to formally document the induction process for new panel members and the criteria for postponing meetings or case decisions. Case papers will be checked prior to meetings to ensure they are sufficient for an appropriate decision to be made. 42

- 5.18 Overall, the sample of **education-related performance indicators** (PIs) reviewed were designed to provide appropriate evidence that service objectives were being delivered as well as properly produced and used effectively.
- 5.19 Work is in hand to:
- better evidence the data validation work undertaken by both the Data, Performance and Information (DPI) and Special Educational Needs teams
  - improve the process for producing and validating the data supporting the SEN2 return submitted annually to the Department for Education
  - remove access to the network drive folder containing data used by and reports produced by the DPI team, from those staff who no longer need it.
- 5.20 To assist the **Liquidlogic<sup>1</sup> Children's Services** (LCS) Project Board to make an informed **go live decision** for Children's Services, a 'Go Live Readiness Assessment Framework' was developed which contained four success factors. The project team self assessed against the framework. This was independently validated by Internal Audit and fed back to the Board. All relevant information was taken into account by the Chair of the Board in coming to a decision.
- 5.21 Opportunities to improve the process to be adopted when managing delivery of the **Liquidlogic Adults System** (LAS) project were identified.
- 5.22 As at 20th March 2018, good progress had been made overall in addressing the lessons learnt when preparing for the LAS 'Go- Live'. As a result, most of the underpinning project documentation appeared to be in place. Benefits tracking was to be included in Project Board Highlight Reports going forward. 'Quality' was the other area that needed to be reported upon. Quantified targets were required in the Benefits Realisation Plan and the benefits monitoring process needed to be designed.
- 5.23 The same process was adopted with regard to the LAS 'Go Live Readiness Assessment Framework'. The project team's self assessment of readiness to 'Go-Live' was well evidenced and appropriate plans were in place to address areas requiring mitigating actions going forward.
- 5.24 Throughout the year, advice and support was provided as the control framework was being designed into Liquidlogic and the ContrOCC finance module, which ensure the accuracy and timeliness of **payments due to support children**. It specifically focused known weaknesses in arrangements identified in previous audits although this subsequently broadened out into other areas.
- 5.25 The main system design areas covered risks relating to:
- making one off duplicate payments, setting up approvals to authorise payments, monitoring their approval and manual adjustments as well as independently monitoring this
  - limiting opportunities for manual intervention of batch interface files between the ContrOCC finance module and Agresso<sup>2</sup> and ensuring timely reconciliations between the systems
  - authorising payments to new foster carers, setting up foster carers as new 'new suppliers' and suspending permanent foster care fees.

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<sup>1</sup> Liquidlogic is the Council's Social Care IT Case Management System.

<sup>2</sup> Agresso is the Council's Financial Accounting System. 43

- 5.26 Further work was required to fully address the actions agreed in the original **Financial Monitoring of Direct Payments** report. There was still a need to implement the newly updated frameworks. They were designed to ensure robust financial monitoring arrangements were in place that provided assurance that payments made directly to adults, were used to meet eligible needs and outcomes identified in Care Support Plans.
- 5.27 The 'Self Directed Support Best Practice Guidance' had been replaced by a new Direct Payments Policy (the Policy), which was comprehensive. The children's direct payments monitoring system should be reviewed and potentially aligned with these arrangements. The Terms and Conditions within the Direct Payment Agreement had been appropriately extended. Guidance was required setting out that Finance Officers must check that signed agreements had been received prior to one-off direct payments being made.
- 5.28 As a result of work completed in October 2017, all relevant staff had signed declarations of interest and staff access to records on Civica<sup>3</sup> had been appropriately limited. This needs to be done regularly going forward.
- 5.29 Good progress had been made to address the actions contained in the follow up report issued in February 2017 and therefore, strengthen the arrangements for dealing with **Mental Health Direct Payments** effectively. The only remaining actions related to:
- reviewing Vibrance<sup>4</sup> reports on clients' financial position in a timely manner
  - independently checking reports produced to confirm the same officer had not entered and authorised a care package on CareFirst, whilst the system was still in use.
- 5.30 Good progress had been made in:
- addressing most of the outstanding issues raised in both the original and subsequent **Licensing** follow up reports. However, significant work was still required to reconcile the licenses issued on the Licensing IT system (Uniform) to the monies received on Agresso
  - updating the Procurement Toolkit to address opportunities to strengthen it arising from the review of the **Social Care IT Case Management System contract procurement**. However, as at November 2017, action was still required to try to re-negotiate some of the contract terms that were not:
    - in accordance with the Options Appraisal Authorisation Form and so allowed price increases to option modules beyond Retail Price Index indexation, to any value after 24 months
    - sufficiently defined to enable contractor performance to be effectively measured and monitored.

## CLEAN

- 5.31 Overall, good arrangements were in place for monitoring delivery of the expected benefits for both the Council and local residents from the partnership arrangements entered into with **OVO Energy Limited** to create the Southend Energy brand.

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<sup>3</sup> Civica is the Council's Electronic Document and Records Management System.

<sup>4</sup> Vibrance is a registered charity, established in 1989, providing a range of services to adults with a disability across London and the south east of England.

- 5.32 Going forward, the contract governance accountabilities will be formally documented for the newly created Energy Opportunities Board. OVO's data reporting systems and processes will be reviewed to gain assurance that key performance indicator figures are being generated and reported accurately. A more formal risk register will be created, regularly refreshed and reported upon.

#### HEALTHY

- 5.33 No detailed work was undertaken in this area although two **risk assessments** were undertaken of the **Adult Care Transformation Project and Integrated Commissioning**.

#### PROSPEROUS

- 5.34 Some proactive work was undertaken with the **Airport Business Park** Project team to help develop **benefits management** controls, designed to enable the project to demonstrate achievement of its expected benefits. This joint work produced a draft benefits profile. It focused on identifying which benefits could be measured for the Innovation Centre and Infrastructure Works (key elements of phase 2 of the project).

- 5.35 Further work was then required to:

- finalise this draft, ensuring the proposed baselines and targets were appropriate; and agree nominated benefit owners
- develop it to include wider overall benefits set out in the project's business case and determine what could be included and measured from Phase 1
- monitor and manage their realisation as the project progresses.

- 5.36 Overall, the arrangements introduced to manage the **Better Queensway project** were now sound. Good progress had been made in addressing the agreed actions from the previous report.

- 5.37 Further work was being taken to:

- produce a budget of planned costs needed to deliver the project over time and develop a process to monitor this against actual spend throughout the project's life
- further develop the risk management framework around project delivery
- develop detailed benefit profiles or plans to support the Benefits Management Strategy already produced.

- 5.38 Generally, the arrangements for effectively managing **leases and licences** as well as ensuring all income due from them is received are satisfactory. The Corporate Property and Asset Management (CP&AM) team continues to strive to improve data quality as well as improve the documentation supporting survey valuations used to calculate new rents. Details of specific actions needed to recover outstanding debt and the action owners should be included on Aged Debt Report.

- 5.39 Good progress had been made in addressing the actions agreed in both the original **Airport Business Park Project Assurance and Procurement to Pay (P2P) Assurance reports**. Both these processes were proactively managed as well as delivered in a timely way, and there is evidence that the revised arrangements are embedded into current working practices.

- 5.40 Further work was underway to agree which Airport Business Park project benefits could be measured and develop detailed benefit profiles or plans to enable the realisation of intended benefits to be demonstrated.
- 5.41 With regard to P2P, some improvements were being made to staff / supplier guidance, the reports produced from Agresso and the granularity of reports produced for senior stakeholders. It was not possible to configure Agresso to automate some processes and the ability to deliver some other actions was linked to implementing the July 2018 system upgrade. In the majority of these areas, appropriate manual controls were found to be operating.
- 5.42 Minimal progress had been made with implementing the agreed actions in the original **Housing Allocations** report. However, an independent service review had been commissioned to provide support for the changes that needed to take place. The service was proactively working on dealing with the outstanding issues within agreed updated timeframes. Since July 2017, a Senior Housing Officer had undertaken a weekly reconciliation of properties let against those advertised to ensure the direct let arrangements had been complied with.
- 5.43 Good progress had been made to address the actions contained in the original **Right to Buy** report and therefore, strengthen the arrangements for dealing effectively with these cases. Senior management had taken the decision to check all files until there was evidence that the process was being applied properly and consistently, at which time the service will return to spot checking files.
- 5.44 Two **schools** were assessed to establish whether they had adequate and effective governance, information and asset management as well as financial management and reporting arrangements in place. One was given a satisfactory audit opinion and the other partial.
- 5.45 The main themes for both schools related to improving arrangements for ensuring:
- the Governing Body is properly formed
  - Governors are effectively recruited, trained and provided with sufficient information to exercise their oversight role effectively
  - financial transactions are accurate, complete, authorised, substantiated, made securely and accurately recorded.
- 5.46 For one school, there was also a need to do more to ensure confidential, personal and sensitive information is effectively managed and secured as well as assets are secured and maintained.

## EXCELLENT

- 5.47 Further work was required in order to address all the actions agreed within the **Section 75 Partnership Agreement, Integrated Equipment Service** (the Agreement) report.
- 5.48 However, overall, good progress was being made in revising the draft Agreement between the Council and Southend Clinical Commissioning Group (the CCG). Subsequent to the audit, a Terms of Reference for the Joint Operational Equipment Partnership Board was agreed and a risk management framework as well as service specifications drafted. The mechanisms for obtaining feedback from clients still needed to be finalised. The basis for funding the service still had to move to actual usage rather than historic percentages.



- 5.49 Good progress had been made to improve the **works contract tendering process** to reflect the issues arising from the St Helen's Roman Catholic School building project. A few additional amendments were still required to standing procurement documentation.

#### ALL AIMS

- 5.50 Positive action had been taken to strengthen the **IT enterprise change management** arrangements.
- 5.51 An appropriately designed 'change' process was in place for requesting, assessing and authorising changes. A record of the 'status' of Council systems was maintained but needed to be more integrated. Formal arrangements for planning, testing and implementing changes still needed to be developed. Some of the outstanding issues will be addressed when a planned upgrade to the Service Desk software (Hornbill Support Works 8) is implemented. An action plan is in place, setting out the steps required to successfully complete the implementation by November 2018.
- 5.52 More robust arrangements need to be established that ensure individual officers' **access to the Agresso** system functions remained appropriate. Similar risks also apply to other Council IT applications.
- 5.53 System access permissions need to be linked to job roles. Role design should be confirmed with managers responsible for key functional areas and staff within each defined role. The process for requesting, authorising and revoking access to Agresso needs to be more robust. Only fixed access templates, linked to employee jobs should be accepted by ICT. The number of ICT and HR staff that have administrative access to Agresso also needs review. Where this is appropriate, its use should be monitored closely.
- 5.54 A **risk assessment** was undertaken of the **Smart City Project**.
- 5.55 ICT had made good progress towards implementing the actions agreed in the original **IT Infrastructure and Asset Management** report. The newly developed IT Asset Management Policy and Procedure just needed to be formally approved. A new asset management system (WASP) had been implemented improving the safeguarding and management of hardware assets. Its accuracy is validated before software licences are renewed. Checks for illegal software installed on Council machines will be undertaken going forward.

#### Key Financial Systems

- 5.56 A few key **financial system** controls were assessed to ensure they:
- were designed to prevent and / or detect material financial errors
  - had been in place during 2017/18 and therefore, could be relied when producing the Council's Statement of Accounts.
- 5.57 All were assessed as providing either high or satisfactory assurance with the exception of the Accounts Receivable system, whereby:
- the Revenues Manager should independently check that there are no issues with the reconciliation between the Accounts Receivable Ledger and the General Ledger
  - a decision is still required as to whether to continue to sample check invoice request details to the invoice to ensure the coding and value are correct.

- 5.58 Good processes and controls were in place for creating and terminating tenancy agreements, updating the rental income and collecting **housing rents**. Arrangements need to be established to periodically confirm that staff access rights to iWorld reflect the roles and responsibilities in their job profiles.
- 5.59 Some progress had been made to strengthen the **Payroll** system in terms of independently checking the accuracy and completeness of inputs to the system and amendments made to standing data. Unfortunately, difficulties were encountered in implementing some of the previously agreed actions due to system constraints within the Payroll IT Agresso module being used. As a result, manual instead of automated checks had to be introduced in some areas.
- 5.60 The self service module for expenses and overtime also went live during the year, although approval limits still needed to be established in line with documented policies. A separate mini project was being set up with the respective services to explore how best to work towards maintaining and working with one, core establishment list.
- 5.61 All the **key financial systems** were also **risk assessed** this year.

### Implementing Action Plans

- 5.62 Internal Audit inputted agreed actions into Pentana<sup>5</sup> once audit reports were issued. Management then used this to monitor their implementation via Departmental Management Team meetings.
- 5.63 Internal Audit only revisited and retested action plans where a partial or minimal assurance opinion was given. Management closed down agreed actions in reports with high and satisfactory audit opinions once they were satisfied they had been properly dealt with. Internal Audit has been working proactively with departments to enhance this process, to enable management to be able to more effectively check that appropriate evidence is presented when agreed actions are to be signed off.

### PROACTIVE ADVICE AND SUPPORT

- 5.64 The knowledge obtained through the proactive advice and support work undertaken during the year was also taken into account in coming to the overall opinion given. In 2017/18, this work included assessing:
- the effectiveness of **current funded childcare provision** arrangements and those being developed to ensure the accuracy of the funding being approved by the Group Manager, Early Years; and that providers were fulfilling their duties in line with the provider agreements
  - the robustness of arrangements for setting up and monitoring the delivery of the City Deal outputs detailed in the Service Level Agreement with the provider (Enterprise 4 Good) in relation to “**The Hive**” Business Incubation Centre
  - whether robust processes had been followed when examining issues raised by a complainant regarding potential non-compliance with **Gas Safety** (Installation and Use) Regulations with regards to the Council estate

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<sup>5</sup> Pentana is the Council's Corporate Performance Information System

- whether effective arrangements were being developed to manage the issue of, as well as approval and monitoring expenditure on, **pre-payment cards** given to clients in receipt of direct payments; where the Council acts as the official receiver for Court Protection purposes.
- 5.65 The Council also needed to be able to demonstrate compliance with grant conditions detailed in the Service Level Agreement (SLA) with Essex County Council when using the Local Growth Fund monies in relation to an **Airport Business Park procurement**. Some work was undertaken with colleagues to agree practical and proportionate arrangements which, going forward ensured the Council could demonstrate:
- value for money for the procurement decisions made
  - compliance with Public Procurement Regulations.

#### GRANT CLAIMS

- 5.66 It was possible to certify that grant terms and conditions had been complied with for the following **grant claims**:
- Disabled Facilities Capital Grant Determination
  - Highways Maintenance Challenge Fund
  - Local Transport Capital Block Funding
  - Local Growth Fund
  - Pothole Action Fund
  - Mentoring Fund.
- 5.67 The Expanded **Troubled Families Programme, Payments by Results (PBR) Scheme for Local Authorities** returns continued to be audited. All claims audited this year had an unqualified audit opinion. The protocols agreed with the service for producing evidence to support the claims, along with the continued independent review of sample claims by its staff to complement Internal Audit's examination of claims work, operated well and the process remains a collaborative one.

## 6. Compliance with Professional Standards

### Head of Internal Audit Opinion

- 6.1 *The Institute of Internal Auditors assessed the in-house team as fully meeting most of the Standards, as well as the Definition, Core Principles and the Code of Ethics in October 2017 (classified as "Generally Conforms", the highest rating).*

#### *Good assessments were achieved in relation to:*

- *reflection of the Standards*
- *focus on performance, risk and adding value*
- *the quality assurance and improvement programme.*

#### *Needs improvement assessments were given in relation to:*

- *coordinating and maximising assurance*
- *the efficiency of its operations.*

## Resourcing

- 6.2 As outlined in my 2016/17 Annual Report, recruitment of permanent staff recommenced in January 2017, following a recruitment freeze lasting from July 2015. By this time, the:
- combined in-house team was carrying seven vacancies out of nine auditor posts, one of which was being covered by a long term contractor
  - Head of Internal Audit was covering the contract manager role as well as being accountable for delivering an internal audit service to three clients and the Council's Counter Fraud & Investigation service which was being provided by Thurrock Council as well as delivering other governance type functions for Castle Point Borough Council.
- 6.3 Therefore, during 2017/18, the continued lack of management capacity has had a significant impact on the service's performance and its ability to deliver its normal performance targets.
- 6.4 However, since February 2018 three of the four Audit Manager / Senior Auditor posts have been filled. This will make a significant difference to the team's ability to manage contractors effectively as well as take on and train new staff going forward. As at April 2018, the remaining Senior Auditor and four Auditor vacancies continue to be covered by buying in resources through the framework contracts with external suppliers.
- 6.5 The return of the Business Support Manager in July 2017 also had a significant and very positive impact on the operation of team management processes, reducing the level of such work that professional staff needed to do. As at April 2018, there is still a need to consolidate the Business Support Team's workload and then review its capacity to deliver it.
- 6.6 Finally, as part of renewing the Internal Audit and Counter Fraud and Investigation services Collaborative Working Agreements with partners, the Head of Internal Audit post was restructured. From April 2018, the Counter Fraud & Investigation Directorate will report directly to the Director of Finance & Resources at the Council. This will increase capacity at the Head of Internal Audit level to focus on client management and the strategic development of the service in line with that of the Council.
- 6.7 The remainder of this report needs to be considered within this context.

### Audit Plan 2017/18

- 6.8 The target was to deliver 100% of the Audit Plan by mid-May so that the Head of Internal Annual Opinion could be included in the Council's Annual Governance Statement, which has to be produced by 31 May. As at 11th May 2018, of the 64 audits in the Audit Plan:
- 57 audits have been delivered, feedback provided or the reports are being finalised with clients
  - seven have been rolled forward into 2018/19.
- 6.9 **Appendix 2** shows the final status of the Audit Plan which is a comparison of actual audit work completed against work planned at the start of the year.

## Other Performance Indicators

- 6.10 As much of the work this year has continued to be resourced through framework contracts, a more limited set of performance indicators have been reported upon.
- 6.11 Sickness absence remained low at 3.94 days per FTE compared to a target of less than 5 days per FTE for in-house staff.
- 6.12 Stakeholder surveys are designed to assess compliance with some of the less tangible elements of the UK Public Sector Internal Audit Standards (the Standards). During the year, eight officers were interviewed, covering 11 different audits including work completed by in-house staff and contractors. **Appendix 3** summarises the final survey results for 2017/18.
- 6.13 Overall, the level of compliance remains high, particularly with regard to internal audit adding value to the Council (97%). Appropriate actions are developed where opportunities to improve performance in any of these areas is identified. Some thought will be given to developing a short session for staff to explore the difference between delivering performance targets and needing evidence that a process / activity is being properly controlled (i.e. the assurance framework).

## Service Management Arrangements

- 6.14 An assessment was also completed of the team's compliance with Castle Point Borough Council's governance arrangements requirements as set out in the Manager Assurance Statements (which are not dissimilar to those used by the Council). All were high or satisfactory, where they were applicable. Actions have also been developed to further strengthen arrangements in some areas.

## Quality and Improvement Programme

- 6.15 I can confirm that I have maintained an appropriate Quality and Improvement Programme (QAIP) during the year for the in-house team or work undertaken by contractors when being managed by the in-house team. As required by the Standards, this consisted of:
- on-going supervision and review of individual audit assignments completed by in-house staff or contractors working to in-house staff
  - reporting on a limited set of performance targets to the Audit Committee each quarter (for all work done including that of external suppliers)
  - undertaking the independent external assessment of compliance with the Standards in October 2017 which is required at least every five years.
- 6.16 I have received some assurance from external suppliers used that where they have undertaken work using their own audit approach, this is also compliant with the Standards.
- 6.17 Due to resource constraints, the only independent file reviews of work completed this year was undertaken as part of the independent review.
- 6.18 **Appendix 4** summarises the results of the independent external assessment of compliance against each element of the Standards.
- 6.19 **Appendix 5** sets out the remaining actions that still need to be implemented arising from the:
- Head of Internal Audit's assessment of compliance as reported in her Annual Report presented to the Audit Committee in June 2017

- independent external review.
- 6.20 A key focus for the team has been to ensure internal audit files and its audit approach complies with the new requirements of the General Data Protection Regulations.
- 6.21 Senior management has chosen not to implement the Standard relating to the appointment and removal of the Head of Internal Audit as the Council's normal HR practices would already mitigate this perceived potential risk.

### **Other Disclosures**

- 6.22 As required by the Standards, I can confirm that the Internal Audit service has:
- operated in a manner that maintains its organisational independence throughout the year
  - been able to determine the scope of reviews, perform the work and report on its findings without interference neither has there been any inappropriate resource limitations imposed upon it.

## **7. Issues for the Annual Governance Statement**

- 7.1 No issues have come to my attention this year, other than those already disclosed, that I believe need including in the Council's Annual Governance Statement.

## **8. Corporate Implications**

### 8.1 Contribution to Council's Aims and Priorities

Audit work contributed to the delivery of all Council Aims and Priorities

### 8.2 Financial Implications

The Audit Plan was delivered within the approved resource budget.

### 8.3 Legal Implications

The Council is required, by the Accounts and Audit Regulations 2015 (the Regulations) Section 5, to undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance. The Standards require that the Head of Internal Audit to report on compliance with this annually to the Audit Committee. This report satisfies this requirement.

### 8.4 People and Property Implications

People issues that were relevant to delivering the Audit Plan were raised in the quarterly performance reports.

### 8.5 Consultation

All terms of reference and draft reports were discussed with the relevant Directors and Deputy Chief Executives before being finalised. This annual report has also been presented to and discussed with senior management.

### 8.6 Equalities Impact Assessment

The relevance of equality and diversity was considered during the initial planning stage of every audit before the Terms of Reference were agreed.

### 8.7 Risk Assessment

Failure to operate a robust assurance process (which incorporates the internal audit function) increases the risk that there are inadequacies in the risk management, control and governance processes which may impact of the Council's ability to deliver its corporate Aims and Priorities.

#### 8.8 Value for Money

Opportunities to improve value for money in the delivery of services were identified during some reviews and recommendations made as appropriate.

Internal Audit periodically undertakes a service review to assess whether its costs remain competitive.

#### 8.9 Community Safety Implications and Environmental Impact

These issues were only considered if relevant to a specific audit review.

### 9. Background Papers

None.

### 10. Appendices

|            |                                                                                               |
|------------|-----------------------------------------------------------------------------------------------|
| Appendix 1 | Assurance Summary 2017/18                                                                     |
| Appendix 2 | Internal Audit Plan 2017/18 as at 11th May 2018                                               |
| Appendix 3 | Stakeholder Surveys, Compliance with Professional Standards                                   |
| Appendix 4 | Summary Assessment of Compliance with UK Public Sector Internal Audit Standards 2017 /18      |
| Appendix 5 | Compliance with the UK Public Sector Internal Audit Standards Action Plan as at 11th May 2018 |

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**Appendix 1: Assurance Summary 2017/18**

| <b>Audit Plan Areas</b>      | <b>Level of Assurance</b> |                                                                                                                 |                |                |                                                                                                                                                                                                                                                                                      |
|------------------------------|---------------------------|-----------------------------------------------------------------------------------------------------------------|----------------|----------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|                              | <b>High</b>               | <b>Satisfactory</b>                                                                                             | <b>Partial</b> | <b>Minimal</b> | <b>No Opinion</b>                                                                                                                                                                                                                                                                    |
| <b>Managing the Business</b> |                           | <ul style="list-style-type: none"> <li>Place Departmental Project Governance Arrangements (Apr 2018)</li> </ul> |                |                | <ul style="list-style-type: none"> <li>Corporate Complaints (Apr 2018)</li> <li>Emergency Planning Redesign (May 2018)</li> <li>Information Governance, General Data Protection Regulation (Apr 2018)</li> <li>Potential Corporate Project Governance Approach (Feb 2018)</li> </ul> |

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**Appendix 1: Assurance Summary 2017/18**

| <b>Audit Plan Areas</b>                | <b>Level of Assurance</b> |                                                                                                                                                                                                                                                                                                                                                                             |                                                                                                     |                |                                                                                                                                                                                                                                                                                                                                 |
|----------------------------------------|---------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------|----------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|                                        | <b>High</b>               | <b>Satisfactory</b>                                                                                                                                                                                                                                                                                                                                                         | <b>Partial</b>                                                                                      | <b>Minimal</b> | <b>No Opinion</b>                                                                                                                                                                                                                                                                                                               |
| <b>Managing Service Delivery Risks</b> |                           | <ul style="list-style-type: none"> <li>• <b>Child Residential Placements (Apr 2018)</b></li> <li>• <b>Learning Services, Education-Related Performance Indicators (Jan 2018)</b></li> <li>• <b>Southend Energy Partnership (OVO) (Feb 2018)</b></li> <li>• <b>Better Queensway Project Assurance (Jan 2018)</b></li> <li>• <b>Leases and Licences (Apr 2018)</b></li> </ul> | <ul style="list-style-type: none"> <li>• <b>Agresso System Access Control (Apr 2018)</b></li> </ul> |                | <ul style="list-style-type: none"> <li>• <b>Social Care IT Case Management System Children's Implementation Lessons Learnt (Mar 2018)</b></li> <li>• <b>Airport Business Park Benefits Management (May 2018)</b></li> <li>• <b>Procure to Pay (P2P) (Aug 2017)</b></li> <li>• <b>IT Change Management (Aug 2017)</b></li> </ul> |

**Appendix 1: Assurance Summary 2017/18**

| <b>Audit Plan Areas</b>      | <b>Level of Assurance</b> |                                                                                                                                                      |                |                |                                                                                |
|------------------------------|---------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------|----------------|----------------|--------------------------------------------------------------------------------|
|                              | <b>High</b>               | <b>Satisfactory</b>                                                                                                                                  | <b>Partial</b> | <b>Minimal</b> | <b>No Opinion</b>                                                              |
| <b>Key Financial Systems</b> |                           | <ul style="list-style-type: none"> <li>Financial Systems Work to support the production of the Council's Statement of Accounts (Apr 2018)</li> </ul> |                |                | <ul style="list-style-type: none"> <li>Payroll Revisited (Nov 2017)</li> </ul> |

**Appendix 1: Assurance Summary 2017/18**

| <b>Audits Revisited</b>          | <b>Action Implementation Level</b>                  |                                                                                                                                                                                                                                                                                                                                                                        |                                                                                                                                                                                                                                                                                                                                         |                                                                                           |                                                                                                                                                                                                                                                                    |
|----------------------------------|-----------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|                                  | <b>High</b>                                         | <b>Satisfactory</b>                                                                                                                                                                                                                                                                                                                                                    | <b>Partial</b>                                                                                                                                                                                                                                                                                                                          | <b>Minimal</b>                                                                            | <b>No Opinion</b>                                                                                                                                                                                                                                                  |
| <b>Implementing Action Plans</b> | <ul style="list-style-type: none"> <li>•</li> </ul> | <ul style="list-style-type: none"> <li>• <b>Mental Health Direct Payments (Oct 2017)</b></li> <li>• <b>Airport Business Park Project Assurance (Jan 2018)</b></li> <li>• <b>Procure to Pay (P2P) Assurance (Apr 2018)</b></li> <li>• <b>Right to Buy (Dec 2017)</b></li> <li>• <b>Works Contract Letting, St Helen's Catholic Primary School (Jan 2018)</b></li> </ul> | <ul style="list-style-type: none"> <li>• <b>Financial Monitoring of Direct Payments (Jan 2018)</b></li> <li>• <b>Licensing (Jan 2018)</b></li> <li>• <b>Social Care IT Case Management System Contract Procurement (Jan 2018)</b></li> <li>• <b>Section 75 Partnership Agreement Integrated Equipment Service (Oct 2017)</b></li> </ul> | <ul style="list-style-type: none"> <li>• <b>Housing Allocations (Jan 2018)</b></li> </ul> | <ul style="list-style-type: none"> <li>• <b>Business Continuity Revisited (Mar 2018)</b></li> <li>• <b>Liquidlogic Adults System, Implementing Lessons Learnt from Children's Project Update (Apr 2018)</b></li> <li>• <b>Welfare Reform (Dec 2017)</b></li> </ul> |

**Appendix 1: Assurance Summary 2017/18**

| <b>Audits Revisited</b> | <b>Action Implementation Level</b> |                                                                                                                                                             |                |                |                   |
|-------------------------|------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------|----------------|-------------------|
|                         | <b>High</b>                        | <b>Satisfactory</b>                                                                                                                                         | <b>Partial</b> | <b>Minimal</b> | <b>No Opinion</b> |
|                         |                                    | <ul style="list-style-type: none"> <li>• IT Enterprise Change Management (May 2018)</li> <li>• IT Infrastructure and Asset Management (May 2018)</li> </ul> |                |                |                   |

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Appendix 1: Assurance Summary 2017/18

| Grant Claims | Level of Assurance                                                                                                                                                                                                                                                                                                                                                                                         |                    |
|--------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------|
|              | Unqualified                                                                                                                                                                                                                                                                                                                                                                                                | With Qualification |
|              | <ul style="list-style-type: none"> <li>• Disabled Facilities Capital Grant Determination</li> <li>• Highways Maintenance Challenge Fund</li> <li>• Local Transport Capital Block Funding</li> <li>• Local Growth Fund</li> <li>• Pothole Action Fund</li> <li>• Mentoring Fund</li> <li>• Troubled Families Programme, Payments by Results Scheme Grant (May, Jul, Sept, Oct 2017 and Mar 2018)</li> </ul> |                    |

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## Appendix 1: Assurance Summary 2017/18

| Schools<br>Audit<br>Programme | Action Implementation Level |                                                                                           |                                                                                                  |         |
|-------------------------------|-----------------------------|-------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------|---------|
|                               | High                        | Satisfactory                                                                              | Partial                                                                                          | Minimal |
|                               |                             | <ul style="list-style-type: none"> <li>• Earl's Hall Primary School (Nov 2017)</li> </ul> | <ul style="list-style-type: none"> <li>• Leigh North Street Primary School (Dec 2017)</li> </ul> |         |

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## Appendix 2: Internal Audit Plan 2017/18

| Dept                             | Council activity and focus of audit work                                                                                                                                                                                                                                 | Fraud risk | Status as at 11 <sup>th</sup> July 2018<br><i>(changes in bold)</i>                          |
|----------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|----------------------------------------------------------------------------------------------|
| <b>Managing the Business</b>     |                                                                                                                                                                                                                                                                          |            |                                                                                              |
| <b>Aim: Excellent</b>            |                                                                                                                                                                                                                                                                          |            |                                                                                              |
| CE                               | <p><b>Asset Register</b></p> <p>To assess the arrangements for ensuring there are accurate and complete records for managing the Council's assets.</p>                                                                                                                   | Yes        | Deleted as external audit provides some cover of this annually.                              |
| PL / PE                          | <p><b>Departmental Project Governance Arrangements</b></p> <p>To assess how robust the Department of Place internal management assurance arrangements are for effectively monitoring the progress and successful delivery of its projects.</p>                           | No         | Report issued April 2018.                                                                    |
| CE                               | <p><b>Emergency Planning</b></p> <p>To assess whether Southend-on-Sea Borough Council has robust arrangements in place for responding to a civil emergency, in line the requirements of the Civil Contingencies Act 2004 and other relevant good practice / updates.</p> | No         | Interim management report provided to officers for information.                              |
| CE                               | <p><b>Information Governance, General Data Protection Regulation</b></p> <p>To assess how well the Council is progressing with its preparations for implementing the new requirements of the General Data Protection Regulations, which come into force in May 2018.</p> | No         | Interim management report provided to officers for information.                              |
| PL                               | <p><b>IT Risk Assessment</b></p> <p>To undertake a baseline assessment of IT risks against a standard good practice framework and use this to develop the IT element of the Audit Plan going forward.</p>                                                                | No         | Report issued February 2018.                                                                 |
| All                              | <p><b>Risk Management</b></p> <p>To work with the Council to embed risk management into its day to day operations.</p>                                                                                                                                                   | No         | Corporate Management Team session held 6th December 2017.<br><br>No further work undertaken. |
| <b>Implementing Action Plans</b> |                                                                                                                                                                                                                                                                          |            |                                                                                              |
| CE                               | <ul style="list-style-type: none"> <li>• <b>Business Continuity</b></li> </ul>                                                                                                                                                                                           | No         | Report issued March 2018.                                                                    |

## Appendix 2: Internal Audit Plan 2017/18

| Dept                                   | Council activity and focus of audit work                                                                                                                                                                                                                                                                                                                                        | Fraud risk | Status as at 11 <sup>th</sup> July 2018<br><i>(changes in bold)</i>                                                                        |
|----------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|--------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Managing Service Delivery Risks</b> |                                                                                                                                                                                                                                                                                                                                                                                 |            |                                                                                                                                            |
| <b>Aim: Safe</b>                       |                                                                                                                                                                                                                                                                                                                                                                                 |            |                                                                                                                                            |
| PE                                     | <p><b>Management Response to Quality Assurance Audits</b></p> <p>To assess whether senior management's revised arrangements for ensuring prompt action is taken to address the improvements required where a children's social care file is assessed as 'inadequate' or 'inadequate critical', are operating effectively to minimise the risk to Children.</p>                  | No         | <p>Work in progress. This was delayed because of the Ofsted inspection in March 2018.</p> <p><b>Moved into the 2018/19 Audit Plan.</b></p> |
| PE                                     | <p><b>Child Residential Placements</b></p> <p>To assess whether the panels established to oversee and challenge proposed child residential care placements, are operating effectively and making appropriate placement decisions.</p>                                                                                                                                           | Yes        | Report issued April 2018.                                                                                                                  |
| PE                                     | <p><b>Drug and Alcohol: Contract Management</b></p> <p>To assess whether contracts are being effectively managed.</p>                                                                                                                                                                                                                                                           | Yes        | This work was deleted as the service was in the process of re-letting these contracts.                                                     |
| PE                                     | <p><b>Early Help and Family Support: Quality Assurance Tool</b></p> <p>To assess the robustness of the Quality Assurance Framework operated by the Early Help Family Support team which is designed to provide management with good quality, independent evidence that cases are being managed in accordance with relevant assessment and / or legislative guidance.</p>        | Yes        | <p>Deleted to reduce the size of the Audit Plan.</p> <p>The risk was reassessed as part of the next planning round.</p>                    |
| PE                                     | <p><b>Learning Services, Education Related Performance Indicators</b></p> <p>To assess whether performance indicators (PIs), for a sample of education-related activities, are:</p> <ul style="list-style-type: none"> <li>• designed to provide appropriate evidence that service objectives are being delivered</li> <li>• properly produced and used effectively.</li> </ul> | Yes        | Report issued January 2018.                                                                                                                |

## Appendix 2: Internal Audit Plan 2017/18

| Dept                             | Council activity and focus of audit work                                                                                                                                                                                                                                                                                                                                                                                                                                            | Fraud risk | Status as at 11 <sup>th</sup> July 2018<br><i>(changes in bold)</i>                                                                                                                                                                                                      |
|----------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| PE                               | <p><b>Ofsted Improvement Plan</b></p> <p>To assess whether the Council has established appropriate arrangements to address a selection of the recommendations raised in the July 2016 Ofsted report and confirm these are now embedded into the day to day working practices.</p>                                                                                                                                                                                                   | No         | Work completed and feedback provided.                                                                                                                                                                                                                                    |
| PE / PL                          | <p><b>Social Care IT Case Management System, Project Implementation (Liquid Logic)</b></p> <p>To provide a framework to enable an assessment to be made of the readiness of the new Social Care IT Case Management System for Children's and Adults services to 'Go Live'.</p> <p>To independently challenge and report on the Project Team's assessment against the success criteria within the framework, prior to any decision being made by the Project Board to 'Go Live'.</p> | No         | <p>Children's Services 'Go Live' Lessons Learned Report issued March 2018.</p> <p>Action plan implementation position statement. Briefing memo issued April 2018.</p> <p><b>Adults Services 'Go Live' report issued July 2018. (part of the 2018/19 Audit Plan).</b></p> |
| PE                               | <p><b>Social Care Payments to Individuals and Providers</b></p> <p>To assess whether the control framework being designed into the new Liquidlogic case management system and the ContrOCC finance module, is robust enough to ensure that accurate and timely social care payments are made to individuals and providers.</p>                                                                                                                                                      | Yes        | <p>Challenge and support was provided to officers as the framework was being designed.</p> <p>The audit in the 2018/19 Audit Plan will assess the adequacy of design and effectiveness of operation.</p>                                                                 |
| PE                               | <p><b>Special Education Needs</b></p> <p>To assess the arrangements for ensuring all Special Educational Need (SEN) Statements are converted to Education Health and Care (EHC) Plans by the 2018 deadline.</p>                                                                                                                                                                                                                                                                     | Yes        | Deleted. The in year risk was mitigated due to officers' actions.                                                                                                                                                                                                        |
| <b>Implementing Action Plans</b> |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |            |                                                                                                                                                                                                                                                                          |
| PE                               | <ul style="list-style-type: none"> <li>• <b>Children's Services Safeguarding Performance Indicators</b></li> </ul> <p>To assess the progress made in improving the robustness of arrangements for producing performance data for nationally reported safeguarding indicators.</p>                                                                                                                                                                                                   | No         | Deleted. This risk will be reassessed when the Social Care IT Case Management system is operational.                                                                                                                                                                     |
| PE                               | <ul style="list-style-type: none"> <li>• <b>Financial Monitoring of Direct Payments</b></li> </ul>                                                                                                                                                                                                                                                                                                                                                                                  | Yes        | Report issued January 2018.                                                                                                                                                                                                                                              |

## Appendix 2: Internal Audit Plan 2017/18

| Dept                | Council activity and focus of audit work                                                                                                                                                                                                                                                                | Fraud risk | Status as at 11 <sup>th</sup> July 2018<br><i>(changes in bold)</i>                                                                                                                                                                               |
|---------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| PE                  | <ul style="list-style-type: none"> <li><b>Mental Health Direct Payments</b></li> </ul>                                                                                                                                                                                                                  | Yes        | Report issued October 2017.                                                                                                                                                                                                                       |
| PL                  | <ul style="list-style-type: none"> <li><b>Licensing</b></li> </ul>                                                                                                                                                                                                                                      | Yes        | Report issued January 2018.                                                                                                                                                                                                                       |
| PE                  | <ul style="list-style-type: none"> <li><b>Social Care IT Case Management System Contract Procurement</b></li> </ul>                                                                                                                                                                                     | Yes        | Report issued January 2018.                                                                                                                                                                                                                       |
| <b>Aim: Clean</b>   |                                                                                                                                                                                                                                                                                                         |            |                                                                                                                                                                                                                                                   |
| PL                  | <p><b>Recycling, Waste and Street Cleansing Services Contract Management</b></p> <p>To assess whether the Recycling, Waste and Street Cleansing Services contract is being effectively managed.</p>                                                                                                     | Yes        | <p>Terms of reference agreed.</p> <p><b>Moved into the 2018/19 Audit Plan.</b></p> <p>This work will be completed between Oct to Dec 2018 to allow the agreed variation to the contract to be embedded into day to day operational practices.</p> |
| PL                  | <p><b>Southend Energy Partnership (Ovo)</b></p> <p>To assess the adequacy of the arrangements for monitoring delivery of the expected benefits for both the Council and local residents from the partnership arrangements entered into with Ovo Energy Limited to create the Southend Energy brand.</p> | Yes        | Report issued February 2018.                                                                                                                                                                                                                      |
| <b>Aim: Healthy</b> |                                                                                                                                                                                                                                                                                                         |            |                                                                                                                                                                                                                                                   |
| PE                  | <p><b>Adult Care Transformation Project Risk Assessment</b></p> <p>To map and assess the risks relating to and assurances in place to ensure the changes being made to service delivery arrangements are effectively implemented.</p>                                                                   | No         | Initial risk assessment produced and was used to inform the 2018/19 planning process.                                                                                                                                                             |
| PE                  | <p><b>Commissioning Partners' Governance Arrangements</b></p> <p>To assess the adequacy of governance arrangements for defining and delivering the intended outcomes for stakeholders from the joint commissioning work undertaken by the Council and the Clinical Commissioning Group.</p>             | Yes        | Deleted until the initial risk assessment (see below) was completed and the risks more fully understood.                                                                                                                                          |

## Appendix 2: Internal Audit Plan 2017/18

| Dept                             | Council activity and focus of audit work                                                                                                                                                                                                                                                                                   | Fraud risk | Status as at 11 <sup>th</sup> July 2018<br><i>(changes in bold)</i>                                                                                 |
|----------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|-----------------------------------------------------------------------------------------------------------------------------------------------------|
| PE                               | <p><b>Integrated Commissioning Risk Assessment</b></p> <p>To map and assess the risks relating to and assurances in place to ensure the manner in which this operates effectively and tangibly contributes to the delivery of corporate objectives.</p>                                                                    | No         | Initial risk assessment produced and was used to inform the 2018/19 planning process.                                                               |
| PE                               | <p><b>Local Authority Trading Company (LATC)</b></p> <p>To evaluate the Council's arrangements for monitoring the delivery of service delivery targets set out in the Block Contract with the LATC.</p>                                                                                                                    | No         | Deleted to reduce the size of the Audit Plan.<br><br>The risk was reassessed as part of the next planning round.                                    |
| PE                               | <p><b>Section 75 Agreement with South Essex Partnership University NHS Foundation (SEPT) for Mental Health Services</b></p> <p>To assess the robustness of the Council's arrangements for monitoring the delivery of social care services to adults of working age as set out in the Section 75 partnership agreement.</p> | Yes        | Deleted to reduce the size of the Audit Plan.<br><br>The risk was reassessed as part of the next planning round.                                    |
| <b>Implementing Action Plans</b> |                                                                                                                                                                                                                                                                                                                            |            |                                                                                                                                                     |
| PE                               | <ul style="list-style-type: none"> <li>• <b>Family Mosaic Contract Management</b></li> </ul>                                                                                                                                                                                                                               | Yes        | Deleted as this service area was restructured.                                                                                                      |
| PL                               | <ul style="list-style-type: none"> <li>• <b>The Forum Governance Arrangements</b></li> </ul>                                                                                                                                                                                                                               | Yes        | Deleted. The current status of the report has been discussed with the Deputy Chief Executive (Place).<br><br>No further audit action will be taken. |
| <b>Aim: Prosperous</b>           |                                                                                                                                                                                                                                                                                                                            |            |                                                                                                                                                     |
| PL                               | <p><b>Airport Business Park Benefits Management</b></p> <p>To provide support and independent challenge to management in the development of benefits management controls, designed to help ensure the project can demonstrate achievement of its expected benefits,</p>                                                    | Yes        | <b>Draft report is with the Interim Head of Internal Audit for review.</b>                                                                          |
| PE                               | <p><b>Better Queensway Project Assurance</b></p> <p>To assess whether effective project processes have been established for delivering the Better Queensway Project within the intended timeframes, so it achieves the expected benefits.</p>                                                                              | Yes        | Report issued January 2018.                                                                                                                         |

## Appendix 2: Internal Audit Plan 2017/18

| Dept                             | Council activity and focus of audit work                                                                                                                                                                                                                                                                                                             | Fraud risk | Status as at 11 <sup>th</sup> July 2018<br><i>(changes in bold)</i>                                                                |
|----------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|------------------------------------------------------------------------------------------------------------------------------------|
| PL                               | <p><b>Car Park Management Contract (Lot 1) Contract Management</b></p> <p>To assess whether there are robust arrangements in place to ensure that the car park compliance (Lot 1) contract is delivering the planned outcomes and / or benefits in compliance with the specified performance and quality standards, at the correct cost / price.</p> | Yes        | <p><b>Draft report is with the Interim Head of Internal Audit for review.</b></p> <p><b>Moved into the 2018/19 Audit Plan.</b></p> |
| PL                               | <p><b>Car Park Management Contract (Lot 2) Contract Management</b></p> <p>To assess whether the Car Park Management arrangements (cash collection) as part of the Parking Management contract are being effectively managed.</p>                                                                                                                     | Yes        | <p><b>Draft report is with the Interim Head of Internal Audit for review.</b></p> <p><b>Moved into the 2018/19 Audit Plan.</b></p> |
| PE                               | <p><b>Corporate Procurement Team, Procure to Pay (P2P)</b></p> <p>To assess the effectiveness of the arrangements for monitoring non- contract Procure to Pay (P2P) spend, focusing particularly on those areas that do not comply with the order, goods receipt and invoice process.</p>                                                            | No         | Current status report issued to management August 2017.                                                                            |
| PL                               | <p><b>Highways Contract Management</b></p> <p>To assess whether the highways block of contracts are being effectively managed.</p>                                                                                                                                                                                                                   | Yes        | <p><b>Moved into the 2018/19 Audit Plan.</b></p> <p><b>Officers gathering documentation for the audit.</b></p>                     |
| PL                               | <p><b>Highways Contract Management: Use of the Insights System (Symology)</b></p> <p>To assess the robustness of the Council's arrangements for properly instructing the contractor to undertake work, confirm work has been done and payment due is accurate.</p>                                                                                   | Yes        | <p>Deleted to reduce the size of the Audit Plan.</p> <p>The risk was reassessed as part of the next planning round.</p>            |
| CE                               | <p><b>Leases and Licences</b></p> <p>To assess whether the Council effectively manages its leases and licences as well as receiving all income due from them.</p>                                                                                                                                                                                    | Yes        | Report issued April 2018.                                                                                                          |
| <b>Implementing Action Plans</b> |                                                                                                                                                                                                                                                                                                                                                      |            |                                                                                                                                    |
| PL                               | <ul style="list-style-type: none"> <li>• <b>Airport Business Park Project Assurance</b></li> </ul>                                                                                                                                                                                                                                                   | Yes        | Report issued January 2018.                                                                                                        |
| PE                               | <ul style="list-style-type: none"> <li>• <b>Corporate Procurement Team, Procure to Pay (P2P)</b></li> </ul>                                                                                                                                                                                                                                          | Yes        | Report issued April 2018.                                                                                                          |
| PE                               | <ul style="list-style-type: none"> <li>• <b>Housing Allocations</b></li> </ul>                                                                                                                                                                                                                                                                       | Yes        | Report issued January 2018.                                                                                                        |

## Appendix 2: Internal Audit Plan 2017/18

| Dept                             | Council activity and focus of audit work                                                                                                                                                                                                                                                                                                  | Fraud risk | Status as at 11 <sup>th</sup> July 2018<br><i>(changes in bold)</i>                                                                          |
|----------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|----------------------------------------------------------------------------------------------------------------------------------------------|
| PE                               | <ul style="list-style-type: none"> <li>• <b>“P” Cards</b></li> </ul>                                                                                                                                                                                                                                                                      | Yes        | <p><b>Moved into the 2018/19 Audit Plan</b></p> <p><b>Draft report being produced.</b></p>                                                   |
| CE                               | <ul style="list-style-type: none"> <li>• <b>Right to Buy</b></li> </ul>                                                                                                                                                                                                                                                                   | Yes        | Report issued December 2017.                                                                                                                 |
| <b>Aim: Excellent</b>            |                                                                                                                                                                                                                                                                                                                                           |            |                                                                                                                                              |
| CE                               | <p><b>Debt Management</b></p> <p>To assess whether the new corporate Debt Management strategy is being properly and consistently applied.</p>                                                                                                                                                                                             | Yes        | This work was postponed until the new Debt Management Strategy, presented to Cabinet in November 2017, is embedded.                          |
| CE                               | <p><b>Housing Benefit: Risk Assessment of New Claims</b></p> <p>To work proactively with officers to provide assurance that the proposed new automated risk profiling arrangements to determine the level of verification checks required to confirm entitlement, will be fit for purpose.</p>                                            | Yes        | This is incorporated into housing benefits system work when reviewing the assessment process now Universal Credit applies to all new claims. |
| <b>Implementing Action Plans</b> |                                                                                                                                                                                                                                                                                                                                           |            |                                                                                                                                              |
| PE                               | <ul style="list-style-type: none"> <li>• <b>Section 75 Partnership Agreement, Integrated Equipment Service</b></li> </ul>                                                                                                                                                                                                                 | Yes        | Report Issued October 2017.                                                                                                                  |
| PL                               | <ul style="list-style-type: none"> <li>• <b>Works Contract Letting, St Helen’s Roman Catholic School</b></li> </ul>                                                                                                                                                                                                                       | Yes        | Report issued January 2018.                                                                                                                  |
| <b>Aim: All</b>                  |                                                                                                                                                                                                                                                                                                                                           |            |                                                                                                                                              |
| CE                               | <p><b>Apprenticeship Levy</b></p> <p>To assess the Council’s arrangements for using the levy to develop an effective apprenticeship scheme.</p>                                                                                                                                                                                           | Yes        | Work postponed until the Council’s scheme is developed.                                                                                      |
| PL                               | <p><b>IT Enterprise Change Management</b></p> <p>To assess the adequacy and effectiveness of the Council’s formal processes that ensure any changes to the IT environment (e.g. through applications or infrastructure) are introduced in a controlled and coordinated manner to minimise the risk of disruption to Council services.</p> | No         | <b>Report issued May 2018.</b>                                                                                                               |

## Appendix 2: Internal Audit Plan 2017/18

| Dept                             | Council activity and focus of audit work                                                                                                                                                                                                                                                                                                                                                                                          | Fraud risk | Status as at 11 <sup>th</sup> July 2018<br><i>(changes in bold)</i>                                                                |
|----------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|------------------------------------------------------------------------------------------------------------------------------------|
| PL                               | <p><b>Agresso System Access Controls</b></p> <p>To assess whether there are adequate arrangements in place for ensuring that at any point in time, individual staff members' access to the functions within the Agresso system is in accordance with the needs of their job role.</p>                                                                                                                                             | Yes        | Report issued April 2018.                                                                                                          |
| CE                               | <p><b>Payroll, Self-Serve Mode</b></p> <p>To assess whether the new arrangements for processing and approving expense, mileage and overtime allowance claims are working effectively.</p>                                                                                                                                                                                                                                         | Yes        | <p><b>Draft report is with the Interim Head of Internal Audit for review.</b></p> <p><b>Moved into the 2018/19 Audit Plan.</b></p> |
| PL                               | <p><b>Smart City Project</b></p> <p>To:</p> <ul style="list-style-type: none"> <li>• establish the remit and content of the SMART City Project</li> <li>• determine Internal Audit's approach to providing appropriate assurance over the lifecycle of the project.</li> </ul>                                                                                                                                                    | Yes        | Initial risk assessment produced and was used to inform the 2018/19 planning process.                                              |
| <i>Implementing Action Plans</i> |                                                                                                                                                                                                                                                                                                                                                                                                                                   |            |                                                                                                                                    |
| PL                               | <ul style="list-style-type: none"> <li>• <b>IT Infrastructure and Asset Management</b></li> </ul>                                                                                                                                                                                                                                                                                                                                 | No         | <b>Report issued May 2018.</b>                                                                                                     |
| CE                               | <ul style="list-style-type: none"> <li>• <b>Welfare Reform</b></li> </ul>                                                                                                                                                                                                                                                                                                                                                         | No         | Report issued December 2017.                                                                                                       |
| <b>Key Financial Systems</b>     |                                                                                                                                                                                                                                                                                                                                                                                                                                   |            |                                                                                                                                    |
| <b>Aim: All Aims</b>             |                                                                                                                                                                                                                                                                                                                                                                                                                                   |            |                                                                                                                                    |
| CE                               | <p><b>Financial systems work to support the production of the Council's Financial Statements</b></p> <p>To confirm that key controls in each of the key financial systems:</p> <ul style="list-style-type: none"> <li>• are designed to prevent or detect material financial errors, and</li> <li>• have been in place during 2017/18 and therefore, can be relied when producing the Council's Statement of Accounts.</li> </ul> | Yes        | Report issued April 2018.                                                                                                          |



## Appendix 2: Internal Audit Plan 2017/18

| Dept                | Council activity and focus of audit work                                                                                                                                                                                                   | Fraud risk | Status as at 11 <sup>th</sup> July 2018<br><i>(changes in bold)</i>                 |
|---------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|-------------------------------------------------------------------------------------|
| CE                  | <p><b>Payroll Revisited</b></p> <p>To check that actions agreed have been effectively implemented and are now embedded into the day to day operation of the service.</p>                                                                   | Yes        | Report issued November 2017.                                                        |
| CE                  | <p><b>Other Key Financial Systems</b></p> <p>Approach to this work is still to be confirmed.</p> <p>To use computer-assisted audit techniques (CAATs) to automate audit testing and allow for a deeper analysis of large data sets.</p>    | Yes        | Risk assessments produced and were used to inform the 2018/19 planning process.     |
| <b>Grant Claims</b> |                                                                                                                                                                                                                                            |            |                                                                                     |
|                     | To certify, in all significant respects, that the conditions attached to the grant have been complied with.                                                                                                                                |            |                                                                                     |
| PL                  | <ul style="list-style-type: none"> <li>• <b>BEST Growth Hub</b></li> </ul>                                                                                                                                                                 | Yes        | It was been agreed with Essex County Council that this work was no longer required. |
| PL                  | <ul style="list-style-type: none"> <li>• <b>Coastal Communities Fund</b></li> </ul>                                                                                                                                                        | Yes        | Deleted as the Council did not receive any grant funds.                             |
| PE                  | <ul style="list-style-type: none"> <li>• <b>Disabled Facilities Capital Grant Determination</b></li> </ul>                                                                                                                                 | Yes        | Completed September 2017.                                                           |
| PL                  | <ul style="list-style-type: none"> <li>• <b>Highways Maintenance Challenge Fund</b></li> </ul>                                                                                                                                             | Yes        |                                                                                     |
| PL                  | <ul style="list-style-type: none"> <li>• <b>Local Transport Capital Block Funding</b></li> </ul>                                                                                                                                           | Yes        | Completed September 2017.                                                           |
| PL                  | <ul style="list-style-type: none"> <li>• <b>Local Growth Fund</b></li> </ul>                                                                                                                                                               | Yes        |                                                                                     |
| PL                  | <ul style="list-style-type: none"> <li>• <b>Pothole Action Fund</b></li> </ul>                                                                                                                                                             | Yes        |                                                                                     |
| CE                  | <ul style="list-style-type: none"> <li>• <b>Mentoring Fund</b></li> </ul>                                                                                                                                                                  | No         | Completed August 2017.                                                              |
| PE                  | <p><b>Troubled Families Programme, Payments by Results Scheme Grant</b></p> <p>To challenge Troubled Families Payment By Result (PBR) Grant returns are in line with the Department for Communities and Local Government requirements.</p> | Yes        | Reported on May, July, September, October 2017 and March 2018 submissions.          |

## Appendix 2: Internal Audit Plan 2017/18

| Dept                                                                                                                           | Council activity and focus of audit work                                                                                                                                                                                                                                                                                                                                                                                               | Fraud risk | Status as at 11 <sup>th</sup> July 2018<br><i>(changes in bold)</i>                                 |
|--------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|-----------------------------------------------------------------------------------------------------|
| <b>Advice and Support</b>                                                                                                      |                                                                                                                                                                                                                                                                                                                                                                                                                                        |            |                                                                                                     |
| To provide independent review, support and challenge to assist with the delivery of the groups' objectives and work programme. |                                                                                                                                                                                                                                                                                                                                                                                                                                        |            |                                                                                                     |
|                                                                                                                                | <p><b>Attendance at Groups</b></p> <p>To provide supportive, critical challenge as required</p> <ul style="list-style-type: none"> <li>• External Grant Funding Group</li> <li>• Good Governance Group</li> </ul>                                                                                                                                                                                                                      |            | <p>Attended as required.</p> <p>The Head of Internal Audit attended.</p>                            |
| PE                                                                                                                             | <p><b>Early Years Funding – Nursery Settings in Schools</b></p> <p>To assess the effectiveness of the arrangements currently in place and being developed within the funded childcare provision to ensure:</p> <ul style="list-style-type: none"> <li>• the accuracy of the funding being approved by the Group Manager, Early Years</li> <li>• providers are fulfilling their duties in line with the provider agreements.</li> </ul> | Yes        | <p>Completed.</p> <p>Support and challenge provided whilst validation systems being considered.</p> |
| PL                                                                                                                             | <p><b>The Hive Business Incubation Centre</b></p> <p>To assess the robustness of arrangements for setting up and monitoring the delivery of the City Deal outputs detailed in the Service Level Agreement with the provider (Enterprise 4 Good) in relation to “The Hive” Business Incubation Centre.</p>                                                                                                                              | Yes        | <p>Support and challenge provided.</p>                                                              |
| All                                                                                                                            | <p><b>Potential Corporate Project Governance Approach</b></p> <p>To assess whether the Property, Regeneration and Strategic Projects team capital projects, project management approach (the PR&amp;SPT's project management approach) could be effectively utilised as the corporate standard when managing a project.</p>                                                                                                            | No         | <p>Report issued February 2018.</p>                                                                 |
| All                                                                                                                            | <p><b>Corporate Complaints Stage 1 and 2</b></p> <p>To assess whether Stage 1 and 2 complaints are effectively managed in line with a clear policy framework.</p>                                                                                                                                                                                                                                                                      | No         | <p>Feedback provided to officers.</p>                                                               |

## Appendix 2: Internal Audit Plan 2017/18

| Dept | Council activity and focus of audit work                                                                                                                                                                                                                                                                                                                                                                       | Fraud risk | Status as at 11 <sup>th</sup> July 2018<br><i>(changes in bold)</i>                                                                                                                               |
|------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| PL   | <p><b>Rechargeable Works</b></p> <p>To assess whether the processes for collecting income for accidental damage to the highway have been effectively embedded into day to day working.</p>                                                                                                                                                                                                                     | Yes        | <p>The need for this work was reassessed due to delays in implementing a new system and a change in the risk profile.</p> <p>Ad hoc advice was provided on the new processes being developed.</p> |
| CE   | <p><b>RIPA</b></p> <p>To work with the Counter Fraud &amp; Investigation Directorate to provide the Director of Legal &amp; Democratic Services with support to set up a process for auditing the use of social media sites and the internet for investigative or official business, across all departments, in line with the requirements of the Council's RIPA Policy.</p>                                   | No         | <p>Work completed and feedback provided to officers for consideration.</p>                                                                                                                        |
| PL   | <p><b>Safety of Gas Boilers in the Council Estate</b></p> <p>To assess whether robust processes have and are being followed by Southend on Sea Borough Council (the Council) when examining issues raised by a complainant regarding potential non-compliance with Gas Safety (Installation and Use) Regulations.</p>                                                                                          | Yes        | <p>Work completed and feedback provided.</p>                                                                                                                                                      |
| PL   | <p><b>Safety of Gas Boilers in the Council Estate Action Planning</b></p> <p>To provide support and challenge to the department to ensure a robust action plan is developed to improve the process for managing the Councils gas contract.</p>                                                                                                                                                                 | Yes        | <p>Work completed.</p> <p>Support and challenge provided whilst action plan was being developed.</p>                                                                                              |
| PE   | <p><b>Pre-payment Cards: Letting of Contract</b></p> <p>To assess whether effective arrangements are being developed to manage the issue of as well as approve and monitor expenditure on, pre-payment cards given to clients:</p> <ul style="list-style-type: none"> <li>• in receipt of direct payments</li> <li>• where the Council acts as the official receiver for Court Protection purposes.</li> </ul> | Yes        | <p>Work completed.</p> <p>Support and challenge provided whilst policy for using prepayment cards drawn up.</p>                                                                                   |
| PL   | <p><b>Airport Business Park Procurement</b></p> <p>To provide on-going support and challenge to the project to ensure procurement activity is compliant with the Councils Contract Procedure Rules and Public Procurement Regulations.</p>                                                                                                                                                                     | Yes        | <p>Work completed and feedback provided.</p>                                                                                                                                                      |

## Appendix 2: Internal Audit Plan 2017/18

| Dept                                       | Council activity and focus of audit work                                                                                                                                                                             | Fraud risk | Status as at 11 <sup>th</sup> July 2018<br><i>(changes in bold)</i>                                                                          |
|--------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|----------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Schools Audit Programme</b>             |                                                                                                                                                                                                                      |            |                                                                                                                                              |
| <b>Aim: Prosperous</b>                     |                                                                                                                                                                                                                      |            |                                                                                                                                              |
| PE                                         | <b>Schools Audit Programme</b><br>To assess whether individual schools have adequate and effective governance, information and asset management as well as financial management and reporting arrangements in place. |            |                                                                                                                                              |
|                                            | <ul style="list-style-type: none"> <li>• Earls Hall Primary School</li> </ul>                                                                                                                                        | Yes        | Report issued November 2017.                                                                                                                 |
|                                            | <ul style="list-style-type: none"> <li>• Leigh North Street Primary School</li> </ul>                                                                                                                                | Yes        | Report issued December 2017.                                                                                                                 |
| <b>Other Clients</b>                       |                                                                                                                                                                                                                      |            |                                                                                                                                              |
| PE                                         | <b>Adult Social Care Local Authority Trading Company</b><br>To develop an internal audit risk assessment, Charter, Strategy and Audit Plan for 2017/18.                                                              | Yes        | Research completed. Approach to this was considered in the context of the 'Alternative Delivery Models' report to the November 2017 Cabinet. |
| <b>Managing Delivery of the Audit Plan</b> |                                                                                                                                                                                                                      |            |                                                                                                                                              |
|                                            | Audit Planning, Resourcing                                                                                                                                                                                           |            |                                                                                                                                              |
|                                            | Managing Contractor Work                                                                                                                                                                                             |            |                                                                                                                                              |
|                                            | Reporting to Management Team and Audit Committee                                                                                                                                                                     |            |                                                                                                                                              |
|                                            | Preparing for statutory, independent external assessment against UK Public Sector Internal Audit Standards                                                                                                           |            |                                                                                                                                              |
|                                            | Implementing action plans<br><i>The objective of this work is to check that actions agreed have been effectively implemented and are now embedded into the day-to-day operation of the service.</i>                  |            |                                                                                                                                              |

## Appendix 3: Stakeholder Surveys, Compliance with Professional Standards

|                                                                                    |                                                                                                                                                                                   |      |
|------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|
| <b>1. Setting up and planning the audit (PSIAS 1200 / 2200)</b>                    |                                                                                                                                                                                   |      |
| 1.1                                                                                | Did we show a good level of knowledge and understanding of your service when discussing the potential scope and objective to be covered by the audit before fieldwork took place? | 84%  |
| <b>2. Performing the audit (PSIAS 2300)</b>                                        |                                                                                                                                                                                   |      |
| 2.1                                                                                | Did we work effectively with you when doing the audit to minimise the impact on your service?                                                                                     | 100% |
| 2.2                                                                                | Were we able to talk knowledgeably with you about information provided to us and queries we had during the audit?                                                                 | 88%  |
| <b>3. Communicating results (PSIAS 2400)</b>                                       |                                                                                                                                                                                   |      |
| 3.1                                                                                | Did we keep you informed of the progress of the audit and issues arising from the work in timely manner?                                                                          | 91%  |
| 3.2                                                                                | Did we effectively explain to you where we felt action was required to improve your arrangements and why?                                                                         | 91%  |
| 3.3                                                                                | Was the report fair and reflective of the work done by audit and the issues found as discussed with you?                                                                          | 90%  |
| <b>4. Independence and Objectivity (PSIAS 1100)</b>                                |                                                                                                                                                                                   |      |
| 4.1                                                                                | Did we provide relevant evidence to back up our findings if required?                                                                                                             | 87%  |
| 4.2                                                                                | At the end of the audit, did you understand the rationale for the overall opinion given?                                                                                          | 100% |
| <b>5. Improving governance, risk management and control processes (PSIAS 2100)</b> |                                                                                                                                                                                   |      |
| 5.1                                                                                | Did we explain how the actions you agreed to take would strengthen your operational arrangements and why that is important?                                                       | 93%  |
| <b>6. Managing the Internal Audit Activity (PSIAS 2000)</b>                        |                                                                                                                                                                                   |      |
| 6.1                                                                                | Do you think internal audit adds value to the Council?                                                                                                                            | 97%  |

Eight individuals were interviewed in 2017/18, covering 11 audit reports.

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**Appendix 4 Summary Assessment of Compliance with  
UK Public Sector Internal Audit Standards 2017/18**

| Ref        | Standard                                                        | Generally Conforms | Partial Conforms | Does Not Conform | N/A |
|------------|-----------------------------------------------------------------|--------------------|------------------|------------------|-----|
| <b>Ref</b> | <b>Definition of Internal Auditing</b>                          |                    |                  |                  |     |
| <b>Ref</b> | <b>Code of Ethics</b>                                           | ✓                  |                  |                  |     |
| 1          | Integrity                                                       | ✓                  |                  |                  |     |
| 2          | Objectivity                                                     | ✓                  |                  |                  |     |
| 3          | Confidentiality                                                 | ✓                  |                  |                  |     |
| 4          | Competence                                                      | ✓                  |                  |                  |     |
| <b>Ref</b> | <b>Attribute Standards</b>                                      |                    |                  |                  |     |
| 1000       | <b>Purpose, Authority and Responsibility</b>                    |                    | ✓                |                  |     |
| 1010       | Recognising Mandatory Guidance in the Internal Audit Charter    |                    | ✓                |                  |     |
| 1100       | <b>Independence and Objectivity</b>                             | ✓                  |                  |                  |     |
| 1110       | Organisational Independence                                     |                    | ✓                |                  |     |
| 1111       | Direct Interaction with the Board                               |                    | ✓                |                  |     |
| 1112       | Head of Internal Audit Roles Beyond Internal Auditing           | ✓                  |                  |                  |     |
| 1120       | Individual Objectivity                                          | ✓                  |                  |                  |     |
| 1130       | Impairments to Independence or Objectivity                      | ✓                  |                  |                  |     |
| 1200       | <b>Proficiency and Due Professional Care</b>                    | ✓                  |                  |                  |     |
| 1210       | Proficiency                                                     | ✓                  |                  |                  |     |
| 1220       | Due Professional Care                                           | ✓                  |                  |                  |     |
| 1230       | Continuing Professional Development                             | ✓                  |                  |                  |     |
| 1300       | <b>Quality Assurance and Improvement Programme</b>              | ✓                  |                  |                  |     |
| 1310       | Requirements of the Quality Assurance and Improvement Programme | ✓                  |                  |                  |     |
| 1311       | Internal Assessments                                            | ✓                  |                  |                  |     |
| 1312       | External Assessments                                            | ✓                  |                  |                  |     |

**Appendix 4 Summary Assessment of Compliance with  
UK Public Sector Internal Audit Standards 2017/18**

| Ref         | Standard                                                                                            | Generally Conforms | Partial Conforms | Does Not Conform | N/A |
|-------------|-----------------------------------------------------------------------------------------------------|--------------------|------------------|------------------|-----|
| 1320        | Reporting on the Quality Assurance and Improvement Programme                                        | ✓                  |                  |                  |     |
| 1321        | Use of Conforms with the International Standards for the Professional Practice of Internal Auditing | ✓                  |                  |                  |     |
| 1322        | Disclosure of Non-conformance                                                                       | ✓                  |                  |                  |     |
| <b>Ref</b>  | <b>Performance Standards</b>                                                                        |                    |                  |                  |     |
| <b>2000</b> | <b>Managing the Internal Audit Activity</b>                                                         | ✓                  |                  |                  |     |
| 2010        | Planning                                                                                            | ✓                  |                  |                  |     |
| 2020        | Communication and Approval                                                                          | ✓                  |                  |                  |     |
| 2030        | Resource Management                                                                                 | ✓                  |                  |                  |     |
| 2040        | Policies and Procedures                                                                             | ✓                  |                  |                  |     |
| 2050        | Coordination and Reliance                                                                           |                    | ✓                |                  |     |
| 2060        | Reporting to Senior Management and the Audit Committee                                              | ✓                  |                  |                  |     |
| 2070        | External Service Provider and Organisational Responsibility for Internal Audit                      |                    | ✓                |                  |     |
| <b>2100</b> | <b>Nature of Work</b>                                                                               | ✓                  |                  |                  |     |
| 2110        | Governance                                                                                          | ✓                  |                  |                  |     |
| 2120        | Risk Management                                                                                     | ✓                  |                  |                  |     |
| 2130        | Control                                                                                             | ✓                  |                  |                  |     |
| <b>2200</b> | <b>Engagement Planning</b>                                                                          | ✓                  |                  |                  |     |
| 2201        | Planning Considerations                                                                             | ✓                  |                  |                  |     |
| 2210        | Engagement Objectives                                                                               | ✓                  |                  |                  |     |
| 2220        | Engagement Scope                                                                                    | ✓                  |                  |                  |     |
| 2230        | Engagement Resource Allocation                                                                      | ✓                  |                  |                  |     |
| 2240        | Engagement Work Programme                                                                           | ✓                  |                  |                  |     |



**Appendix 4 Summary Assessment of Compliance with  
UK Public Sector Internal Audit Standards 2017/18**

| Ref         | Standard                                                                                                              | Generally Conforms | Partial Conforms | Does Not Conform | N/A      |
|-------------|-----------------------------------------------------------------------------------------------------------------------|--------------------|------------------|------------------|----------|
| <b>2300</b> | <b>Performing the Engagement</b>                                                                                      |                    | ✓                |                  |          |
| 2310        | Identifying Information                                                                                               |                    | ✓                |                  |          |
| 2320        | Analysis and Evaluation                                                                                               | ✓                  |                  |                  |          |
| 2330        | Documenting Information                                                                                               | ✓                  |                  |                  |          |
| 2340        | Engagement Supervision                                                                                                | ✓                  |                  |                  |          |
| <b>2400</b> | <b>Communicating Results</b>                                                                                          | ✓                  |                  |                  |          |
| 2410        | Criteria for Communicating                                                                                            | ✓                  |                  |                  |          |
| 2420        | Quality of Communications                                                                                             |                    | ✓                |                  |          |
| 2421        | Errors and Omissions                                                                                                  | ✓                  |                  |                  |          |
| 2430        | Use of 'conducted in conformance with the International Standards for the Professional Practice of Internal Auditing' |                    |                  |                  | ✓        |
| 2431        | Engagement Disclosure of Non-conformance                                                                              |                    | ✓                |                  |          |
| 2440        | Disseminating Results                                                                                                 | ✓                  |                  |                  |          |
| 2450        | Overall Opinions                                                                                                      | ✓                  |                  |                  |          |
| <b>2500</b> | <b>Monitoring Progress</b>                                                                                            | ✓                  |                  |                  |          |
| <b>2600</b> | <b>Resolution of Senior Management s Acceptance of Risks</b>                                                          | ✓                  |                  |                  |          |
|             |                                                                                                                       |                    |                  |                  |          |
|             | <b>TOTAL OUT OF 64</b>                                                                                                | <b>53</b>          | <b>10</b>        | <b>0</b>         | <b>1</b> |

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## Appendix 5: Compliance with UK Public Sector Internal Audit Standards Action Plan as at 18th May 2018

| Action required                                                                                                                                   | Current status                                                                                                                                                                                                                                                                                                                                                                                                 | Date              |
|---------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------|
| <b>Attribute Standards</b>                                                                                                                        |                                                                                                                                                                                                                                                                                                                                                                                                                |                   |
| <b>1100 Independence and Objectivity</b>                                                                                                          |                                                                                                                                                                                                                                                                                                                                                                                                                |                   |
| <b><i>1111 Direct Interaction with the Board</i></b>                                                                                              |                                                                                                                                                                                                                                                                                                                                                                                                                |                   |
| Re-establish annual Audit Committee performance assessments in line with good practice.                                                           | New good practice guidance was published in May 2018. At some point, an assessment of compliance with it should be produced. This can then be considered as part of a wider review of the Council's governance and assurance framework.                                                                                                                                                                        | HoIA, 31 Dec 2018 |
| <b>1200 Proficiency and Due Professional Care</b>                                                                                                 |                                                                                                                                                                                                                                                                                                                                                                                                                |                   |
| <b><i>1230 Continuing Professional Development</i></b>                                                                                            |                                                                                                                                                                                                                                                                                                                                                                                                                |                   |
| Continue with the recruitment programme for professional audit staff during 2017/18.                                                              | No further recruitment was undertaken in 2017/18.<br>In April 2018, an: <ul style="list-style-type: none"> <li>• experienced Senior Auditor on the team has been promoted to Audit Manager</li> <li>• exercise is underway to explore the possibility of seconding a current Council employee who wants to retrain, into an auditor post, if someone can demonstrate the key competencies required.</li> </ul> | Implemented       |
| Create and then recruit to the Business Support function that will support both the Internal Audit and Counter Fraud & Investigation Directorate. | The Business Support Team is in the process of taking over the relevant functions from the two teams.<br>The capacity of the team to deliver the increased workload will be monitored over the summer.                                                                                                                                                                                                         | HoIA, Dec 2018    |

## Appendix 5: Compliance with UK Public Sector Internal Audit Standards Action Plan as at 18th May 2018

| Action required                                                                                                                                                                                                                           | Current status                                                                                                                                                                                        | Date             |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------|
| <b>1300 Quality Assurance and Improvement Programme</b>                                                                                                                                                                                   |                                                                                                                                                                                                       |                  |
| Re-introduce cold file reviews when more fully staffed and include a sample of contractor files.                                                                                                                                          | This has now been built into the Audit Strategy presented to Audit Committee in April 2018 and will be implemented as soon as is practical.                                                           | To be determined |
| <b>1311 Internal Assessments</b>                                                                                                                                                                                                          |                                                                                                                                                                                                       |                  |
| Reinstate a full set off performance indicators once the team is more fully resourced with in-house staff.                                                                                                                                | This has now been built into the Audit Strategy presented to Audit Committee in April 2018 and will be implemented as soon as is practical.                                                           | To be determined |
| <b>Performance Standards</b>                                                                                                                                                                                                              |                                                                                                                                                                                                       |                  |
| <b>2000 Managing the Internal Audit Activity</b>                                                                                                                                                                                          |                                                                                                                                                                                                       |                  |
| <b>2010 Planning</b>                                                                                                                                                                                                                      |                                                                                                                                                                                                       |                  |
| Summarise the activities considered significant enough to warrant periodic, independent challenge by internal audit.<br>Present the list periodically to senior management and the Audit Committee as part of the audit planning process. | This will form part of the papers presented to support the 2019/20 Audit Plan.                                                                                                                        | HolIA, Mar 2019  |
| Consider how to split out time allocated to a review on: <ul style="list-style-type: none"> <li>• pure audit work</li> <li>• advice and support.</li> </ul>                                                                               | This is still work in progress. It will take longer than anticipated to complete due to the changes in the senior management team between Jan and Mar 2018.                                           | AMs, 31 Dec 2018 |
| <b>2030 Resource Management</b>                                                                                                                                                                                                           |                                                                                                                                                                                                       |                  |
| When resources allow, arrange more regular meetings with individual Group Managers as required, to help progress work in the Audit Plan.                                                                                                  | Some such sessions occurred when producing the 2018/19 Audit Plan. It will take longer than anticipated to implement fully due to the changes in the senior management team between Jan and Mar 2018. | AMs 31 Mar 2019  |

## Appendix 5: Compliance with UK Public Sector Internal Audit Standards Action Plan as at 18th May 2018

| Action required                                                                                                                                                                                                                                     | Current status                                                                                                                                                                                                                                                                                                                                    | Date                         |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------|
| <b>2040 Policies and Procedures</b>                                                                                                                                                                                                                 |                                                                                                                                                                                                                                                                                                                                                   |                              |
| Refresh the Audit Manual and supporting forms to reflect: <ul style="list-style-type: none"> <li>• updates in the Standards</li> <li>• current working practices</li> <li>• any issues arising from the independent external assessment.</li> </ul> | Most of this work is still in progress. It will take longer than anticipated to complete due to the changes in the senior management team between Jan and Mar 2018.<br><br>However, work is underway to update the Audit Manual to ensure the audit approach will be compliant with the General Data Protection Regulations (GDPR) from May 2018. | AMs, 31 Dec 2018             |
| <b>2050 Co-ordination and Reliance</b>                                                                                                                                                                                                              |                                                                                                                                                                                                                                                                                                                                                   |                              |
| At all clients, further develop the "other assurance" element of the audit risk assessments particularly with regard to corporate business management processes, as part of the 2018/19 audit planning round.                                       | This work has commenced as part of the Audit Planning process. This will be developed throughout the year as audit work is completed.                                                                                                                                                                                                             | HoIA, 31 Mar 2019            |
| <b>2100 Nature of Work</b>                                                                                                                                                                                                                          |                                                                                                                                                                                                                                                                                                                                                   |                              |
| <b>2110 Governance</b>                                                                                                                                                                                                                              |                                                                                                                                                                                                                                                                                                                                                   |                              |
| Assess whether an ethical governance audit should be included in 2018/19 Audit Plan.                                                                                                                                                                | The Head of Internal Audit and the Head of Housing and Communities at Castle Point Borough Council are going to undertake a piece of work during 2018/19 to set out the Council's ethical governance framework.<br><br>It was decided not to include such a review until this document is in place.                                               | AMs, Risk assess for 2019/20 |
|                                                                                                                                                                                                                                                     | Co-ordinate this with any work done by the Counter Fraud & Investigation Directorate to assess the adequacy of the Council's counter fraud, corruption and bribery governance framework.                                                                                                                                                          | HoIA, 31 Dec 2018            |

## Appendix 5: Compliance with UK Public Sector Internal Audit Standards Action Plan as at 18th May 2018

| Action required                                                                                                             | Current status                                                                                                                                                                                                                                                                                                                                              | Date                     |
|-----------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------|
| <b>2200 Engagement Planning</b>                                                                                             |                                                                                                                                                                                                                                                                                                                                                             |                          |
| <b><i>2210 Engagement Objectives</i></b>                                                                                    |                                                                                                                                                                                                                                                                                                                                                             |                          |
| <p>Make sure that the audit approach makes the links to performance management as part of the planning process.</p>         | <p>This is still work in progress. It will take longer than anticipated to complete due to the changes in the senior management team between Jan and Mar 2018.</p> <p><i>(Also see Standard 2040 about Policies and Procedures)</i></p>                                                                                                                     | <p>AMs, 31 Dec 2018</p>  |
| <b>2300 Performing the Engagement</b>                                                                                       |                                                                                                                                                                                                                                                                                                                                                             |                          |
| <b><i>2330 Documenting Information</i></b>                                                                                  |                                                                                                                                                                                                                                                                                                                                                             |                          |
| <p>Set up a project to check all files and destroy whatever is necessary to comply with the Retention Policy.</p> <p>84</p> | <p>This project is well underway with document disposal and retention work being undertaken on all client files.</p> <p>The current focus is reviewing the need to retain personal data held in areas such as electronic personnel files.</p> <p>A Disposal and Retention Log is in use, which also serves as the service's Information Asset Register.</p> | <p>BSM, 30 Sept 2018</p> |

## Appendix 5: Compliance with UK Public Sector Internal Audit Standards Action Plan as at 18th May 2018

| Action required                                                                                                                                                                                                                                       | Current status                                                                                                                                                                                                                                                                                                                                                                                                                                                                               | Date                     |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------|
| <b>2400 Communicating Results</b>                                                                                                                                                                                                                     |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |                          |
| <b>2410 Criteria for Communicating</b>                                                                                                                                                                                                                |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |                          |
| <p>Include an instruction in the operational protocol that meetings should always be held to:</p> <ul style="list-style-type: none"> <li>• feedback findings at the conclusion of fieldwork</li> <li>• discuss the draft report.</li> </ul> <p>85</p> | <p>Operational protocol documents for in house staff (Audit Management Checklist) and the “Ways of Working” document with contractors are clear about discussing draft reports with clients.</p> <p>Both documents need to be amended to clarify expectations that:</p> <ul style="list-style-type: none"> <li>• findings will be fed back during the audit, so there are no surprises</li> <li>• all auditors will have a final feedback meeting on conclusion of the fieldwork.</li> </ul> | <p>AMs, 30 Sept 2018</p> |
| <p>Reassess the reporting templates as part of updating the Audit Manual, to see how underlying issues with the Council's governance arrangements could be highlighted.</p>                                                                           | <p>This will be reassessed after senior management have undertaken the review of the risk management, control and governance arrangements that is due following the introduction of the council's new vision and strategic framework.</p>                                                                                                                                                                                                                                                    | <p>HoIA, 31 Dec 2018</p> |
| <b>2420 Quality of Communications</b>                                                                                                                                                                                                                 |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |                          |
| <p>Build in triggers into the Audit Manual that remind staff to keep clients informed of when reports can be expected and if they are delays in producing them.</p>                                                                                   | <p>Work outstanding is to:</p> <ul style="list-style-type: none"> <li>• amend the Planning, Fieldwork and Reporting sections of the Audit Management Checklist for in house staff</li> <li>• added this to the “Ways of Working” document with contractors.</li> </ul> <p><i>(Also see Standard 2030 About Resource Management regarding monitoring delivery of work which also contributes to this action).</i></p>                                                                         | <p>AMs, 30 Sept 2018</p> |

## Appendix 5: Compliance with UK Public Sector Internal Audit Standards Action Plan as at 18th May 2018

| Action required                                                                                                                                                                                                                                       | Current status                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    | Date              |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------|
| Reinstate target for issuing draft reports once the team is more fully resourced.                                                                                                                                                                     | This has now been built into the Audit Strategy presented to Audit Committee in April 2018 and will be implemented as soon as is practical.                                                                                                                                                                                                                                                                                                                                                       | To be determined  |
| Complete the project on upgrading / refreshing how we use APACE, our time recording / performance management data base.                                                                                                                               | This work is in progress.<br>The Business Support Manager is liaising with the team and the software supplier about the list of improvements and changes required to the database's functionality.                                                                                                                                                                                                                                                                                                | BSM, 30 Sept 2018 |
| Use APACE effectively to timetable the delivery of audits and monitor progress against both budgets and timelines.<br><br>∞                                                                                                                           | APACE, in conjunction with the Internal Audit Resource Schedule, is now being used to: <ul style="list-style-type: none"> <li>• allocate, phase and cost audits</li> <li>• allow the Business Support Team to monitor the delivery of audits against both the Audit Plan and the financial profile.</li> </ul> Reports on job budget monitoring are being provided to the team on a weekly basis.<br>Opportunities to do this more effectively are being considered in the projected noted above. | BSM, 30 Sept 2018 |
| Include a requirement in the Audit Manual about: <ul style="list-style-type: none"> <li>• issuing the guidance to and discussing it with clients within the draft terms of reference</li> <li>• attaching it as an appendix to the report.</li> </ul> | This is still work in progress. It will take longer than anticipated to complete due to the changes in the senior management team between Jan and Mar 2018.                                                                                                                                                                                                                                                                                                                                       | AMs, 31 Dec 2018  |
| <b>2431 Engagement Disclosure of Non- Conformance</b>                                                                                                                                                                                                 |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |                   |
| Consider updating the Audit Manual with a small section covering this particular situation and referencing PS2431.                                                                                                                                    | This is still work in progress. It will take longer than anticipated to complete due to the changes in the senior management team between Jan and Mar 2018.                                                                                                                                                                                                                                                                                                                                       | AMs, 31 Dec 2018  |



## Appendix 5: Compliance with UK Public Sector Internal Audit Standards Action Plan as at 18th May 2018

| Action required                                                                                                                                                                        | Current status                                                                        | Date              |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------|-------------------|
| <b>2500 Monitoring Progress</b>                                                                                                                                                        |                                                                                       |                   |
| Introduce the process for management to provide the Audit Committee with this assurance for reports with high and satisfactory audit opinions.                                         | The Business Support Team is currently working on this project with Council officers. | BSM, 30 Sept 2018 |
| Finalise the arrangements for reporting to Audit Committee on management sign off of action plans for audit reports with high or satisfactory opinions.                                | The Business Support Team is currently working on this project with Council officers. | BSM, 30 Sept 2018 |
| Design the content and format of a report to go to Audit Committee, for each client that shows the progress made by services in addressing agreed actions, for each live audit report. | The Business Support Team is currently working on this project with Council officers. | BSM, 30 Sept 2018 |

Key:

- HoIA, Head of Internal Audit
- AM, Audit Manager
- BSM, Business Support Manager

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Report of the Chief Executive  
to  
Audit Committee  
on  
25th July 2018

Report prepared by: BDO External Auditor

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**BDO: Audit Completion Report to the Audit Committee 2017/18**

**Cabinet Member - Councillor John Lamb**

***A Part 1 Public Agenda Item***

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**1. Purpose of Report**

- 1.1 This report summarises the results of the work completed to date for the 2017/18 financial year with regard to:
- the opinion on the Statement of Accounts
  - the conclusion on the adequacy of the Council's arrangements for securing economy, efficiency and effectiveness in the use of resources (the VFM conclusion).

**2. Recommendation**

- 2.1 The Committee accepts the Report to the Audit Committee 2017/18.**

**3. Background**

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

**4. Corporate Implications**

- 4.1 Contribution to Council's Aims and Priorities  
This audit work contributes to the delivery of all the Council's Aims and Priorities.
- 4.2 Financial Implications  
The fee for the audit work is set by Public Sector Audit Appointments Limited and agreed with the Council before the start of the audit. Issues arising during the course of the audit can impact on the audit fee payable.
- 4.3 Legal Implications  
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.

4.4 People and Property Implications

None

4.5 Consultation

The contents of this report has been discussed and agreed with the Chief Executive and the Director of Finance and Resources.

4.6 Equalities Impact Assessment

None

4.7 Risk Assessment

Periodically considering whether the external auditor is delivering the agreed Annual Audit Plan helps mitigate the risk that this statutory requirement is not met.

4.8 Value for Money

The report includes the auditor's conclusion on the adequacy of the Council's arrangements for securing economy, efficiency and effectiveness in the use of resources (the VFM conclusion)

4.9 Community Safety Implications and Environmental Impact

None

**5. Background Papers**

None

**6. Attachment: BDO Audit Completion Report 2017/18**

# SOUTHEND-ON-SEA BOROUGH COUNCIL

## AUDIT COMPLETION REPORT

Audit for the year ended 31 March 2018

19 July 2018

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# WELCOME

We have pleasure in presenting our Audit Completion Report to the Audit Committee. This report is an integral part of our communication strategy with you, a strategy which is designed to ensure effective two way communication throughout the audit process with those charged with governance.

It summarises the results of completing the planned audit approach for the year ended 31 March 2018, specific audit findings and areas requiring further discussion and/or the attention of the Audit Committee. At the completion stage of the audit it is essential that we engage with the Audit Committee on the results of audit work on key risk areas, including significant estimates and judgements made by management, critical accounting policies, any significant deficiencies in internal controls, and the presentation and disclosure in the financial statements.

We look forward to discussing these matters with you at the Audit Committee meeting on 25 July 2018, and to receiving your input.

In the meantime if you would like to discuss any aspects in advance of the meeting we would be happy to do so.

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements and use of resources. This report has been prepared solely for the use of the Audit Committee and those charged with governance. In preparing this report we do not accept or assume responsibility for any other purpose or to any other person. For more information on our respective responsibilities please see the Appendices.

In communicating with those charged with governance of the Council and the Group, we consider those charged with governance of subsidiary entities to be informed about matters relevant to their entity. Please let us know if this is not appropriate.

We would also like to take this opportunity to thank the management and staff of the Council for the co-operation and assistance provided during the audit.

## OVERVIEW

This summary provides an overview of the audit matters that we believe are important to the Audit Committee in reviewing the results of the audit of the financial statements of the Council and consolidated entities (together the 'Group') and use of resources of the Council for the year ended 31 March 2018.

It is also intended to promote effective communication and discussion and to ensure that the results of the audit appropriately incorporate input from those charged with governance.

### AUDIT SCOPE AND OBJECTIVES

|                           |                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
|---------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Audit status              | We have completed our audit procedures in accordance with the planned scope and our objectives have been achieved, subject to resolution of matters set out in the outstanding matters section below.                                                                                                                                                                                                                                                              |
| Audit risks update        | No additional significant audit risks were identified during the course of our audit procedures subsequent to our Audit Plan to you dated 9 April 2018.                                                                                                                                                                                                                                                                                                            |
| Materiality               | Our final materiality is £7.4 million for the Council and £7.6 million for the Group. Our materiality levels have not required reassessment since our audit planning referred to above, but have been updated to reflect the gross expenditure reported in the draft financial statements presented for audit. We set the clearly trivial threshold at £185,000 for the Council and £190,000 for the Group.                                                        |
| Changes to audit approach | There were no significant changes to our planned audit approach nor were any restrictions placed on our audit.                                                                                                                                                                                                                                                                                                                                                     |
| Group audit               | Our approach is designed to ensure we obtained the required level of assurance across the components of the Group in accordance with ISA (UK) 600 (Audits of Group Financial Statements). This objective has been achieved.<br>To summarise our audit coverage: <ul style="list-style-type: none"> <li>Total group expenditure: 97% full audit and 3% Group level procedures</li> <li>Total group assets: 98% full audit and 2% Group level procedures.</li> </ul> |



# OVERVIEW

## KEY AUDIT AND ACCOUNTING MATTERS

|                              |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
|------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Material misstatements       | <p>Our audit procedures to date have not identified any material misstatements. A verbal update will be given at the Audit Committee, should any material issues arise between the issue of this report and the Audit Committee meeting.</p> <p>However, since approval of the draft financial statements, the Council was notified by Essex County Council that the actuary statement provided for the Essex Pension Fund for preparation of those financial statements required amendment. The updated actuary statement subsequently provided resulted in a material amendment being required in respect of the pension fund liability. This has led to an increase in the Council pension liability of £8.554 million, and an increase in the Group pension liability of £9.393 million.</p> <p>The Council have also adjusted for non-material differences totalling £0.254 million identified by the auditors of South Essex Homes Limited.</p> |
| Unadjusted audit differences | Our audit to date has not identified any unadjusted audit differences. A verbal update will be given at the Audit Committee, should any reportable matters arise between the issue of this report and the Audit Committee meeting.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
| Control environment          | Our audit has not identified any significant deficiencies in internal controls.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |

## KEY MATTERS FROM OUR AUDIT OF USE OF RESOURCES

|                      |                                                                                                                                                                                                                  |
|----------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Sustainable finances | Our review of whether the Council has adequate arrangements in place to secure economy, efficiency and effectiveness in its use of resources is ongoing. We will provide a verbal update to the Audit Committee. |
|----------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|

## OVERVIEW

| AUDIT OPINION                                          |                                                                                                                                                                                                                                                                   |
|--------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Financial statements                                   | Subject to the successful resolution of outstanding matters set out on page 6, we anticipate issuing an unmodified opinion on the consolidated Group financial statements and the Council financial statements for the year ended 31 March 2018.                  |
| Other information                                      | Subject to the successful resolution of outstanding matters set out on page 6, we propose issuing an unmodified opinion on the consistency of the other information in the Statement of Accounts with the financial statements and our knowledge.                 |
| Annual Governance Statement                            | Subject to the successful resolution of outstanding matters set out on page 6, we have no exceptions to report in relation to the consistency of the Annual Governance Statement with the financial statements or our knowledge.                                  |
| Use of resources                                       | Subject to the successful resolution of outstanding matters set out on page 6, we anticipate issuing an unmodified opinion on the arrangements in place to secure economy, efficiency and effectiveness in the use of resources for the year ended 31 March 2018. |
| OTHER MATTERS FOR THE ATTENTION OF THE AUDIT COMMITTEE |                                                                                                                                                                                                                                                                   |
| Whole of Government Accounts (WGA)                     | The Council is below the audit threshold of £500 million for a full assurance review of the WGA Data Collection Tool. We anticipate issuing the relevant part of the assurance statement to the National Audit Office by the 31 August deadline.                  |
| Audit independence                                     | Our observations on our audit independence and objectivity and related matters are set out in Appendix V.                                                                                                                                                         |
| Management letter of representation                    | The draft management letter of representation, to be approved and signed, is set out in Appendix VII.                                                                                                                                                             |

# OUTSTANDING MATTERS

We have largely completed our audit work for the year ended 31 March 2018, and anticipate issuing an unmodified opinion on the consolidated Group financial statements and the Council financial statements.

The following matters are outstanding at the date of this report. We anticipate that the majority of these matters will have been completed by the time of the Audit Committee at which this report is considered and we will update you on their current status at that meeting:

## 1 Clearance of the small number of outstanding issues on the audit queries tracker currently with management

---

Completion of a small amount of residual testing in the following areas:

- Property, Plant and Equipment
- Debtors
- Creditors
- Pension Scheme
- CIES NCOS Income
- Housing Benefit Expenditure
- Council Tax Benefit Expenditure
- Other Disclosures

## 2

---

## 3 Final review by the project manager and RI and clearance of review points

---

## 4 Audit completion tasks, including subsequent events review, and testing of going concern, contingencies and commitments, trust funds, consolidation (including receipt of final audited accounts and ISA 260 report from the component auditors of South Essex Homes Limited), the narrative report and laws and regulations

---

## 5 Final review and approval by you of the Statement of Accounts

---

## 6 Management letter of representation, as attached in Appendix VII to be approved and signed

---

# KEY AUDIT AND ACCOUNTING MATTERS

## AUDIT RISKS OVERVIEW

We assessed the following matters as audit risks, as reported in our Audit Plan dated 9 April 2018. Below we set out how these risks have been addressed and the outcomes of our procedures.


Key: ■ Significant risk ■ Normal risk

| AUDIT AREA                                 | RISK DESCRIPTION                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               | HOW RISK WAS ADDRESSED BY OUR AUDIT                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   | AUDIT FINDINGS AND CONCLUSION                                                                                                                                                                                                                                                                                                                             |
|--------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1 ■ <b>Management override of controls</b> | <p>Auditing standards presume that a risk of management override of controls is present in all entities and require us to respond to this risk by testing the appropriateness of accounting journals and other adjustments to the financial statements, reviewing accounting estimates for possible bias and obtaining an understanding of the business rationale of significant transactions that appear to be unusual.</p> <p>By its nature, there are no controls in place to mitigate the risk of management override.</p> | <p>We have:</p> <ul style="list-style-type: none"> <li>Tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements</li> <li>Reviewed accounting estimates for biases and evaluated whether the circumstances producing the bias, if any, represent a risk of material misstatement due to fraud</li> <li>Obtained an understanding of the business rationale for significant transactions that are outside the normal course of business for the entity or that otherwise appear to be unusual.</li> </ul> | <p>Our audit work in relation to journals has not identified any significant issues.</p> <p>We have not found any indication of management bias in accounting estimates.</p> <p>Our views on significant management estimates in respect of property revaluations, the valuation of the pension scheme and the bad debt provision are included below.</p> |

## KEY AUDIT AND ACCOUNTING MATTERS

|    | AUDIT AREA                                                      | RISK DESCRIPTION                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | HOW RISK WAS ADDRESSED BY OUR AUDIT                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               | AUDIT FINDINGS AND CONCLUSION                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
|----|-----------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 66 | <p>2</p> <p><b>Property, plant and equipment valuations</b></p> | <p>Local authorities are required to ensure that the carrying value of property, plant and equipment (PPE) is not materially different to the current value or fair value (as applicable) at the balance sheet date.</p> <p>The Code requires management to carry out a full valuation of its land and buildings on a periodic basis (at least every 5 years). In the intervening years, management is required to assess whether there has been a material change in the value of its assets that should be accounted for.</p> <p>As part of the 5 year rolling re-valuation programme, all schools have been re-valued in 2017/18. Upon review of the revaluation schedules for these assets, the upwards revaluations were seen to total £32m and downwards revaluations totalled £0.6m. We concluded that there is a significant risk of material misstatement of asset values.</p> <p>2017/18 is the second year that the Council has used the current external valuers and we identified a material error in the valuations they provided in the first year, which increases our view of the associated audit risk.</p> | <p>We have:</p> <ul style="list-style-type: none"> <li>• Reviewed the instructions provided to the valuer as well as the valuer's skills and expertise in order to determine if we can rely on them as a management expert</li> <li>• Confirmed that the basis of valuation for assets valued in year is appropriate based on their usage</li> <li>• Confirmed that the valuation movements are consistent with the expectations provided by independent data about the property market</li> <li>• Confirmed that the assets not specifically valued in the year have been properly assessed to confirm that their reported values remain materially correct</li> <li>• Confirmed that an instant build modern equivalent asset basis has been used for assets valued at Depreciated Replacement Cost.</li> </ul> | <p>From our review of the instructions provided to the valuer and our assessment of the expertise of the valuer, we are satisfied that we can rely on the majority of their work. We are not satisfied that we can place reliance on all of the school floor areas used in the valuation calculations prepared by the valuer, as detailed on the following page.</p> <p>For the sample of PPE assets and investment properties reviewed we are satisfied that the basis of the valuation for each asset is appropriate and that the revaluation movements have been correctly accounted for. Our review of the reasonableness of valuation assumptions applied is noted overleaf.</p> |

# KEY AUDIT AND ACCOUNTING MATTERS

| SIGNIFICANT ACCOUNTING ESTIMATES                                                                                                                                                                                                                                                                                                                                                    |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |                                                                                                                                                                                                     |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Property, plant and equipment valuations                                                                                                                                                                                                                                                                                                                                            |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |                                                                                                                                                                                                     |
| ESTIMATE                                                                                                                                                                                                                                                                                                                                                                            | HOW RISK WAS ADDRESSED BY OUR AUDIT                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      | IMPACT                                                                                                                                                                                              |
| <p>Land and buildings are valued by reference to existing use market values</p> <p>Dwellings are valued by reference to open market value less a social housing discount</p> <p>Investment properties are valued by reference to highest and best use market value</p> <p>Some specialist buildings are valued at depreciated replacement cost by reference to building indices</p> | <p>The Council engaged an external valuer to value the asset categories detailed on the previous page as at 1 April 2017 in line with the rolling revaluation policy. This resulted in a net upward revaluation movement of £31.224 million in the year for PPE and a gain of £3.212 million for investment properties.</p> <p>We assessed the valuer’s competence, independence and objectivity and determined we could largely rely on the management expert. We are not, however, satisfied that we can place reliance on the floor areas used for 5 of the schools revalued. For these 5 assets, the floor areas applied were found to be misstated when comparing to source documentation. The movement in the valuations arising from correcting these floor areas was concluded to be trivial.</p> <p>We reviewed the valuations provided and the valuation methodology applied and, in all cases, confirmed that the basis of valuation for assets valued in year is appropriate based on Code requirements for all assets.</p> <p>The valuer also confirmed that there was a material movement in valuation between valuation date and year end. A net re-valuation gain of £35.907 million has been recognised in respect of this. This movement has been calculated by applying a percentage increase to each of the categories of assets where an increase in value was assessed to have occurred, using sector relevant indices adjusted for local factors where considered appropriate by the valuer. We have reviewed these percentage increases and concluded them to be reasonable.</p> | <p style="text-align: center;">↓</p>  <p style="text-align: center;">&lt; lower                  higher &gt;</p> |

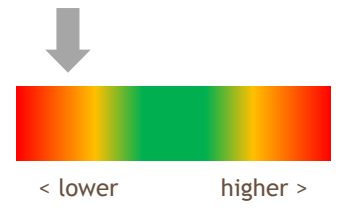
100

# KEY AUDIT AND ACCOUNTING MATTERS

|   | AUDIT AREA                           | RISK DESCRIPTION                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         | HOW RISK WAS ADDRESSED BY OUR AUDIT                                                                                                                                                                                                                                                                                                                                                                                                                                                               | AUDIT FINDINGS AND CONCLUSION                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
|---|--------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 3 | <b>Pension liability assumptions</b> | <p>The pension liability comprises the Council’s share of the market value of assets held in the Essex Pension Fund and the estimated future liability to pay pensions.</p> <p>An actuarial estimate of the pension fund liability is calculated by an independent firm of actuaries with specialist knowledge and experience. The estimate has regard to local factors such as mortality rates and expected pay rises along with other assumptions around inflation. Management has agreed the assumptions made by the actuary to support the estimate and these are disclosed in the financial statements.</p> <p>There is a risk the valuation is not based on accurate membership data or uses inappropriate assumptions to value the liability.</p> | <p>We agreed the disclosures to the information provided by the pension fund actuary.</p> <p>We requested assurance from the auditor of the pension fund over the controls for providing accurate membership data to the actuary.</p> <p>We checked whether any significant changes in membership data were communicated to the actuary.</p> <p>We reviewed the reasonableness of the assumptions used in the calculation against other local government actuaries and other observable data.</p> | <p>We did not identify any issues regarding the accuracy of the disclosures in the financial statements or the accuracy and completeness of data provided by the fund to the actuary.</p> <p>Our review of the reasonableness of assumptions used to calculate the present value of future pension obligations is noted on the following page.</p> <p>During the course of the audit, Essex County Council notified the Council of a material misstatement in respect of the pension fund liability data provided by the Essex pension fund actuary. This has led to an increase in the Council pension liability of £8.554 million, and an increase in the Group pension liability of £9.393 million. The Council have amended for this in the final financial statements.</p> |

# KEY AUDIT AND ACCOUNTING MATTERS

| SIGNIFICANT ACCOUNTING ESTIMATES                                                                                                                                                                                              |                                                                                       |                    |                      |                                                               |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------|--------------------|----------------------|---------------------------------------------------------------|
| Pension liability assumptions                                                                                                                                                                                                 |                                                                                       |                    |                      |                                                               |
| ESTIMATE                                                                                                                                                                                                                      | HOW RISK WAS ADDRESSED BY OUR AUDIT                                                   |                    | IMPACT               |                                                               |
| The key assumptions include estimating future expected cash flows to pay pensions including inflation, salary increases and mortality of members; and the discount rate to calculate the present value of these cash outflows | The actuary has used the following assumptions to value the future pension liability: |                    |                      |                                                               |
|                                                                                                                                                                                                                               |                                                                                       | <b>Actual used</b> | <b>Actuary range</b> | <b>PwC assessment of actuary range to market expectations</b> |
|                                                                                                                                                                                                                               | RPI increase                                                                          | 3.3%               | 3.3-3.35%            | Bottom of expected range                                      |
|                                                                                                                                                                                                                               | CPI increase                                                                          | 2.3%               | 2.3-2.35%            | Bottom of expected range (derived from RPI above)             |
|                                                                                                                                                                                                                               | Salary increase                                                                       | 3.8%               | --                   | Bottom of expected range (derived from RPI above)             |
|                                                                                                                                                                                                                               | Pension increase                                                                      | 2.3%               | 2.3-2.35%            | Bottom of expected range (derived from RPI above)             |
|                                                                                                                                                                                                                               | Discount rate curve                                                                   | 2.55%              | 2.5-2.6%             | Middle of expected range                                      |
|                                                                                                                                                                                                                               | Mortality - LGPS:                                                                     |                    |                      |                                                               |
|                                                                                                                                                                                                                               | - Male current                                                                        | 24.4 years         | 23.5-26.6            | Reasonable                                                    |
|                                                                                                                                                                                                                               | - Female current                                                                      | 27.0 years         | 26.5-28.3            | Reasonable                                                    |
| - Male retired                                                                                                                                                                                                                | 22.2 years                                                                            | 21.4-24.4          | Reasonable           |                                                               |
| - Female retired                                                                                                                                                                                                              | 24.7 years                                                                            | 24.2-26.0          | Reasonable           |                                                               |






## KEY AUDIT AND ACCOUNTING MATTERS

|   | AUDIT AREA                             | RISK DESCRIPTION                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        | HOW RISK WAS ADDRESSED BY OUR AUDIT                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  | AUDIT FINDINGS AND CONCLUSION                                                                                                                                                                                                                                         |
|---|----------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 4 | Revenue and expenditure recognition    | <p>Under auditing Standards there is a presumption that income recognition presents a fraud risk. For local authorities, the risk can be identified as affecting the accuracy and existence of income and expenditure.</p> <p>We do not consider there to be a specific significant risk over any one income stream recorded in the Comprehensive Income &amp; Expenditure Statement.</p> <p>Errors regarding the year-end income were identified in each of the previous two years. The net impact on the 2016/17 accounts of these errors was an estimated overstatement of income of £217k. As this is a recurring issue, and the procedures in respect of the year-end cut off have not changed, we consider this to be a risk of non-trivial misstatement, specifically over the cut-off of fees and charges and therefore completeness of income at year-end.</p> | <p>We tested a sample of fees and charges to ensure income has been recorded in the correct period and that all income that has been recorded should have been recorded.</p> <p>We traced an increased sample of items picked from the pre and post year-end bank statements to supporting documentation to confirm the completeness of the amounts recorded.</p> <p>We reviewed the Council’s policy to only accrue for items with a value of greater than £5,000 and made an assessment of whether this could lead to a material misstatement.</p> | <p>Our testing in this area is ongoing. We will provide a verbal update to the Audit Committee.</p> <p>We conclude that the likelihood of the policy to only accrue for items with a value of greater than £5,000 resulting in a material misstatement is remote.</p> |
| 5 | Expenditure and Funding Analysis (EFA) | <p>During the prior year audit, we identified inconsistencies in the methodology for preparing the expenditure and funding analysis note between the disclosures made in the financial statements in respect of 2016/17 and those made in respect of 2015/16.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | <p>We have reviewed the methodology for preparing this note and ensured it is consistent with the final agreed methodology from 2016/17.</p>                                                                                                                                                                                                                                                                                                                                                                                                         | <p>Our testing in this area is ongoing. We will provide a verbal update to the Audit Committee.</p>                                                                                                                                                                   |

## KEY AUDIT AND ACCOUNTING MATTERS

| AUDIT AREA                                         | RISK DESCRIPTION                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | HOW RISK WAS ADDRESSED BY OUR AUDIT                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  | AUDIT FINDINGS AND CONCLUSION                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
|----------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 6<br>Southend Care Ltd                             | The Council has a new subsidiary company in 2017/18 (Southend Care Ltd). As the transactions for this are material and have not historically been accounted for this presents a risk of material misstatement.                                                                                                                                                                                                                                                                                                                                   | <p>We have:</p> <ul style="list-style-type: none"> <li>Agreed the numbers consolidated into the financial statements to the draft financial statements for Southend Care Ltd</li> <li>Confirmed that the processes and procedures for consolidation are in line with our expectations and those applied for South Essex Homes Limited.</li> <li>Performed a high level analytical review of the numbers included in the Southend Care Ltd accounts against our expectations</li> </ul>                                                                                                                                                                                                                                                               | Our testing in this area is ongoing. We will provide a verbal update to the Audit Committee.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
| 7<br>Property, plant and equipment (PPE) existence | <p>Our initial review of the fixed asset register identified a small number of assets that the Council no longer holds. This was one transit van with a net book value of nil, a number of rooms removed as part of the past remodelling of two HRA sheltered accommodation schemes with a net book value of £1.1m and three garages with a net book value of £8,049.</p> <p>We have identified similar issues in previous years and the identification of these further assets indicates that a risk of material misstatement still exists.</p> | <p>We have:</p> <ul style="list-style-type: none"> <li>Reviewed the work that the Council has undertaken to identify further assets on the fixed asset register that the Council no longer holds</li> <li>Traced a sample of general fund, investment property and heritage assets to title deeds confirming the Council's ownership of the assets</li> <li>Traced a sample of Housing Revenue Account assets to the housing rent system, confirming that rental income is being received on the assets and thus that they exist</li> <li>Agreed a sample of investment property assets to the lease document held for these assets</li> <li>Physically verified a sample of general fund, heritage asset and investment property assets.</li> </ul> | <p>During our interim audit, of the total population of PPE assets (£778.536 million net book value), we identified the following issues:</p> <ul style="list-style-type: none"> <li>One generically named asset with a net book value of £100,282 could not be identified. Further procedures to establish whether this is an isolated example are in progress. An update will be provided to the Audit Committee.</li> <li>A number of rooms removed as part of the remodelling of two HRA sheltered accommodation schemes with a net book value of £1.1m were still held on the fixed asset register</li> <li>307 garages with a total net book value of £635k, which have been either demolished or sold were still held on the fixed asset register.</li> </ul> <p>All of the above assets were removed from the fixed asset register included within the financial statements prior to the submission of the financial statements for the final audit. All errors identified have been isolated to the specific issues listed above.</p> |

# KEY AUDIT AND ACCOUNTING MATTERS

| SIGNIFICANT ACCOUNTING ESTIMATES                    |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |                                                                                                                                                                                                     |
|-----------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| SIGNIFICANT ESTIMATE                                | HOW RISK WAS ADDRESSED BY OUR AUDIT                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | IMPACT                                                                                                                                                                                              |
| Estimate of future write-off for uncollectable debt | <p>Overall, we concluded that the impairment allowances for receivables are materially accurate, and have mostly been based on historical write off rates. Based on a review of historical write off rates we concluded that the overall difference between the provision value and the value if all elements of the provision were calculated using historical recovery rates was trivial.</p> <p><b>Housing benefit overpayments</b></p> <p>The impairment allowance at 31 March 2018 is £3.425m, an increase of £0.181m from the prior year, against an overpayments balance of £6.585m. We compared this to the historical collection rates and estimate that this provision should be in the region of £3.360m.</p> <p><b>Council tax arrears</b></p> <p>The total impairment allowance for the Collection Fund at 31 March 2018 is £2.468m, an increase of £0.073m from the prior year, against total arrears of £4.975m. We compared this to the historical collection rates and estimate that this provision should be in the region of £2.462m.</p> <p><b>Business rates arrears</b></p> <p>The total impairment allowance for the Collection Fund at 31 March 2017 is £0.389m, an increase of £0.036m from the prior year, against total arrears of £1.806m. We compared this to the historical collection rates and estimate that this provision should be in the region of £0.390m.</p> <p>The total impairment allowance for other receivables where it was felt appropriate to make a provision at 31 March 2018 is £5.566m, a decrease of £0.157m from the prior year, against an outstanding balance of £12.144m. We compared this to the historical collection rates and estimate that this provision should be in the region of £5.598m.</p> | <p style="text-align: center;">↓</p>  <p style="text-align: center;">&lt; lower                  higher &gt;</p> |

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## KEY AUDIT AND ACCOUNTING MATTERS

### MATTERS REQUIRING ADDITIONAL CONSIDERATION

We comment below on other matters requiring additional consideration.

|   | AUDIT AREA      | AUDIT FINDINGS                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
|---|-----------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1 | Fraud           | Whilst the directors have ultimate responsibility for prevention and detection of fraud, we are required to obtain reasonable assurance that the financial statements are free from material misstatement, including those arising as a result of fraud. Our audit procedures did not identify any fraud. We will seek confirmation from those charged with governance on whether you are aware of any known, suspected or alleged frauds since we last enquired when presenting the Audit Plan on 9 April 2018. |
| 2 | Internal audit  | We reviewed the audit work of the Council's internal audit function to assist our risk scoping at the planning stage. This review did not identify any additional audit risks.                                                                                                                                                                                                                                                                                                                                   |
| 3 | Related parties | Whilst the Council is responsible for the completeness of the disclosure of related party transactions in the financial statements, we are also required to consider related party transactions in the context of fraud as they may present greater risk for management override or concealment or fraud.<br>We did not identify any significant matters in connection with related parties.                                                                                                                     |
| 4 | Group matters   | We are awaiting the results of the component auditors' reporting in order to confirm we are satisfied with the quality of their work. We will then confirm that: <ul style="list-style-type: none"> <li>• There were no limitations on the audit where information was restricted</li> <li>• We did not identify any fraud at a component level.</li> </ul> We will provide a verbal update to the Audit Committee.                                                                                              |

## OTHER REPORTING MATTERS

We comment below on other reporting required to be considered in arriving at the final content of our audit report:

|   | MATTER                                                                                                                                                                                                                                                                                                                                      | COMMENT                                                                                                          |
|---|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------|
| 1 | We are required to report on whether the financial and non-financial information in the Narrative Report within the Statement of Accounts is consistent with the financial statements and the knowledge acquired by us in the course of our audit.                                                                                          | Our testing in this area is ongoing. We will provide a verbal update to the Audit Committee.                     |
| 2 | We are required to report by exception if the Annual Governance Statement does not meet the disclosure requirements set out in the guidance 'Delivering Good Governance in Local Government Framework' (2016 Edition) published by CIPFA/SOLACE or is misleading or inconsistent with other information that is forthcoming from the audit. | We have no matters to report in relation to the Annual Governance Statement's compliance with relevant guidance. |

## CONTROL ENVIRONMENT

We are required to report to you, in writing, significant deficiencies in internal control that we have identified during the audit. These matters are limited to those which we have concluded are of sufficient importance to merit being reported to the Audit Committee.

As the purpose of the audit is for us to express an opinion on the Council's financial statements and use of resources, you will appreciate that our audit cannot necessarily be expected to disclose all matters that may be of interest to you and, as a result, the matters reported may not be the only ones which exist. As part of our work, we considered internal control relevant to the preparation of the financial statements such that we were able to design appropriate audit procedures. This work was not for the purpose of expressing an opinion on the effectiveness of internal control.

We note that the Council's internal audit function has issued a number of observations and recommendations on the Council's control environment during 2017/18. We have not repeated these recommendations in this report unless we consider them to highlight significant deficiencies in control which we are required to report to you.

We are not aware of any significant deficiencies in the Council's internal controls in 2017/18.

We have identified other deficiencies in controls which have been discussed with management and included in the action plan at Appendix III.

# WHOLE OF GOVERNMENT ACCOUNTS

We comment below on other reporting required:

|   | MATTER                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         | COMMENT                                                                                                                                                                                                                                                             |
|---|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1 | Auditors are required to review Whole of Government Accounts (WGA) information prepared by component bodies that are over the prescribed threshold of £500 million in any of: assets (excluding property, plant and equipment); liabilities (excluding pension liabilities); income or expenditure. The Council falls below the threshold for review and there is no requirement for further work other than to submit the section on the WGA Assurance Statement to the WGA audit team with the total values for assets, liabilities, income and expenditure. | Local authorities were required to submit the unaudited DCT to HM Treasury and auditors by 14 June 2018. The Council met this deadline.<br><br>We will submit the relevant section of the assurance statement to the National Audit Office (NAO) by 31 August 2018. |

## USE OF RESOURCES

We are required to be satisfied that proper arrangements have been made to secure economy, efficiency and effectiveness in the use of resources (value for money) and report to you on an 'except for' basis. This is based on the following reporting criterion:

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

There are three sub criteria that we consider as part of our overall risk assessment:

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

We reported our risk assessment, which included use of resources significant risks, in the 2017/18 Audit Plan issued on 9 April 2018. We have since undertaken a more detailed assessment of risk following our completion of the interim review of financial controls and review of the draft financial statements, and we have not included any additional significant risks. We have not therefore identified any risks in respect of informed decision making or working with partners and other third parties, and no detailed work has been performed in these areas.

We report below our findings of the work designed to address these significant risks and any other relevant use of resources work undertaken.

Key: ■ Significant risk ■ Normal risk ■ Other issue



# USE OF RESOURCES

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| RISK AREA                                | RISK DESCRIPTION AND WORK PERFORMED                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | AUDIT FINDINGS AND CONCLUSION                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
|------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>1 Sustainable resource deployment</p> | <p>Government continues to reduce funding for local government, and combined with additional pressures arising from demographic and other service delivery changes, this will have a significant impact on the financial resilience of the Council in the medium term.</p> <p>We have reviewed the latest Medium Term Financial Strategy (MTFS) which covers the four year period to 2021/22. The Council set a balanced budget for 2018/19 but this requires planned savings of £7.9m to be achieved. The MTFS forecasts a budget gap totalling £16.9m over the remaining three years which will need to be funded through either savings or additional revenue in order to maintain the current general fund position. This is a reduction from the MTFS published at the end of 2016/17 year which showed a budget gap of £22.9m. The two MTFS' cover different years and the reduction is due to the gap for 2021/22 in the current MTFS being lower than the budget gap for 2018/19 in the prior year MTFS. The budget gap is forecast to arise as follows:</p> <ul style="list-style-type: none"> <li>• 2019/20: £7.5m (increased from £5.1m in the previous MTFS)</li> <li>• 2020/21: £4.9m (decreased from £7.5m in the previous MTFS)</li> <li>• 2021/22: £4.5m</li> </ul> <p>Although the current budget gap is significant the Council is aware of the importance of finding sustainable savings or new revenue streams.</p> <p>We have reviewed the assumptions used in developing the MTFS and have found these to be reasonable. A prudent approach to expectations of future government funding has been adopted by the Council.</p> | <p>Whilst the Council has identified a significant funding gap, action is being taken to ensure the matter is addressed and the Council has a track record of achieving its financial plans.</p> <p>Sufficient reserves and balances are available to support the Council's services in the medium term, should there be under performance against savings plans.</p> <p>Therefore, while there is a recognised funding gap in the MTFS, we are satisfied that the Council has sufficient reserves available and is undertaking appropriate arrangements to manage the budget gap in a way that will ensure it remains financially sustainable over the period of the MTFS.</p> |

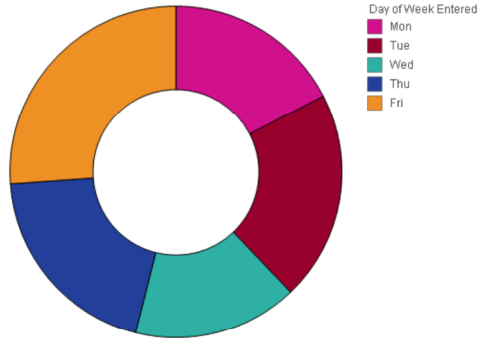
| RISK AREA | RISK DESCRIPTION AND WORK PERFORMED                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  | AUDIT FINDINGS AND CONCLUSION |
|-----------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------|
|           | <p>Our review of the latest forecast position and assessment of whether the Council is achieving the budget is ongoing, as is our review of the plans in place for the future utilisation of reserves. We will provide a verbal update to the Audit Committee.</p> <p>The Council continues to maintain a level of balances and earmarked reserves in accordance with the plans set out in the MTF5. As at 31 March 2018, the General Fund balance was £11m which is within the Director of Finance and Resources recommended range of £10m to £12m. General Fund earmarked reserves were £61.6m compared to £64.0m at 31 March 2017 and £58.5m at 31 March 2016. The Council's overall useable reserves, which include the General Fund, HRA, Earmarked Reserves (including schools) and capital resources, have increased by £4.9m in 2017/18.</p> |                               |

# APPENDICES

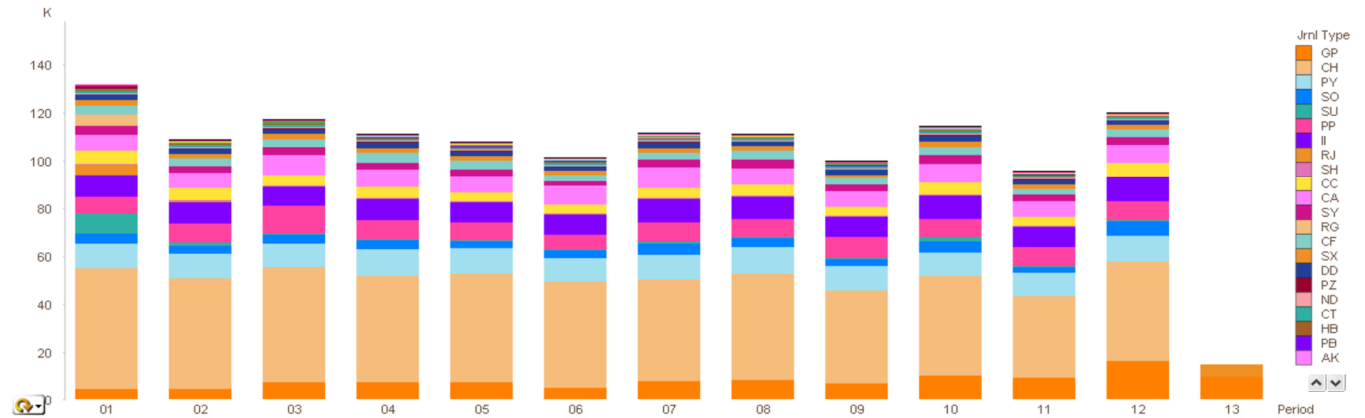
# APPENDIX I: REVIEW OF JOURNALS

Southend-on-Sea Borough Council  
1,339,296 journal lines entered

Journal Abs Value by Day of Week Entered



Journal Line Volume by Type



Volume  
Benfords

In respect of Southend-on-Sea Borough Council, we have shown a pictorial representation of the journals entered in the year.

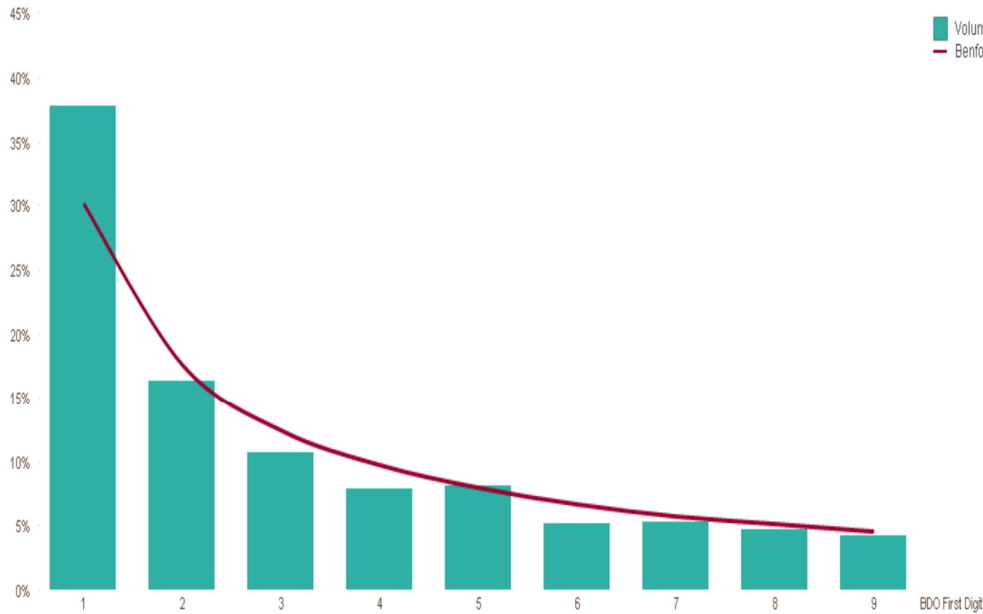
The “journal value by day of the week entered” demonstrates that no journals have been posted at the weekend, which is line with our expectations.

The “Journal line volume by type” graphic shows the volume of each type of journal entered in the year. As expected, we can see that the highest volume of journals entered are type CH (Academy cash receipts), with 519,838 entries posted. The volume of different types of journals has been assessed with our knowledge of the entity and no unexplained anomalies have been found.

Lastly, the final graph shows Benford’s Law analysis. This is an observation of the frequency distribution of leading digits in sets of numerical data. Essentially the law states that in a set of numerical data the leading significant digit should be low i.e. you would expect most numbers in the population to begin with a 1 and the least to begin with a 9. The graph looks at whether the population of journals follows this expected pattern.

For Southend-on-Sea Borough Council, the numbers in the population were found to follow the expected trend.

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## APPENDIX II: AUDIT DIFFERENCES

We are required to bring to your attention audit differences identified during the audit, except for those that are clearly trivial, that the Audit Committee is required to consider. This includes: audit differences that have been corrected by management; and those that remain uncorrected along with the effect that they have individually, and in aggregate, on the financial statements.

### ADJUSTED AUDIT DIFFERENCES

One material misstatement in respect of the pension fund liability was notified by Essex County Council during the course of the audit. This has led to an increase in the Council pension liability of £8.554 million, and an increase in the Group pension liability of £9.393 million.

Management have also adjusted for non-material differences totalling £0.254 million identified by the auditors of South Essex Homes Limited.

There were no further audit differences identified by our audit work to date that were adjusted by management.

### UNADJUSTED AUDIT DIFFERENCES

There is one unadjusted audit difference, brought forward from the 2016/17 audit which impacts on the current year, which would increase the deficit on provision of services by £0.290 million if corrected. You consider this identified misstatement to be immaterial in the context of the financial statements taken as a whole. We concur with this judgement however we also request that you correct it even though not material.

## APPENDIX II: AUDIT DIFFERENCES

### CURRENT YEAR IMPACT OF PRIOR PERIOD UNADJUSTED DIFFERENCES

|                                                                                                                                                                                                                                                                                       | £'000 | INCOME AND EXPENDITURE / FUND ACCOUNT |       | STATEMENT OF FINANCIAL POSITION / NET ASSETS |       |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------|---------------------------------------|-------|----------------------------------------------|-------|
|                                                                                                                                                                                                                                                                                       |       | DR                                    | CR    | DR                                           | CR    |
|                                                                                                                                                                                                                                                                                       |       | £'000                                 | £'000 | £'000                                        | £'000 |
| Net operating expenditure for the year before adjustments                                                                                                                                                                                                                             | 9,441 |                                       |       |                                              |       |
| DR Cost of Services Income                                                                                                                                                                                                                                                            | 290   | 290                                   |       |                                              |       |
| CR Reserves                                                                                                                                                                                                                                                                           |       |                                       |       |                                              | 290   |
| (1) Impact of brought forward unadjusted misstatements - extrapolated element of understatement of adult social care income due to income from client contributions relating to prior period being recognised in 2017/18, as they were not accrued for in the prior year (projected). |       |                                       |       |                                              |       |
| <b>TOTAL UNADJUSTED AUDIT DIFFERENCES</b>                                                                                                                                                                                                                                             |       |                                       |       |                                              |       |
| Surplus / deficit on provision of services if adjustments accounted for                                                                                                                                                                                                               | 9,731 |                                       |       |                                              |       |

## APPENDIX II: AUDIT DIFFERENCES

### UNADJUSTED DISCLOSURE MATTERS

Our testing identified a number of individually immaterial disclosure notes which were included in the financial statements.

These notes have been left in the financial statements as management believe the disclosure provides context for the reader of the accounts. These are:

- Accounting policies for provisions, finance lease and operating leases where the Council is the lessee
- Provisions
- The Council as Lessee: Finance Leases
- The Council as Lessee: Operating Leases
- The Council as Lessor: Finance Leases
- Heritage Assets Group Disclosure Note

Our testing also identified one immaterial prior period adjustment which was included in the financial statements.

This adjustment has been left in the financial statements as management believe the disclosure provides context for the reader of the accounts. This is in relation to an adjustment within the group accounts for various prior period misstatements identified within the Trust fund accounts

## APPENDIX III: RECOMMENDATIONS AND ACTION PLAN

Key: ■ Significant deficiency in internal control ■ Other deficiency in internal control ■ Other observations

| AREA                                           | OBSERVATION AND IMPLICATION                                                                                                                                                                                                                                                                                                                                                                                                                                             | RECOMMENDATION                                                                                                                                        | MANAGEMENT RESPONSE                                                                                                                                                                                                                                                                                            | RESPONSIBLE OFFICER | TIMING     |
|------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------|------------|
| STATEMENT OF ACCOUNTS AND FINANCIAL STATEMENTS |                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |                                                                                                                                                       |                                                                                                                                                                                                                                                                                                                |                     |            |
| Floor Areas of Revalued Assets                 | It was noted that for 5 assets the floor areas applied by the valuer in their valuation calculations were either misstated or the exact figure they had used could not be evidenced. The movement in the valuations arising from correcting these floor areas was concluded to be trivial. The cause of the error was believed to be because the valuer placed reliance on the data used in the last valuation in 2012, and did not reassess the accuracy of this data. | It is recommended that all floor areas are verified to source document for every asset where a floor area is used in the valuation.                   | Agreed                                                                                                                                                                                                                                                                                                         | Caroline Fozzard    | March 2019 |
|                                                | Although the errors identified are trivial, if similar errors are made in future years when larger populations of assets are revalued, this could lead to a material misstatement.                                                                                                                                                                                                                                                                                      |                                                                                                                                                       |                                                                                                                                                                                                                                                                                                                |                     |            |
| Property, Plant and Equipment (PPE) Existence  | Our testing over the existence of property, plant and equipment identified a small number of assets which had been demolished, disposed of or could not be identified.<br><br>There is a risk that there is a cumulative material balance of assets on the fixed asset register which do not exist.                                                                                                                                                                     | It is recommended that the Council obtain positive confirmation regarding the existence of all assets on the fixed asset register on an annual basis. | The asset register will be reviewed and a method of testing the existence of each asset type will be ascertained. For the higher value assets, existence will be determined using that method on a sample basis. This should give assurance that there is not a material balance of assets which do not exist. | Caroline Fozzard    | March 2019 |



## APPENDIX III: RECOMMENDATIONS AND ACTION PLAN

| AREA                                           | OBSERVATION AND IMPLICATION                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                | RECOMMENDATION                                                                                                                                                                                                                                                                    | MANAGEMENT RESPONSE | RESPONSIBLE OFFICER | TIMING   |
|------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------|---------------------|----------|
| STATEMENT OF ACCOUNTS AND FINANCIAL STATEMENTS |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |                                                                                                                                                                                                                                                                                   |                     |                     |          |
| Pension Fund Disclosures                       | <p>A material adjustment was made to the pension fund as a result of a movement in the value of the fund from the estimate which was initially supplied. The Council has limited controls in place to identify potential differences in the value of the pension fund.</p> <p>The adjustment was notified to the Council by Essex County Council (ECC). If ECC had not notified the Council of this adjustment, the Council would not be aware of it, and there could potentially be a material error in the accounts.</p> | <p>It is recommended that the Council review the numbers provided in respect of the pension fund and make enquiries of ECC regarding any amounts which have moved significantly year-on-year, in order to satisfy themselves that the movements are not indicative of errors.</p> | Agreed              | Ian Ambrose         | May 2019 |

## APPENDIX III: RECOMMENDATIONS AND ACTION PLAN

### WE HAVE FOLLOWED UP ON THE RECOMMENDATIONS THAT WE RAISED IN THE PRIOR YEAR

| AREA                            | OBSERVATION AND IMPLICATION                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               | RECOMMENDATION                                                                                                                                                                                                                                 | MANAGEMENT RESPONSE                     | RESPONSIBLE OFFICER | TIMING  |
|---------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------|---------------------|---------|
| ANNUAL REPORT AND ACCOUNTS      |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |                                                                                                                                                                                                                                                |                                         |                     |         |
| Consolidation of Schools Income | <p>The Council consolidates all income privately generated by the schools and the Southend Adult College into their CIES. We identified that some of the income given to the schools had been consolidated into the Council's accounts.</p> <p>We identified 3 schools/colleges for which the income had been consolidated incorrectly. The amounts involved were individually immaterial with the only non-trivial amount being in relation to Seabrook College. The Council has amended for all errors identified. There is however a risk that income could be materially under or overstated as a result of this error if it were to occur again in future years.</p> | <p>Provide the schools and colleges guidance on what should be consolidated so that the returns provided include all of the relevant information to include in the Council's accounts. This was the same recommendation raised in 2015/16.</p> | <p>Guidance was provided as agreed.</p> | Ian Ambrose         | Cleared |

## APPENDIX III: RECOMMENDATIONS AND ACTION PLAN

### WE HAVE FOLLOWED UP ON THE RECOMMENDATIONS THAT WE RAISED IN THE PRIOR YEAR

| AREA                              | OBSERVATION AND IMPLICATION                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     | RECOMMENDATION                                                                                                                                                                | MANAGEMENT RESPONSE                                                            | RESPONSIBLE OFFICER | TIMING  |
|-----------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------|---------------------|---------|
| <b>ANNUAL REPORT AND ACCOUNTS</b> |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |                                                                                                                                                                               |                                                                                |                     |         |
| Rolling Revaluation Policy        | <p>It was identified that there were 18 assets which have not been revalued since 2011/12 and 12 assets which have never been revalued. As per the code, all assets should be revalued at least every 5 years, and therefore the failure to revalue these assets is out of line with code guidance.</p> <p>There is a risk that the value of these assets has changed significantly and is therefore materially misstated. The total net book value of the assets we are aware of is £1,657k. It is therefore considered unlikely that the revaluation of these assets would lead to a material adjustment.</p> | It is recommended that all assets where no revaluation has been performed in the last 5 years are revalued during 2017/18.                                                    | These assets were revalued during 2017/18                                      | Caroline Fozzard    | Cleared |
| Useful Economic Lives             | <p>The UELs are set by the valuers for each individual asset when the assets are revalued. We are aware of at least 3 assets where the UEL recorded on the fixed asset register does not match the UEL set by the valuers.</p> <p>There is a risk that depreciation is materially misstated as a result of the incorrect UELs being applied. Our initial assessment however suggests that the impact of these errors is trivial.</p>                                                                                                                                                                            | A review of all the UELs applied on the fixed asset register should be undertaken and it should be confirmed that all are consistent with the values provided by the valuers. | This review was undertaken as part of the 2017/18 Fixed Asset Register review. | Caroline Fozzard    | Cleared |

## APPENDIX III: RECOMMENDATIONS AND ACTION PLAN

### WE HAVE FOLLOWED UP ON THE RECOMMENDATIONS THAT WE RAISED IN THE PRIOR YEAR

| AREA                       | OBSERVATION AND IMPLICATION                                                                                                                                                                                                                                                                                                                  | RECOMMENDATION                                                                                                                                                  | MANAGEMENT RESPONSE                                                                                                                                                              | RESPONSIBLE OFFICER                        | TIMING       |
|----------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------|--------------|
| ANNUAL REPORT AND ACCOUNTS |                                                                                                                                                                                                                                                                                                                                              |                                                                                                                                                                 |                                                                                                                                                                                  |                                            |              |
| Journal Authorisation      | A weakness in access controls over journals means that journals can be raised and authorised by the same person with no checks in place to prevent this. In addition, 3 users were identified who had access to post journals that should not have this access. It was noted that no journals had been posted by any of these 3 individuals. | The Finance Service should carry out a review of access rights to ensure that only appropriate individuals are able to post and approve journals.               | A review of access rights to raise and approve manual journals was undertaken. An ICT helpdesk call was raised and actioned for any required changes.                            | Ian Ambrose, Caroline Fozzard              | March 2018   |
|                            | The Council's policy is that no journals are raised and authorised by the same person but there are no checks in place to ensure that this is followed. This deficiency means that it is possible for the accounts to be manipulated by raising fraudulent journals.                                                                         | The IT department should be tasked with a review of the journal authorisation process.                                                                          | The journal authorisation process has been reviewed. Work is on-going regarding access to the Excel tools for Agresso batch inputting and also the Agresso 'Data Import' folder. | Ian Ambrose, Caroline Fozzard, Mike Miller | October 2018 |
|                            | This point was previously reported by internal audit.                                                                                                                                                                                                                                                                                        | Additionally, a periodic review of journals should be carried out to ensure that there are no journals that have been raised and authorised by the same person. | It is not possible to develop a report with this information as the workflow/ authorisation process sits outside of the main Agresso application.                                | Mike Miller                                | March 2018   |

## APPENDIX III: RECOMMENDATIONS AND ACTION PLAN

### WE HAVE FOLLOWED UP ON THE RECOMMENDATIONS THAT WE RAISED IN THE PRIOR YEAR

| AREA                       | OBSERVATION AND IMPLICATION                                                                                                                                                                                                                                      | RECOMMENDATION                                                                                                                               | MANAGEMENT RESPONSE                                                                                                                                                                                                                                                                                                                      | RESPONSIBLE OFFICER              | TIMING   |
|----------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------|----------|
| ANNUAL REPORT AND ACCOUNTS |                                                                                                                                                                                                                                                                  |                                                                                                                                              |                                                                                                                                                                                                                                                                                                                                          |                                  |          |
| Disclosure Notes           | <p>There were a small number of notes included in the financial statements which were immaterial and did not need to be included.</p> <p>There is a risk that time will be inefficiently spent preparing notes which the Council is not required to prepare.</p> | The Council performs a critical review of the financial statements next year and does not prepare any notes which are considered immaterial. | A review was undertaken of the notes which BDO asked to be removed in 2016/17. The review looked at both materiality and contextual value to the user of the accounts in forming a judgement about continued inclusion in the Council's Statement of Accounts. Management's judgement was to continue to include these notes in 2017/18. | Ian Ambrose,<br>Caroline Fozzard | May 2018 |

## APPENDIX IV: MATERIALITY

### MATERIALITY - COUNCIL

|                           | FINAL     | PLANNING  |
|---------------------------|-----------|-----------|
| Materiality               | 7,400,000 | 7,700,000 |
| Clearly trivial threshold | 185,000   | 192,500   |

Planning materiality of £7,700,000 was based on 2% of gross expenditure, using the prior year signed accounts.

We revised our materiality in order to reflect the actual value of gross expenditure in the draft financial statements received for audit.

### MATERIALITY - GROUP

|                           | FINAL     | PLANNING  |
|---------------------------|-----------|-----------|
| Materiality               | 7,600,000 | 7,700,000 |
| Clearly trivial threshold | 190,000   | 192,500   |

Planning materiality of £7,700,000 was based on 2% of gross expenditure, using the prior year signed accounts.

We revised our materiality in order to reflect the actual value of gross expenditure in the draft financial statements received for audit.

## APPENDIX V: INDEPENDENCE

Under ISAs (UK) and the FRC's Ethical Standard, we are required as auditors to confirm our independence.

We have embedded the requirements of the Standards in our methodologies, tools and internal training programmes. Our internal procedures require that audit engagement leads are made aware of any matters which may reasonably be thought to bear on the integrity, objectivity or independence of the firm, the members of the engagement team or others who are in a position to influence the outcome of the engagement. This document considers such matters in the context of our audit for the year ended 31 March 2018.

Details of services, other than audit, provided by us to the Council and the Group during the period and up to the date of this report were provided in our Audit Plan. We understand that the provision of these services was approved by the Audit Committee in advance in accordance with the Council's policy on this matter.

Details of rotation arrangements for key members of the audit team and others involved in the engagement were provided in our Audit Plan. Project manager Andrew Barnes will be joining the Council with effect from 24 July 2018. In order to safeguard our independence, Andrew has had no involvement in the audit from the point this became known to us in April 2018. Work completed prior to this, where Andrew was part of the review process, has also been subject to review by the Engagement Lead, Lisa Clampin.

We have not identified any other relationships or threats that may reasonably be thought to bear on our objectivity and independence.

We confirm that the firm, the engagement team and other partners, directors, senior managers and managers conducting the audit comply with relevant ethical requirements including the FRC's Ethical Standard and are independent of the Council and the Group.

Should you have any comments or queries regarding any independence matters we would welcome their discussion in more detail.

## APPENDIX VI: FEES SCHEDULE

|                                                         | 2017/18<br>FINAL<br>PROPOSED<br>£ | 2017/18<br>PLANNED<br>£ | 2016/17<br>FINAL<br>£ | EXPLANATION FOR VARIANCES                                                                                  |
|---------------------------------------------------------|-----------------------------------|-------------------------|-----------------------|------------------------------------------------------------------------------------------------------------|
| Code audit fee                                          | 142,816                           | 142,816                 | 142,816               | N/A                                                                                                        |
| Fee for reporting on the housing benefits subsidy claim | 21,284                            | 21,284                  | 21,284                | N/A                                                                                                        |
| <b>TOTAL AUDIT AND CERTIFICATION FEES</b>               | <b>164,100</b>                    | <b>164,100</b>          | <b>164,100</b>        |                                                                                                            |
| Fees for reporting on other government grants:          | 14,000                            | 14,000                  | 10,500                | N/A                                                                                                        |
| - Pooling of housing capital receipts return            | 3,500                             | 3,500                   | 2,500                 | N/A                                                                                                        |
| - Teachers' pension return                              | 7,000                             | 7,000                   | 8,000                 | N/A                                                                                                        |
| - Other                                                 | 3,500                             | 3,500                   | -                     | 2017/18 fee relates to Homes and Communities Agency Information Management System compliance assurance fee |
| Fees for other non-audit services                       | -                                 | -                       | 1,200                 | 2016/17 fee relates to Audit Committee knowledge sharing session                                           |
| <b>NON-AUDIT ASSURANCE SERVICES</b>                     | <b>14,000</b>                     | <b>14,000</b>           | <b>11,700</b>         |                                                                                                            |
| <b>TOTAL ASSURANCE SERVICES</b>                         | <b>178,100</b>                    | <b>178,100</b>          | <b>175,800</b>        |                                                                                                            |



## APPENDIX VII: DRAFT LETTER OF REPRESENTATION

### TO BE TYPED ON CLIENT HEADED NOTEPAPER

BDO LLP  
16 The Havens  
Ransomes Europark  
Ipswich  
Suffolk  
IP3 9SJ

[XX] July 2018

Dear Sirs

#### Financial statements of Southend-on-Sea Borough Council and the Group for the year ended 31 March 2018

We confirm that the following representations given to you in connection with your audit of the Council's financial statements and the Group financial statements for the year ended 31 March 2018 are made to the best of our knowledge and belief, and after having made appropriate enquiries of other officers and members of the Council.

The director of Finance and Resources has fulfilled his responsibilities for the preparation and presentation of the financial statements as set out in the Accounts and Audit Regulations 2015 and Statement of Responsibilities of Auditors and Audited Bodies within Chapter 2 of the Code of Audit Practice published by the National Audit Office in April 2015, and in particular that the financial statements give a true and fair view of the financial position of the Council as of 31 March 2018 and of its income and expenditure and cash flows for the year then ended in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

We have fulfilled our responsibilities on behalf of the Council, as set out in the Accounts and Audit Regulations 2015, to make arrangements for the proper administration of the Council's financial affairs, to conduct a review at least once in a year of the effectiveness of the system of internal control and approve the Annual Governance Statement, to approve the Statement of Accounts (which include the financial statements), and for making accurate representations to you.

We have provided you with unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence. In addition, all the accounting records have been made available to you for the purpose of your audit and all the transactions undertaken by the Council have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of all management and other meetings have been made available to you.

In relation to those laws and regulations which provide the legal framework within which the Council's business is conducted and which are central to our ability to conduct our business, we have disclosed to you all instances of possible non-compliance of which we are aware and all actual or contingent consequences arising from such instances of non-compliance.

There have been no events since the balance sheet date which either require changes to be made to the figures included in the financial statements or to be disclosed by way of a note. Should any material events of this type occur, we will advise you accordingly.

We are responsible for adopting sound accounting policies, designing, implementing and maintaining internal control, to, among other things, help assure the preparation of the financial statements in conformity with generally accepted accounting principles and preventing and detecting fraud and error.

## APPENDIX VII: DRAFT LETTER OF REPRESENTATION

We have considered the risk that the financial statements may be materially misstated due to fraud and have identified no significant risks.

To the best of our knowledge we are not aware of any fraud or suspected fraud involving management or employees. Additionally, we are not aware of any fraud or suspected fraud involving any other party that could materially affect the financial statements.

To the best of our knowledge we are not aware of any allegations of fraud or suspected fraud affecting the financial statements that have been communicated by employees, former employees, analysts, regulators or any other party.

We attach a schedule showing accounting adjustments that you have proposed, which we acknowledge that you request we correct, together with the reasons why we have not recorded these proposed adjustments in the financial statements. In our opinion, the effects of not recording such identified financial statement misstatements are, both individually and in the aggregate, immaterial to the financial statements.

We have disclosed to you the identity of all related parties and all the related party relationships and transactions of which we are aware. We have appropriately accounted for and disclosed such relationships and transactions in accordance with the applicable financial reporting framework.

We have no plans or intentions that may materially affect the carrying value and where relevant, the fair value measurement, or classification of assets or liabilities reflected in the financial statements.

We confirm that the fair value measurements and significant assumptions, in relation to the following, are reasonable and that there are no circumstances of which we are aware that would have a material impact on the values reported.

- current value of property, plant and equipment using the following indexation percentages:

- 5.19% - Council dwellings
- 7.64% - Function rooms, banqueting rooms, meeting rooms etc.
- 8.27% - Clubs, youth clubs, student unions etc.
- 8.30% - Leisure centres - wet
- 8.45% - Museums
- 8.50% - Crematoria
- 9.06% - Libraries
- 9.11% - Leisure centres - dry
- 9.16% - Care homes
- 9.35% - Purpose built factories / offices - mixed facilities
- 9.77% - Theatres
- 9.87% - Covered swimming pools
- 10.14% - Gymnasia / sports halls

## APPENDIX VII: DRAFT LETTER OF REPRESENTATION

- 10.21% - Public conveniences
  - 10.84% - Schools
- assumptions underpinning the reported pension liability (details reported in note 36 to the main financial statements)

We consider that the Council is able to continue to operate as a going concern and that it is appropriate to prepare the financial statements on a going concern basis.

We have disclosed all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements and these have been disclosed in accordance with the requirements of accounting standards.

We confirm that the above representations are made on the basis of enquiries of management and staff with relevant knowledge and experience (and, where appropriate, of inspection of supporting documentation) sufficient to satisfy ourselves that we can properly make each of the above representations to you.

We confirm that the financial statements are free of material misstatements, including omissions.

We acknowledge our legal responsibilities regarding disclosure of information to you as auditors and confirm that so far as we are aware, there is no relevant audit information needed by you in connection with preparing your audit report of which you are unaware. Each director and member has taken all the steps that they ought to have taken as a director or member to make themselves aware of any relevant audit information and to establish that you are aware of that information.

Yours faithfully

Joe Chesterton

Director of Finance & Resources

Section 151 Officer

[Date]

Cllr Meg Davidson

Chair of the Audit Committee

Signed on behalf of the Audit Committee

[Date]

## APPENDIX VIII: AUDIT QUALITY

### **BDO is totally committed to audit quality**

It is a standing item on the agenda of BDO's Leadership Team who, in conjunction with the Audit Stream Executive (which works to implement strategy and deliver on the audit stream's objectives), monitor the actions required to maintain a high level of audit quality within the audit stream and address findings from external and internal inspections.

BDO welcomes feedback from external bodies and is committed to implementing all necessary actions to address their findings.

We recognise the importance of continually seeking to improve audit quality and enhancing certain areas. Alongside reviews from a number of external reviewers, the AQR (the Financial Reporting Council's Audit Quality Review team), QAD (the ICAEW Quality Assurance Department) and the PCAOB (Public Company Accounting Oversight Board who oversee the audits of US companies), the firm undertakes a thorough annual internal Audit Quality Assurance Review and as a member firm of the BDO International network we are also subject to a quality review visit every three years.

We have also implemented additional quality control review processes for all listed and public interest audits.

More details can be found in our Transparency Report at [www.bdo.co.uk](http://www.bdo.co.uk)

FOR MORE INFORMATION:

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Manager

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The matters raised in our report prepared in connection with the audit are those we believe should be brought to the attention of the organisation. They do not purport to be a complete record of all matters arising. No responsibility to any third party is accepted.

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# Southend-on-Sea Borough Council

Agenda  
Item No.

8

Report of the Chief Executive  
to  
**Audit Committee**  
on  
**25 July 2018**

Report prepared by: Ian Ambrose  
Head of Corporate Finance

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## Statutory Statement of Accounts 2017/18

### *A Part 1 Public Agenda Item*

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#### **1 Purpose of Report**

To adopt the Statement of Accounts 2017/18

#### **2 Recommendation**

- 2.1 That following due consideration, that the Statement of Accounts 2017/18 be adopted and approved for publication.

#### **3 Background**

- 3.1 The Accounts and Audit Regulations 2015 require that an Authority's Annual Statement of Accounts be formally adopted by the end of September, having been previously submitted to External Audit by the Chief Finance Officer by the end of June.
- 3.2 Adoption of the Accounts can only be undertaken by the Council as a whole, or a Council Committee to which the function has been delegated. At Southend-on-Sea Borough Council, the Audit Committee has the delegated power to adopt the Accounts. In adopting the accounts, Audit Committee need to satisfy themselves that the process of drawing up the accounts is robust, and that all relevant guidance and standards have been satisfactorily followed: It is not the role of Audit Committee to pass comment on the financial outturn of the Authority per se, rather to ensure it is accurately reported.
- 3.3 Before adopting the Statement of Accounts 2017/18, Members need to understand how the structure of the accounts works. Appendix 1 guides Members through the various statements and the accompanying notes, drawing Members attention to any significant variances or changes year on year. The appendix therefore serves as an aid to Members' robust scrutiny of the Accounts prior to their adoption.

- 3.4 Members will also be mindful of the findings of the Council's external auditors BDO regarding the Accounts, as contained within their report elsewhere on this agenda. In particular Members will note that the auditor is anticipating issuing an unqualified opinion on the financial statements and on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (value for money) conclusion.
- 3.5 The Statement of Accounts is attached at Appendix 2. After due consideration, Members are invited to adopt them.

#### **4 Next Steps**

- 4.1 Following adoption, the Statement of Accounts will be formally published on the Council's website.

#### **5 Corporate Implications**

- 5.1 **Contribution to Council's Vision & Critical Priorities**  
The accuracy, format and content of the Statement of Accounts are key determinants in maintaining the Council's reputation for financial probity and financial stewardship
- 5.2 **Financial Implications**  
The Statement of Accounts is required to present a true and fair picture of the Council's financial position at 31 March 2018 and also the income and expenditure for the financial year.
- 5.3 **Legal Implications**  
The Statement of Accounts is a statutory document required by the Accounts and Audit Regulations issued by the Secretary of State
- 5.4 **People Implications**  
There are no people implications arising from this report
- 5.5 **Property Implications**  
There are no property implications arising from this report
- 5.6 **Consultation**  
There are no consultation implications arising from this report
- 5.7 **Equalities Impact Assessment**  
There are no equalities implications arising from this report
- 5.8 **Risk Assessment**  
There are no risk implications arising from this report
- 5.9 **Value for Money**  
There are no value for money implications arising from this report



5.10 Community Safety Implications  
There are no community safety implications arising from this report

5.11 Environmental Impact  
There are no environmental implications arising from this report

**6 Background Papers**  
Detailed working papers are held by Accountancy

**7 Appendices**

**Appendix 1** Overview of the Statutory Statement of Accounts 2017/18

**Annex 1** Southend-on-Sea Borough Council – Group Structure

**Appendix 2** Statutory Statement of Accounts 2017/18

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## **Appendix 1**

### **Overview of the Statutory Statement of Accounts 2017/18**

#### **1. Introduction**

- 1.1. This overview summarises the contents of the accounts and draws Members' attention to the reasons for any significant variances in the 2017/18 position when compared to 2016/17.
- 1.2. The content and format of the Statement of Accounts have been prepared in accordance with "The Code of Practice on Local Authority Accounting in the United Kingdom 2017/18" ("the Code") published by the Chartered Institute of Public Finance and Accountancy (CIPFA).
- 1.3. The style of presentation and content of the Statutory Statement of Accounts are prescribed by the Accounts and Audit Regulations 2015, together with the Code, as are the explanatory notes accompanying each of the major financial statements. There has not been any significant change to reporting requirements under the code as in previous years, nor has there been any need to restate the previous year's financial statements.

#### **Format of the Accounts**

#### **2. Strategic Report (Page 7)**

- 2.1. The Strategic Report (also known as the narrative report) has been expanded from the Explanatory Foreword of previous years to incorporate information about the Council's performance against its corporate priorities, and to set out the principal risks and uncertainties that the Council faces.
- 2.2. The Strategic Report therefore sets out to provide a brief understandable guide to the most significant matters reported in the accounts. Any significant change impacting on the finances of the Authority or change in accounting requirements would be highlighted here. The purpose of the Strategic Report is not to comment on the policies of the authority, rather to explain the financial facts.
- 2.3. The Strategic Report shows a summarised revenue outturn position for the Council, comparing the position against the original budget set for 2017/18. This summarised information has already been reported and debated by the Cabinet when they considered the outturn in June 2018.
- 2.4. A summarised schedule of capital expenditure and its financing is also shown.
- 2.5. Looking forward, the Strategic Report also draws attention to changes to the Council's financial environment during 2018/19 and beyond.

### **3. Statement of Responsibilities (Page 20)**

- 3.1. This sets out the respective responsibilities of the Authority and the Director of Finance and Resources in relation to the production of the final accounts. The Council is responsible for making arrangements for the proper administration of its financial affairs, which it does through its Chief Finance Officer. It is also required to manage its affairs to secure economic, efficient and effective use of its resources, to safeguard its assets and to approve the Statement of Accounts.
- 3.2. The Director of Finance and Resources is required to produce the Statement of Accounts in accordance with proper practice, and to certify that they present a true and fair view of the financial position of the Council.
- 3.3. The approval of the Statement of Accounts, as witnessed by the Chair of Audit Committee is also incorporated here.

### **4. Annual Governance Statement (Page 21)**

- 4.1. The Annual Governance Statement is a corporate document, signed by the Chief Executive and the Leader of the Council. It is separately considered by this Committee elsewhere on this agenda, and is incorporated into the Statement of Accounts prior to publication.

### **5. Auditor's Report (Page 31)**

- 5.1. The external auditors will provide an independent opinion as to whether the statement of accounts presents a true and fair view of the financial position of Southend-on-Sea Borough Council at 31 March 2018 and its income and expenditure for the year then ended. The proposed report is included elsewhere on this agenda and will be incorporated into the published accounts.

### **6. The Accounting Statements**

- 6.1. The main statements are:
  - Comprehensive Income and Expenditure Statement – a summary of the resources generated and consumed by the authority in the year in accordance with generally accepted accounting practices, rather than the ultimate amount falling to be met by taxation;
  - Movement in Reserves Statement – showing how the authority's usable and unusable reserves have moved during the year, including adjustments made as a result of statutory regulation and mitigations;
  - The Balance Sheet; and
  - The Cash Flow Statement.
- 6.2. Each of these core financial statements is discussed in turn below in sections 7 to 11.

## 7. Comprehensive Income and Expenditure Statement (Page 36)

7.1. This statement is fundamental to the understanding of a local authority's activities, in that it reports the net cost for the year of the functions for which the authority is responsible, and demonstrates how that cost has been financed from general government grants and income from local taxpayers. It brings together expenditure and income relating to all of the Council's activities, including the HRA. It also includes grant income due in support of capital.

7.2. The statement is split into three distinct sections:

- Net Cost of Services which summarises the cost of each of the different services, net of any associated specific grants and income. The service costs have been adjusted so that they reflect the true economic pension cost of current and past service. The cost of services also includes charges for the use of assets through depreciation and impairment. Where capital expenditure takes place that does not deliver a fixed asset, so called revenue expenditure funded from capital under statute, then this too, alongside any associated grant income, also gets charged here. Unlike previous years, services are now presented in Portfolio groupings, making the statement more recognisable for Members and the public.
- The second section contains items of income and expenditure that relate to the authority as a whole rather than to an individual service. Amongst other things, this section contains further accounting adjustments for pensions, this time to reflect the performance of the fund, precepts paid to Leigh Town Council, and the payment of a proportion of the Councils' sale of council house receipts over to the Government. It also includes the interest payable and receivable by the Council and the principal sources of financing, that is government grants (including capital grants) and precepts. When added to the net cost of services, this section results in the surplus or deficit on provision of services.
- The final section shows other income and expenditure arising from essentially balance sheet activities, thereby resulting in the Total Comprehensive Income and Expenditure for the year.

7.3. For this authority the 2017/18 Comprehensive Income and Expenditure Statement results in a surplus of £96.865M. A surplus or deficit is disclosed before any appropriations to and from reserves, including statutory mitigations. This compares with a deficit of £43.752M in 2016/17.

7.4. Principal reasons for this £141M year on year movement relate to changes in asset values and actuarial assumptions on the value of the pension fund. These movements are set out in note 9 to the accounts, and include

- In relation to 2017/18, £58M net increases in asset valuation, £27M loss in asset values following the academisation of 6 schools and the Renown Centre, and £48M actuarial gains on the pension fund
- In relation to 2016/17, £48M net increases in asset valuation. £46M loss in asset values following the academisation of 10 primary schools, and £58M actuarial losses on the pension fund

## 8. The Movement in Reserves Statement (Page 37)

- 8.1. This statement shows in summarised form how the Council's usable and unusable reserves have moved during the year, through any surplus or deficit on the provision of services and other income and expenditure, and by other adjustments driven by regulations, such as the reversal of depreciation.
- 8.2. The statement therefore shows the "bottom line" increases or decreases in the Council's usable reserves, as summarised below.

|                                        | Increase / (Decrease)<br>£000 | Closing Balance<br>£000 |
|----------------------------------------|-------------------------------|-------------------------|
| General Fund                           | -                             | 11,000                  |
| Housing Revenue Account                | -                             | 3,502                   |
| Earmarked Reserves,<br><i>of which</i> | 913                           | 93,914                  |
| <i>General Fund</i>                    | <i>(2,436)</i>                | <i>61,578</i>           |
| <i>HRA</i>                             | <i>5,428</i>                  | <i>28,258</i>           |
| <i>Schools</i>                         | <i>(2,079)</i>                | <i>4,078</i>            |
| Capital Receipts                       | 2,346                         | 13,365                  |
| Major Repairs (HRA)                    | 1,496                         | 6,989                   |
| Capital Grants Unapplied               | 186                           | 11,986                  |
| <b>Total Usable Reserves</b>           | <b>4,941</b>                  | <b>140,756</b>          |

- 8.3. The Movement in Reserves statement is supported by notes 19 and 20 to the accounts.

## 9. Balance Sheet (Page 38)

- 9.1. The Balance Sheet sets out the financial position of the Authority as at 31 March 2018. The statement shows the balances and reserves at the Authority's disposal, its long-term indebtedness, and the long-term and net current assets employed. The significant movements on the balance sheet are described below.
- 9.2. **Property, Plant & Equipment.** The value at which Property, Plant & Equipment assets are carried in the balance sheet has increased by a net £52M. The movement has been made up as follows:

|                                    | <b>£000</b>    |
|------------------------------------|----------------|
| Balance as at 1 April 2017         | 726,328        |
| Capital Investment in year         | 36,053         |
| Increases in Valuation*            | 67,675         |
| Decreases in Valuation*            | (3,759)        |
| Depreciation in year               | (18,708)       |
| Disposals*                         | (29,053)       |
| Transfers                          | 0              |
| <b>Balance as at 31 March 2018</b> | <b>778,536</b> |

\* See the Unusable Reserves paragraph

The increases in valuation were mainly as a result of the rolling revaluation programme with a variety of assets re-valued as shown in note 21 to the accounts. This figure also includes an indexation increase applied to the council dwellings and other land and buildings to reflect the increase in value between the valuation date and the balance sheet date. The decreases in valuation were as a result of impairments identified as part of the rolling revaluation programme, a review carried out at the balance sheet date, and as a result of the regular review of the fixed asset register. The decreases related to various assets including schools and parks buildings.

- 9.3. **Investment Property.** The value of investment properties has increased by a net £16M. The movement has been made up as follows;

|                                    | <b>£000</b>   |
|------------------------------------|---------------|
| Balance as at 1 April 2017         | 25,344        |
| Capital Investment in year         | 12,488        |
| Revaluations and Impairments       | 3,212         |
| <b>Balance as at 31 March 2018</b> | <b>41,044</b> |

The capital investment of £12M was due to the purchase of commercial property and the upwards revaluation of £3M was as a result of the annual investment property review.

- 9.4. **Long Term Investments.** There has been an overall increase of £7M due to the further investment into and the increase in value of long term monies invested in property funds.
- 9.5. **Long Term Debtors.** This primarily represents the value of deferred payments in respect of Adult Social Care provision, and a loan to South Essex College.
- 9.6. **Short Term Investments.** (This needs to be considered together with Cash and Cash Equivalents and Short Term Borrowing.) There has been an overall decrease of £10M in short term investments resulting from the recall of monies from a notice account of £10M. This activity was reported to Cabinet in June as part of the Annual Treasury Management Report for 2017/18.

- 9.7. **Short Term Debtors.** Debtors to the Council have barely changed year on year.
- 9.8. **Cash and cash equivalents.** There has been an overall decrease of £13M in cash and cash equivalents. This is mainly due to no external borrowing being undertaken for most areas of the capital programme that were financed by borrowing, therefore using 'internal borrowing' by reducing cash balances. £2.6M related to the decrease in the cash and cash equivalents held by schools as a result of conversions to academy status.
- 9.9. The level of the investments deemed to be cash equivalents at 31 March 2018 is lower than the average of these funds managed internally during 2017/18 which is not unusual for a year end position.
- 9.10. **Short term Borrowing.** (This needs to be considered together with Cash and Cash Equivalents and Short Term Investments.) Short term borrowing has decreased year on year by £5M reflecting the net of short term monies repaid and taken out for cash flow purposes.
- 9.11. **Creditors.** Creditors of the Council have increased by £7M. It relates principally to amounts owed to government and other statutory bodies, caused by timing of payments rather than any contractual disputes.
- 9.12. **Long term Borrowing.** Long term borrowing has increased year on year by a net £1M due to monies being drawn down from the L1 Renewables Limited (formally Green Investment Bank) loan relating to the LED Street Lighting project. The Cabinet report in June on Treasury Management gave the background to these treasury activities
- 9.13. **Other Long Term Liabilities - Pensions.** There has been a £54M decrease in the Council's pension liability, which is the amount by which future liabilities to pay pensions exceed the assets available. The total liability stands at £169M. Statutory arrangements for the funding of the deficit, whereby the deficit will be made good by increased employer contributions over the remaining working life of employees, as assessed by the scheme's actuary, means that the financial position of the Council in this regard remains healthy.
- 9.14. The net decrease is attributable to both an increase in scheme asset values and a decrease in scheme liabilities, as set out below:

|                                      | <b>£000</b>    |
|--------------------------------------|----------------|
| Liability as at 1 April 2017         | 222,617        |
| Increase in Assets                   | (23,440)       |
| Decrease in Liabilities              | (30,255)       |
| <b>Liability as at 31 March 2018</b> | <b>168,922</b> |

- 9.15. The increase in assets arises from the returns on investment and employer and employee contributions outweighing pension payments made to retired staff; the decrease in liabilities arises from a change in the discount rate used by the actuary, plus the inherent difference between the growth in new liabilities from



current scheme membership and the discharge of liabilities to existing pensioners. Note 36 to the accounts sets out full details of the movement in the pension scheme.

9.16. **Usable Reserves.** The movement in usable reserves is set out under paragraph 7.2 above.

9.17. **Unusable Reserves.** These comprise the following reserves:

|                                                               | <b>Increase / (Decrease)</b> | <b>Closing Balance</b> |
|---------------------------------------------------------------|------------------------------|------------------------|
|                                                               | <b>£000</b>                  | <b>£000</b>            |
| Revaluation Reserve                                           | 46,690                       | 272,586                |
| Available for Sale<br>Financial Instruments<br>Reserve        | 4                            | 8                      |
| Pensions Reserve                                              | 53,695                       | (168,922)              |
| Capital Adjustment<br>Account                                 | (15,835)                     | 236,147                |
| Deferred Capital<br>Receipts                                  | 3500                         | 3500                   |
| Collection Fund<br>Adjustment Account                         | 3,765                        | 7,545                  |
| Short-term<br>Accumulating<br>Compensated<br>Absences Reserve | 105                          | (1,340)                |
| <b>Total Unusable<br/>Reserves</b>                            | <b>91,924</b>                | <b>349,524</b>         |

9.18. The Revaluation Reserve increased by a net amount of £47 million as a result of the amounts identified for revaluation by the rolling programme or other sources and by an exercise to apply an indexation uplift to the council dwellings and other land and buildings, which were permitted by the accounting code to be applied to the reserve. This was offset by amounts written out of the reserve relating to disposals of non-current assets.

9.19. The Pension Reserve movement is the contra entries for the movement in the Pensions Liability set out in 9.15 above.

9.20. The Capital Adjustment Account has decreased by £16 million mostly due to the following: asset impairments and revaluations downwards identified as part of the revaluation rolling programme, a review carried out at the balance sheet date and as a result of the regular review of the fixed asset register; depreciation; disposals of non-current assets and the capital financing applied in the year.

9.21. Deferred Capital Receipts increased by £3.5M. This reflects the obligation on South Essex College to repay the loan referred to in 9.6 above.

9.22. The Collection Fund Adjustment Account has increased by £3.8M, as a result of surpluses generated in council tax collection, in year recognition of prior year under-performance of Business Rates, and an improved position around

provisions for losses on appeal on Business Rates. The accumulated surpluses are used to support future year's budgets.

## **10. Cash Flow Statement (Page 39)**

10.1. This Statement summarises the inflows and outflows of cash arising from transactions with third parties for both revenue and capital purposes. The statement shows that there has been a net cash outflow of £13.4 million.

## **11. Notes to the Accounts (Page 41)**

11.1. The notes provide additional information and explanation behind the main statements, to aid understanding of presented figures.

11.2. The notes proper start by setting out the Accounting Policies. The Council's accounting policies set out the technical methodologies for accounting for a wide variety of issues within its accounts. The notes are then grouped together as they support their respective primary statement.

11.3. There is a relatively new series of notes (notes 6 - 8) in support of the Comprehensive Income and Expenditure Statement that explains the transition from the "normal" view of the Council's accounts as set out in our budgeting format, to the statutory format required in our year end accounts. Essentially it shows how statutory adjustments relating mainly to pensions, assets and capital are overlaid to produce the statutory accounts. This set of notes also provides a complete subjective breakdown of the income and expenditure account, and a detailed breakdown of the level of fees, charges and other income generated by each Portfolio, that is not reported elsewhere in the accounts.

## **12. Housing Revenue Account and Notes (Pages 107)**

12.1. The Housing Revenue Account is a record of revenue expenditure and income relating to the Council's own housing stock (the Landlord Function). Although strictly part of the overall General Fund, the HRA has a tight ring-fence around it that allows no general discretion to transfer sums into or out of the HRA. Expenditure and income relating to other housing functions, such as support to registered social landlords, rent rebates and homelessness, are chargeable to the General Fund proper.

12.2. Like the General Fund, the format of the HRA creates an Income and Expenditure Account, and a reconciling Statement of Movement on the HRA Balance. The movement on the Housing Revenue Account Balance for 2017/18 was as follows:

|                                    | <b>£000</b>  |
|------------------------------------|--------------|
| Balance as at 1 April 2017         | 3,502        |
| Surplus / (Deficit) for year       | nil          |
| <b>Balance as at 31 March 2018</b> | <b>3,502</b> |

12.3. Despite the nil change in the HRA revenue balance, the HRA actually generated a surplus after statutory adjustments of £5.4M. Rather than increase the main revenue reserve, this has been set aside into HRA earmarked reserves, principally to fund future capital investment.

### **13. Collection Fund (Page 115)**

13.1. This account reflects the statutory requirement for billing authorities such as Southend-on-Sea Borough Council to maintain a separate Collection Fund, which shows the transactions of the billing authority in relation to non-domestic rates and the Council Tax, and illustrates the way in which these have been distributed to preceptors and the General Fund.

13.2. A surplus of £5.9M was generated on the Fund during the year, after the distribution of prior year surpluses to the tune of £591,000. When added to previous years accumulated fund surpluses, this means that there is now an accumulated surplus at the year-end of £8.2M. This sum will be distributed between the three principal precepting authorities, including Southend-on-Sea Borough Council, and in the case of Business Rates to Central Government also, in future years. Southend's proportion of the accumulated surplus is £7.6M.

### **14. Group Accounts (Page 121)**

14.1. The group accounts that merge the accounts of Southend Borough Council, its wholly owned companies South Essex Homes Ltd and Southend Care Ltd, and its eight Trust Funds, follow the same format as the council's own statements.

14.2. South Essex Homes made a trading loss of £336,000 on a turnover of £10.5M, rising to a deficit of £1.461M once statutory pension adjustments are taken into account. Southend Care made a trading loss of £284,000 in the first year of operation, on a turnover of £5.7M, rising to a deficit of £6.129M once statutory pension adjustments are taken into account. Both companies have financial guarantees from the Council to underwrite these losses to enable them to continue to be regarded as going concerns.

14.3. The other companies and trusts that the Council has control over are immaterial to the overall group and have therefore not been consolidated.

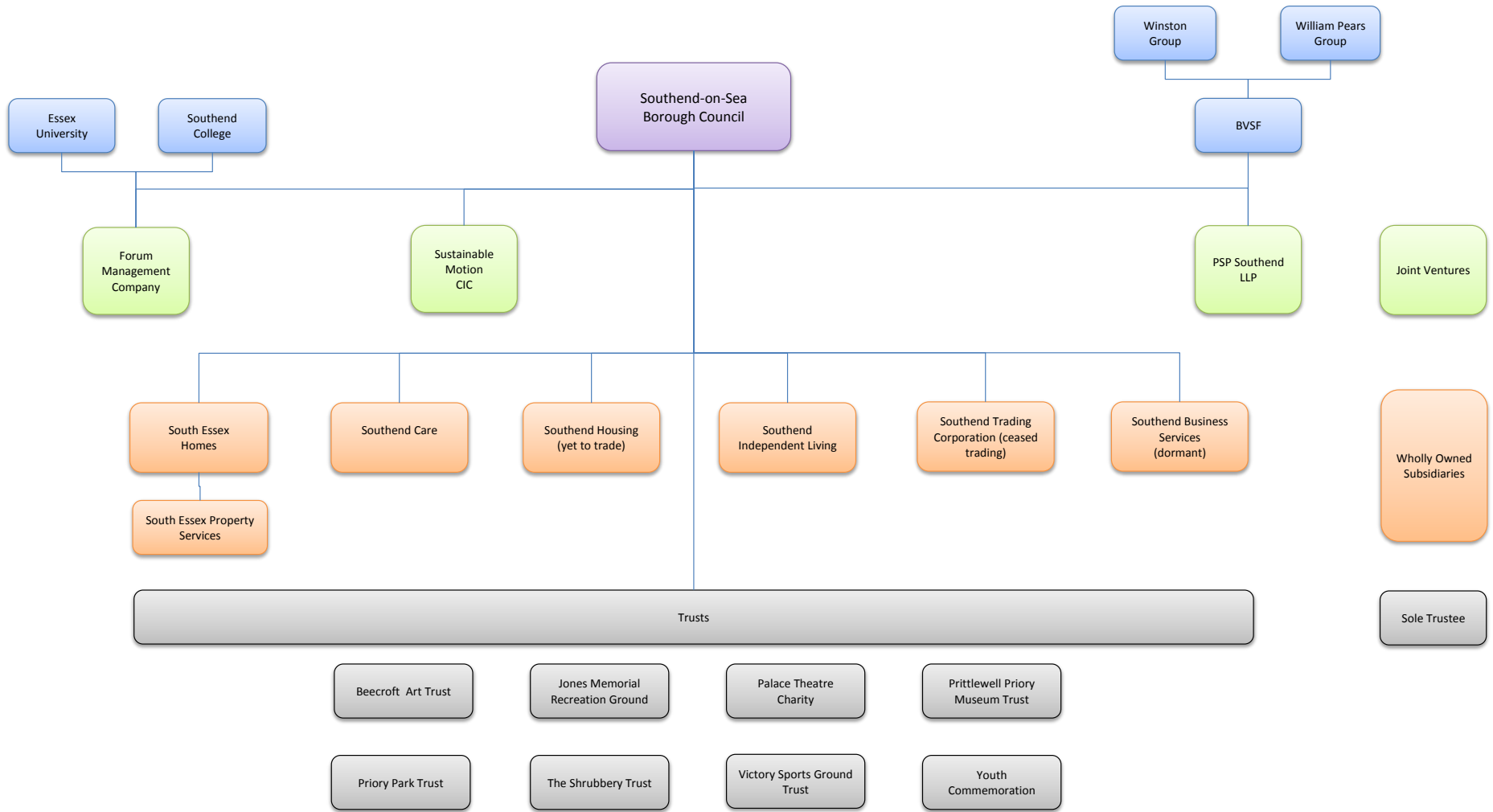
14.4. A full list of owned companies, joint ventures and trusts are shown in Annex 1 to this Appendix.

**15. Members Allowances (Page 138)**

15.1. A schedule of allowances paid to Members and Co-opted Members is included in compliance with the requirement to publish these annually

**Annex 1**      Southend-on-Sea Borough Council – Group Structure

# Southend-on-Sea Borough Council Group Structure



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# Statement of Accounts

2017/2018

Department of the Chief Executive

## **Photo Credits**

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Back cover: Southend-on-Sea Borough Council Civic Offices. Clodagh Duffy



**SOUTHEND-ON-SEA BOROUGH COUNCIL  
STATEMENT OF ACCOUNTS  
2017/18**

**Mayor**

Councillor Derek Jarvis

**Leader of the Council**

Councillor John Lamb

**Chief Executive and Town Clerk**

Alison Griffin

**Director of Finance and Resources**

Joe Chesterton

**Southend-on-Sea Borough Council**

**Department of the Chief Executive – Finance and Resources**

**PO Box 2**

**Civic Centre**

**Victoria Avenue**

**Southend-on-Sea**

**Essex**

**SS2 6ER**



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# **STRATEGIC REPORT**

## **INTRODUCTION FROM THE LEADER AND CHIEF EXECUTIVE**

Well, what a year it has been – packed full of numerous achievements and also challenges.

2017/18 was a year of successes across our 400 services – from becoming a Gigabit City to seeing 53 more local children take and pass the 11 plus. From securing £15m for our Better Queensway project (that we also launched in March 2018), to working with our community and voluntary partners to provide more spaces at our church winter night shelters. From our adoption team being consistently recognised nationally for their performance, to our parks and beaches receiving their green and blue flags yet again.

Southend-on-Sea is a place like no other. And what a place to live, work and play. A lively and vibrant place, with a burgeoning cultural and food scene and also blessed with many of the things you would expect from a traditional seaside town. And the council continues to deliver a vast range of good services to local people.

**Councillor John Lamb**  
**Leader of the Council**

It is also right that we recognise the issues and challenges that we face. We are the size of a small city (and still growing), combined with many of the demographic issues commonly found in a seaside town. We face issues with health and wealth inequality, the rise of online shopping and the impact on our High Street and social issues too such as rising homelessness. As a council we face reducing budgets versus additional demand and pressure on our services. But, we are tackling these issues head on and together with our partners, businesses and local community and look forward to a positive future.

As we look forward to that future, and developing a shared community vision for Southend 2050, we will be working closely with our local community and partners to map out our journey over the next five and ten years, and further ahead to 2050.

**Alison Griffin**  
**Chief Executive**

## Council's Performance

### CORPORATE PRIORITY PERFORMANCE MEASURES FOR 2017/18

The Council monitors a basket of key performance indicators throughout the year to assess performance against the Corporate Priorities. Further details that give a fuller understanding of the Council's performance can be found on the Council's website, <http://democracy.southend.gov.uk/documents/s22680/Report%20of%20Chief%20Executive.pdf>.

| Aim / Corporate Priority                                                                                                                                                                                                                                                                                                                 | Performance Measure                                                                                                                                                                               | Target for 2017/18 | Outturn for 2017/18 | Outturn for 2016/17 |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------|---------------------|---------------------|
| <b>Safe</b><br>Create a safe environment across the town for residents, workers and visitors<br>Work in partnership with Essex Police and other agencies to tackle crime<br>Look after and safeguard our children and vulnerable adults                                                                                                  | Number of children subject to a Child Protection Plan per 10,000 population under the age of 18. [Monthly Snapshot]                                                                               | 50.4-55.7          | 30                  | 58.9                |
|                                                                                                                                                                                                                                                                                                                                          | Number of Looked After Children per 10,000 population under the age of 18. [Monthly Snapshot]                                                                                                     | 66                 | 76.7                | 71.9                |
|                                                                                                                                                                                                                                                                                                                                          | Percentage of children who have been Looked after Children for at least 5 working days, who have had a visit in the 6 weeks (30 working days), prior to the last day of the month                 | 90%                | 84.4%               | n/a                 |
|                                                                                                                                                                                                                                                                                                                                          | Percentage of children who have had their Child Protection Plan for at least 20 working days and who have had a visit in the 20 working day days prior to the last day of the month. [Cumulative] | 90%                | 87.2%               | n/a                 |
|                                                                                                                                                                                                                                                                                                                                          | Rate of Children in Need per 10,000 (including CiN, CPP and LAC and Care Leavers). [Monthly Snapshot]                                                                                             | 296.6              | 340.6               | n/a                 |
|                                                                                                                                                                                                                                                                                                                                          | The proportion of concluded section 42 enquiries (safeguarding investigations) with an action and a result of either Risk Reduced or Risk Removed. [Cumulative]                                   | 74%                | 91.3%               | n/a                 |
| <b>Clean</b><br>Continue to promote the use of green technology and initiatives to benefit the local economy and environment<br>Encourage and enforce high standards of environmental stewardship                                                                                                                                        | Percentage acceptable standard of cleanliness: litter [Cumulative]                                                                                                                                | 93%                | 97%                 | 94%                 |
|                                                                                                                                                                                                                                                                                                                                          | Number of reported missed refuse collections per 100,000 [Monthly Snapshot]                                                                                                                       | 45                 | 50                  | 42                  |
| <b>Healthy</b><br>Actively promote healthy and active lifestyles for all<br>Work with the public and private rented sectors to provide good quality housing<br>Improve the life chances of our residents, especially our vulnerable children and adults, by working to reduce inequalities and social deprivation across our communities | Proportion of adults in contact with secondary mental health services who live independently with or without support. (ASCOF 1H) [YTD Snapshot]                                                   | 70%                | 78.9%               | 79%                 |
|                                                                                                                                                                                                                                                                                                                                          | Proportion of older people (65 and over) who are still at home 91 days after discharge from hospital into reablement/ rehabilitation services. [ASCOF 2B(1) [Rolling Quarter]                     | 88.6%              | 81.8%               | 75.3%               |
|                                                                                                                                                                                                                                                                                                                                          | Delayed transfers of care (people) from hospital which are attributable to social care only, per 100,000 population. [ASCOF 2C(2)] [YTD average]                                                  | 1.43               | 0.83                | 1.97                |

| Aim / Corporate Priority                                                                                                     | Performance Measure                                                                                                                                   | Target for 2017/18   | Outturn for 2017/18 | Outturn for 2016/17 |
|------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------|---------------------|---------------------|
|                                                                                                                              | Proportion of service users accessing long-term support at end of reporting period who were receiving a direct payment. (ASCOF 1C(2A)) [YTD Snapshot] | 33.5%                | 29%                 | 30.0%               |
|                                                                                                                              | Proportion of adults with learning disabilities in paid employment [Quarterly Snapshot]                                                               | 10%                  | 11%                 | 10.3%               |
|                                                                                                                              | Number of attendances at Council run or affiliated arts and sports events and facilities [Cumulative]                                                 | 4,350,000            | 6,303,463           | 4,368,438           |
|                                                                                                                              | Public Health Responsibility Deal. [Cumulative]                                                                                                       | 40 new organisations | 42                  | 48                  |
|                                                                                                                              | Number of people successfully completing 4 week stop smoking course [Cumulative]                                                                      | 1,100                | 758                 | 950                 |
|                                                                                                                              | Take up of the NHS Health Check programme – for those eligible [Cumulative]                                                                           | 5,740                | 4,553               | 4,633               |
|                                                                                                                              | Percentage of Initial Child Protection Conferences that took place with 15 working days of the initial strategy discussion. [Cumulative]              | 90%                  | 55.5%               | n/a                 |
|                                                                                                                              | The percentage of Early Help Assessments closed with successful outcomes for the clients (excluding TACAF). [Cumulative]                              | n/a                  | 225                 | n/a                 |
| <b>Prosperous</b>                                                                                                            | Percentage of Children in good or outstanding schools. [Monthly Snapshot]                                                                             | 80%                  | 86.1%               | 84.71%              |
| Maximise opportunities to enable planning and development of quality, affordable housing                                     | Major planning applications determined in 13 weeks [Cumulative]                                                                                       | 79%                  | 94.87%              | 93.54%              |
| Ensure residents have access to high quality education to enable them to be lifelong learners and have fulfilling employment | Minor planning applications determined in 8 weeks [Cumulative]                                                                                        | 84%                  | 93.20%              | 90.00%              |
| Ensure the town is 'open for businesses' and that new, developing and existing enterprise is nurtured and supported          | Other planning applications determined in 8 weeks [Cumulative]                                                                                        | 90%                  | 94.65%              | 94.71%              |
| Ensure continued regeneration of the town through a culture led agenda                                                       | Current Rent Arrears as percentage of rent due [Monthly Snapshot]                                                                                     | 1.77%                | 1.43%               | 1.35%               |
|                                                                                                                              | Percentage of Council Tax for 2017/18 collected in year [Cumulative]                                                                                  | 97.3%                | 97.5%               | 97.5%               |
|                                                                                                                              | Percentage of Non-Domestic Rates for 2017/18 collected in year [Cumulative]                                                                           | 97.9%                | 98.6%               | 98.0%               |
|                                                                                                                              | Total number of households in temporary accommodation. [Monthly Snapshot]                                                                             | 100                  | 140                 | n/a                 |
|                                                                                                                              | GovMetric measurements of satisfaction (3 channels – Phones, Face 2 Face & Web) [Cumulative]                                                          | 80%                  | 86.1%               | 85.84%              |



| Aim / Corporate Priority                                                                                                                                                                                                                                                                     | Performance Measure                                                                                                                        | Target for 2017/18 | Outturn for 2017/18 | Outturn for 2016/17 |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------|--------------------|---------------------|---------------------|
| <b>Excellent</b><br>Work with and listen to our communities and partners to achieve better outcomes for all<br>Enable communities to be self-sufficient and foster pride in the town<br>Promote and lead an entrepreneurial, creative and innovative approach to the development of our town | Number of hours delivered through volunteering within Culture, Tourism and Property, including Pier and Foreshore and Events. [Cumulative] | 19,000             | 26,741              | 17,277              |
|                                                                                                                                                                                                                                                                                              | Working days lost per FTE due to sickness – excluding school staff [Cumulative]                                                            | 7.2                | 7.14                | 7.30                |
|                                                                                                                                                                                                                                                                                              | Increase the number of people signed up to MySouthend to 35,000. [Cumulative]                                                              | 35,000             | 36,705              | n/a                 |
|                                                                                                                                                                                                                                                                                              | Percentage of new Education Health and Care (EHC) plans issued within 20 weeks including exception case. [Cumulative]                      | 56%                | 58.7                | n/a                 |

## FINANCIAL REVIEW 2017/18

### REVENUE EXPENDITURE AND SERVICES PROVIDED

Revenue spending covers the day to day running costs of the Council's services, such as schools, social services and leisure. This spending is financed by government grants, Council Tax, retained Business Rates and other income such as fees and charges. The Council agreed a council tax requirement, including Leigh-on-Sea Town Council precept, of £72.5m for 2017/18 (£67.6m for 2016/17).

In setting this budget, the Southend-on-Sea Borough Council element of Council tax for Band D amounted to £1,265.94, (£1,205.82 in 2016/17).

The following table shows the final outturn position for 2017/18 on a net expenditure basis. The analysis of the actual costs reflects the way the Council's finances are managed, as opposed to the statutory required analysis used in the Statement of Accounts itself.

|                                                                      | Budget<br>£000   | Actual<br>£000   | Variance<br>£000 |
|----------------------------------------------------------------------|------------------|------------------|------------------|
| <b>Portfolios</b>                                                    |                  |                  |                  |
| Leader                                                               | 3,315            | 1,888            | (1,427)          |
| Corporate & Community Support Services                               | 3,048            | 814              | (2,234)          |
| Culture, Tourism & the Economy                                       | 15,375           | 15,089           | (286)            |
| Transport, Waste & Regulation                                        | 23,664           | 26,313           | 2,649            |
| Housing, Planning & Sustainability                                   | (938)            | (4,846)          | (3,908)          |
| Children & Learning                                                  | 31,213           | 39,466           | 8,253            |
| Health & Adult Social Care                                           | 41,422           | 38,953           | (2,469)          |
| Technology                                                           | 1                | (34)             | (35)             |
| Contingencies etc                                                    | 5,228            | (99)             | (5,327)          |
| <b>Net Cost Of Services</b>                                          | <b>122,328</b>   | <b>117,544</b>   | <b>(4,784)</b>   |
| Capital Financing Removed                                            | (18,831)         | (19,608)         | (777)            |
| Other Statutory Adjustments                                          | 7,467            | 7,307            | (160)            |
| <b>Adjusted Net Cost Of Services</b>                                 | <b>110,964</b>   | <b>105,243</b>   | <b>(5,721)</b>   |
| Levies                                                               | 590              | 589              | (1)              |
| Leigh Town Council Precept                                           | 401              | 401              | 0                |
| Financing Costs, Interest etc                                        | 19,872           | 10,178           | (9,694)          |
| <b>Net Operating Expenditure</b>                                     | <b>131,827</b>   | <b>116,411</b>   | <b>(15,416)</b>  |
| Revenue Contribution to Capital                                      | 4,154            | 5,255            | 1,101            |
| General Government Grants                                            | (3,537)          | (3,582)          | (45)             |
| Contribution to / (from) Earmarked Reserves                          | (8,890)          | 6,773            | 15,663           |
| <b>Total to be Funded from Council Tax and Formula Grant</b>         | <b>123,554</b>   | <b>124,857</b>   | <b>1,303</b>     |
| <b>Funded from</b>                                                   |                  |                  |                  |
| Revenue Support Grant                                                | (14,759)         | (14,759)         | 0                |
| Retained Business Rates                                              | (32,060)         | (33,363)         | (1,303)          |
| Collection Fund Surplus and Reserves                                 | (4,281)          | (4,281)          | 0                |
| Council Tax (Southend on Sea Borough Council and Leigh Town Council) | (72,454)         | (72,454)         | 0                |
| <b>Total Funding</b>                                                 | <b>(123,554)</b> | <b>(124,857)</b> | <b>(1,303)</b>   |
| <b>Contribution (to) / from General Reserve</b>                      | <b>0</b>         | <b>0</b>         | <b>0</b>         |

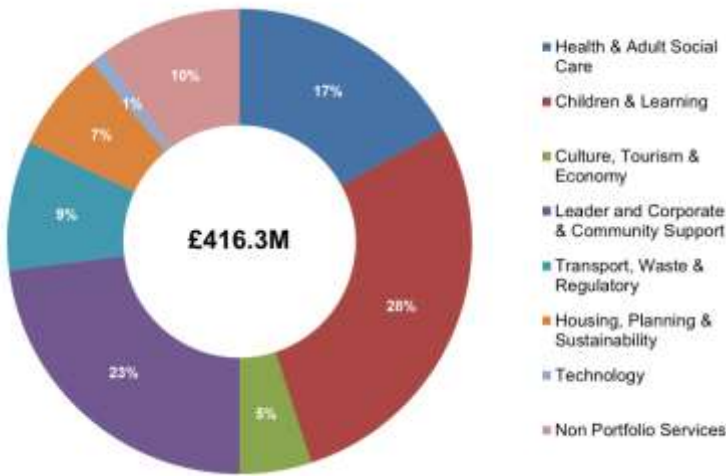
The table below reconciles the analysis on the Comprehensive Income and Expenditure Statement (page 36) to the outturn summary on the previous page.

| <b>Reconciliation of Gross Expenditure to Transfer to General Fund</b>  | <b>2017/18<br/>£000</b> |
|-------------------------------------------------------------------------|-------------------------|
| Gross Expenditure on Services                                           | 416,266                 |
| Gross Income on Services                                                | (406,844)               |
| <b>Net Expenditure on Services</b>                                      | <b>9,422</b>            |
| Adjustments between accounting basis and funding basis under regulation | (10,335)                |
| Transfers to Earmarked Reserves and HRA                                 | 913                     |
| <b>Contribution (to) / from the General Reserve</b>                     | <b>0</b>                |

The “Transfer (to) / from the General Reserve” of nil is common throughout, regardless of the format of the information.

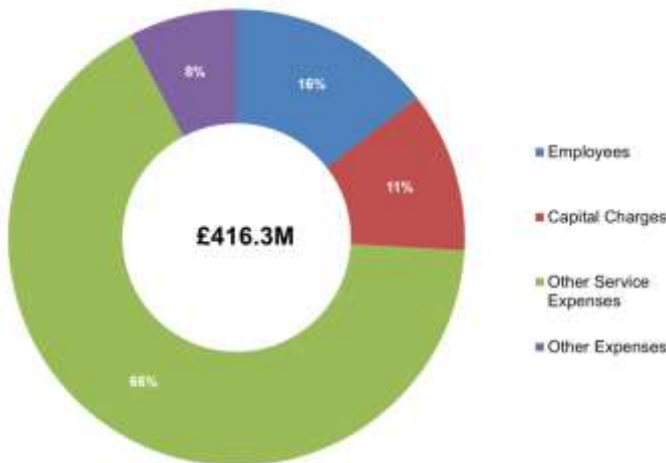
Gross expenditure on services amounted to £416.3m. The charts on the following page show in broad terms the services provided for this expenditure, how this money was spent, and the sources of income that funded it.

### Gross Expenditure by Service Area



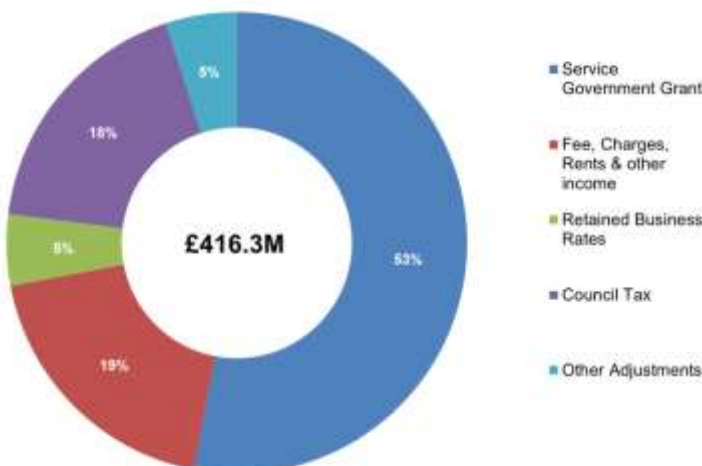
This diagram sets out how gross expenditure is split across the various portfolios of services the Council operates under. Corporate and Community Support includes the £83M cost of housing benefit payments made, and Children & Learning includes the passing onwards of dedicated schools grants and other payments to the Council's maintained schools. Non portfolio services include interest payable and the write out of the asset value of schools converted to academies in year.

### Gross Expenditure by Type



This diagram sets out how gross expenditure is split by type. Other service expenses cover the running costs of services excluding employees, and therefore include the cost of suppliers and contractors, together with monies paid out to schools and benefit claimants. Other expenses covers a number of accounting charges put through the income and expenditure statement, only to be reversed under statutory regulations.

### Revenue Funding Sources



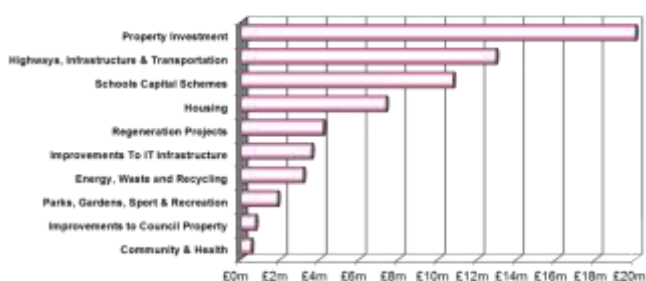
This diagram sets out how gross expenditure is funded. The largest source of income is still government grants (note 18 sets out a full description). Other adjustments includes the statutory reversals referred to above

## CAPITAL EXPENDITURE

Capital spending can generally be defined as that spending which generates assets that have a life of more than one year. This includes the acquisition or construction of new assets and expenditure that improves, and not merely maintains, the value of existing assets.

In 2017/18 the Council spent £65.0m (£48.3m in 2016/17) on capital projects broadly categorised as follows:

### Capital Expenditure

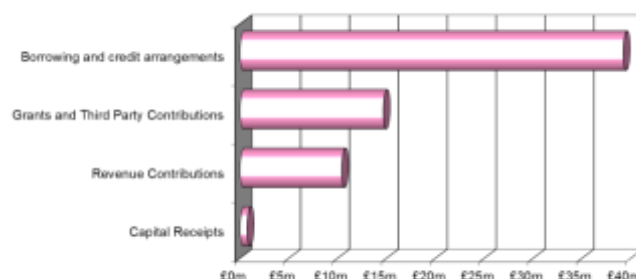


The table below describes some of the larger capital projects that the Council has undertaken this year.

|                                       | 2017/18<br>£000 |
|---------------------------------------|-----------------|
| Property Investment                   | 20,005          |
| Investment in Highways Infrastructure | 8,091           |
| Investment in Housing Stock           | 6,217           |
| Provision for Secondary School Places | 5,777           |
| Street Lighting Renewal               | 4,017           |
| Airport Business Park                 | 2,179           |
| Liquid Logic Case Management System   | 1,465           |
| Southend Pier                         | 1,368           |
| Disabled Facilities                   | 1,131           |
| Better Queensway                      | 602             |

The external funding of the capital programme comes from a number of sources, including government funding, third party (private sector) contributions, capital receipts from the sale of assets, and borrowing. The following diagram shows how the £65.0m capital expenditure was funded for the 2017/18 year.

### Financing of Capital Expenditure



Borrowing is kept within affordable levels, with the total accumulated loans owed to external lenders amounting to £248.3m at 31 March 2018 (£242.0m at 31 March 2017).

The Council also owes money to Essex County Council in respect of assets transferred to Southend-on-Sea Borough Council in 1998 as part of the Local Government Re-organisation. The amount is £11.9m at 31 March 2018 (£12.5m at 31 March 2017).

The Council's operational upper limit for borrowing has been set at £285m (excluding transferred debt) (£280m in 2016/17). Taking into account the borrowing outlined above, this leaves headroom of £36.7m (£38.0m in 2016/17).

This level of debt should also be viewed in relation to the Council's long term assets which have a net book value of £891.6m at 31 March 2018 (£813.0m at 31 March 2017).

### LONG TERM ASSETS

The Council's long term assets are those expected to provide benefits beyond 12 months and consist of Property, Plant & Equipment, Heritage Assets, Investment Property, Intangible Assets, Long Term Investments and Long Term Debtors. At 31 March 2018 the total net book value of these long term assets was £891.6m (£813.0m at 31 March 2017).

As a result of the Government's policy on the transfer of schools to academy status it is likely that most schools will transfer over the next few years, with six schools expected to do so in the forthcoming year. Although the total value of the schools transferring is not yet known, this would reduce the current net book value of the long term assets held of £85.3m for schools on the Council's Balance Sheet.

### PENSION SCHEME

Accounting Standard IAS 19 requires the full recognition of pension fund costs and liabilities to be disclosed in the accounts. Southend-on-Sea Borough Council is a

member of the Essex Pension Fund and the actuaries for this fund have estimated that the fund is currently in a net deficit position. The Council's share of this deficit, taking into account assets, investments and current and future liabilities has been estimated by the actuaries to be £168.9m as at 31 March 2018 (£222.6m as at 31 March 2017). All disclosures as required by IAS 19 are included in Note 36 to the Accounts.

## HOUSING

On 24 October 2005, Southend-on-Sea Borough Council transferred responsibility for the management of its housing stock to South Essex Homes Limited, an Arm's Length Management Organisation (ALMO), controlled by the Council. Southend-on-Sea Borough Council retains ownership of the housing stock and the statutory responsibility for the Housing Revenue Account (HRA).

The Council is required by statute to maintain the HRA in overall surplus, which includes balances brought forward from the previous year.

For the 2017/18 year the HRA has a balance carried forward of £3.5m (£3.5m 2016/17), having broken even again. Council rents for general needs and sheltered properties were decreased by 1% in 2017/18 (*decreased by 1% in 2016/17*) in line with legislation.

In 2017/18 average rents for general needs properties (excluding service charges) were £89.00 per week, and £77.15 for sheltered accommodation.

The full financial performance of the HRA is reported on pages 107 to 113 of this document.

## GROUP PERFORMANCE

Local Authorities with subsidiary companies, associated companies and joint ventures are required to prepare group accounts. The Council has two wholly owned subsidiaries, South Essex Homes Limited and Southend Care Limited that prepare and publish their own accounts, which are then consolidated with Southend-on-Sea Borough Council.

In addition, the Council has four other subsidiary companies and is party to three joint ventures, none of which are material to these accounts, and therefore have not been consolidated.

The Council is also sole trustee for eight Trusts, all of which have been consolidated as part of the Group Accounts.

## OUTLOOK FOR 2018/19 AND BEYOND

For 2018/19, the Council had to meet a total savings requirement of over £7.2m due to, among other matters, reduced government funding, increases in service demands and inflation (contractual and employee).

The Council Tax Budget Requirement for 2018/19 has been set at £76.2m for Southend-on-Sea Borough Council and £0.4m for Leigh-on-Sea Town Council. The

Council tax for a Band D property for 2018/19 has been set at £1,322.82 for Southend-on-Sea Borough Council plus an additional £46.89 for the Leigh-on-Sea Town Council area. Additional charges are made in respect of Essex Police Authority and Essex Fire Authority.

The Council by law must set a balanced budget, and live within its available resources. We will manage our cash flows accordingly.

Alongside the wider community of Southend, the Council continues to face financial challenges arising from the ongoing Government fiscal consolidation. As part of our financial planning we continue to make preparations to help protect the Council's financial position and as a consequence protect the provision of frontline services to the public. However we are very aware that as central government continues to manage the national budget, national resources for local government are likely to reduce over coming years.

In November 2017 the Government's Autumn Budget set out the strategic direction for public expenditure over the remainder of the current spending cycle. However a new spending review is due to be in place in time for 2020/21, so currently there is only a short period of relative certainty for local government. Additionally the government are consulting on a number of changes to the mechanics of local government finance which will have a significant impact on the Council's finances over time, namely:

- It is current government policy to move to a position where local government will retain 75% of business rate revenues to fund local services, in addition the Uniform Business Rate will be abolished and any local area will be able to cut business rates as at their discretion. As a consequence, a number of existing grants are likely to disappear;
- The government also intends to bring in "fair funding" reforms, which have the potential to switch resources between authorities based on perceived need.

The timing of these reforms remains uncertain.

The Council's medium term modelling has been updated to reflect the provisional two-year Funding Settlement announced in January 2018. This also takes into account inflation (both pay and contract), superannuation and increasing capital financing pressures as well as allowances for specific and general risks. Given the Government's intention to introduce their "fair funding" reforms, including a move to 75% business rate retention in 2020/21, and a spending review covering 2020/21 and beyond, there is currently a fair degree of uncertainty surrounding the latter years of the medium term financial plan. However the current estimated overall funding gap is £16.7m over the period 2019/20 to 2021/22.

## PRINCIPAL RISKS AND UNCERTAINTIES

The Council's Corporate Risk Register sets out the key risks to the successful delivery of the Council's corporate aims and priorities and outlines the key controls and actions to mitigate and reduce risks, or maximise opportunities. The Corporate Management Team have identified the following areas to be included in, and then reviewed, as part of the Corporate Risk Register for 2018/19.

| <b>Risk</b>                                        | <b>Impact</b>                                                                                                                                                                                                                                                    |
|----------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Council Budget / Financial Sustainability</b>   | Risk that failure to manage the short term budget gap and growing demand for services, and failure to ensure the council is financially sustainable after 2020/21, will result in significant adverse impact on council services                                 |
| <b>Recruiting and retaining staff</b>              | Risk that failure to have the appropriate staffing resources, with the right skills, will lead to a failure to achieve the Council's ambitions                                                                                                                   |
| <b>Key External Challenges</b>                     | Risk that the impact of, or a failure to take advantage of, the Government's agenda and the lead up to Brexit, may hamper the ability of the Council to achieve key priorities                                                                                   |
| <b>Housing</b>                                     | Risk that a failure to implement plans to address rising homelessness and failure to develop a robust housing strategy will lead to further street and other homelessness, increased use of temporary accommodation & an inability to meet rising housing demand |
| <b>Local Infrastructure</b>                        | Risk that failure to maintain levels of access to regeneration funding opportunities will significantly restrict future infrastructure improvements in the borough                                                                                               |
| <b>Secondary School Places</b>                     | Risk that failure to provide the required number of school places at secondary schools for 2018 and 2019 will lead to significant reputational and legal damage for the council                                                                                  |
| <b>Health and Social Care</b>                      | Risk that the implementation of Sustainability and Transformation Partnership (STP) proposals and implementation of the Localities Model does not result in effective health and social care outcomes for residents and also leads to significant cost increase  |
| <b>Information Management &amp; Cyber Security</b> | Risk that a failure to ensure the Council has a coherent and comprehensive approach to data protection, including its cyber security arrangements, will result in significant financial and reputational damage to the Council                                   |
| <b>Children's Services Improvement Plan</b>        | Risk that the actions and expected outcomes from the Children's Services Improvement Plan are not achieved within expected timescales, resulting in a failure to achieve a rating of 'Good' in future Ofsted inspection                                          |
| <b>Waste Management</b>                            | Risk of contractor failing to meet contractual requirements to effectively manage waste contractual arrangements results in additional financial liability for the Council and loss of service quality                                                           |
| <b>Flooding / Cliff Slip</b>                       | Risk that surface water flooding, breach of sea defences and/or seafront cliff movement, will result in damage to property and infrastructure as well as significant disruption                                                                                  |
| <b>Major Developments</b>                          | Risk that failure of partners to progress major infrastructure developments (e.g. Seaways, Airport Business Park and Queensway) will result in significant financial and reputational damage to the Council                                                      |
| <b>Local Plan</b>                                  | Risk that the failure to meet deadlines and make sufficient progress in producing a Local Plan will lead to Secretary of State intervention, resulting in reputational damage to the Council and the potential imposition of unwanted planning policies          |

More information on the principal risks and uncertainties, and the mitigations that the Council has in place can be found on the Council's website.

## THE FINANCIAL STATEMENTS

The information provided in this publication presents the financial position of Southend-on-Sea Borough Council as at 31 March 2018, and the financial results for the financial year 2017/18. As a large and diverse organisation, these accounts will by their nature be both technical and complex and the purpose of this foreword is to provide a guide to the accounting information and statements that follow and summarise the Council's performance for the year.

Since the introduction of IFRS (International Financial Reporting Standards) for local government accounting in 2010/11, the core financial statements comprise:

- **Comprehensive Income and Expenditure Statement**
- **Movement in Reserves Statement**
- **Balance Sheet**
- **Cash Flow Statement**

**The Comprehensive Income and Expenditure Statement** shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Authorities raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

**The Movement in Reserves Statement** shows the movement in the year on the different reserves held by the Council. The Surplus or Deficit on the Provision of Services line shows the true economic cost of providing the Council's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund Balance and the Housing Revenue Account for Council tax setting and dwellings rent setting purposes. The Net Increase / Decrease before Transfers to Earmarked Reserves line shows the statutory General Fund Balance and Housing Revenue Account Balance before any discretionary transfers to or from earmarked reserves undertaken by the Council.

**The Balance Sheet** shows the value, as at the Balance Sheet date, of the assets and liabilities recognised by the Council. The net assets of the Council (assets less liabilities) are matched by the reserves held by the Council. Reserves are reported in two categories. The

first category of reserves are usable reserves, i.e. those reserves that the Council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the Capital Receipts Reserve that may only be used to fund capital expenditure or repay debt). The second category of reserves is those that the Council is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'.

**The Cash Flow Statement** shows the changes in cash and cash equivalents of the Council during the reporting period. The statement shows how the Council generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Council are funded by way of taxation and grant income or from the recipients of services provided by the Council. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Council's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the Council.

These four Statements are then followed by notes providing more detailed information of various elements within the statements.

The main Statements and their notes are supplemented by three further sections:

**The Housing Revenue Account (HRA)** reports separately on the Council's landlord activities, which are consolidated into the main accounts. Detailed notes follow these statements to expand on the information provided.

**The Collection Fund** reports separately on the collection and distribution of non-domestic rates and Council tax.

**Group Accounts** consolidate the Council's main accounts with those of its Subsidiary and Associated Companies, and Charitable Trusts.



# **INTRODUCTORY STATEMENTS**

## STATEMENT OF RESPONSIBILITY FOR THE STATEMENT OF ACCOUNTS

### THE COUNCIL'S RESPONSIBILITIES

The Council is required to:

- Make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this Council, that officer is the Director of Finance and Resources.
- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- Approve the Statement of Accounts.

### THE DIRECTOR OF FINANCE AND RESOURCES' RESPONSIBILITIES

The Director of Finance and Resources is responsible for the preparation of the Council's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom ('the Code').

In preparing this Statement of Accounts, the Director of Finance and Resources has:

- Selected suitable accounting policies and then applied them consistently;
- Made judgements and estimates that were reasonable and prudent;
- Complied with the local authority Code.

The Director of Finance and Resources has also:

- Kept proper accounting records which were up to date;
- Taken reasonable steps for the prevention and detection of fraud and other irregularities.

#### **DIRECTOR OF FINANCE & RESOURCES' CERTIFICATE**

I certify that these accounts present a true and fair view of the financial position of the Council at 31 March 2018 and its income and expenditure for the year ended 31 March 2018.



**Joe Chesterton, CPFA**  
Director of Finance and Resources  
25 July 2018

#### **APPROVAL OF THE STATEMENT OF ACCOUNTS**

In accordance with the requirements of Regulation 9 of the Accounts and Audit Regulations 2015, I confirm that the Statement of Accounts was approved by resolution of the Audit Committee of Southend on Sea Borough Council on 25 July 2018.

**Councillor Davidson**  
Chair of Audit Committee  
25 July 2018

# ANNUAL GOVERNANCE STATEMENT

## SCOPE OF RESPONSIBILITY

Southend-on-Sea Borough Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for and used economically, efficiently and effectively. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, the Council is responsible for ensuring the proper arrangements for the governance of its affairs and facilitating the effective exercise of its functions, including arrangements for the management of risk, are in place. This responsibility extends to satisfying itself that there are robust governance arrangements between the Council and its subsidiaries.

The Council has approved and adopted a Local Code of Governance (the Code), which is consistent with the principles of the CIPFA/SOLACE Framework Delivering Good Governance in Local Government. A copy of the Council's code is part of the Council's constitution and is available on the Council's website at [www.southend.gov.uk/constitution](http://www.southend.gov.uk/constitution) or can be obtained from the Policy, Engagement and Communications Team, Civic Centre, Victoria Avenue, SS2 6ER.

This statement explains how the Council has complied with the Code and also meets the requirements of Regulation 6 of the Accounts and Audit (England) Regulations 2015 in relation to the production and publication of an Annual Governance Statement.

## THE PURPOSE OF THE ANNUAL GOVERNANCE STATEMENT

The governance framework comprises the systems, processes, culture and values, by which the Council is directed and controlled and its activities through which it is accountable to, engages with, and leads the community. It enables the Council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate services and value for money.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can, therefore, only provide reasonable, and not absolute, assurance of effectiveness. The system of internal control is based on an on-going process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be

realised and to manage them efficiently, effectively and economically.

The main governance framework has been in place at the Council for the year ended 31 March 2018 and up to the date of approval of the statement of accounts.

## THE COUNCIL'S GOVERNANCE FRAMEWORK

The governance framework ensures the Council's vision and key priorities are effectively promoted and progressed through its corporate governance arrangements and business planning processes. The key elements of the governance framework are as follows:

- Community engagement
- Business strategy and planning
- Financial reporting including budgetary control and asset management
- Policy framework
- Risk management including fraud and corruption
- Health and safety
- Business continuity
- Asset management
- Performance management
- Data quality
- Information management and security
- Value for money
- Procurement
- Project management
- Complaints
- Ethical governance – including codes of conduct for members and staff
- Workforce management
- The operation of Cabinet, Scrutiny Committees, Audit Committee and the Standards Committee.

These areas form the main sources of assurance to be considered in any review of the Council's governance arrangements.

The Chief Executive has the responsibility for overseeing the implementation and monitoring of 'The Code', through a process which includes:

- Regular reports to the Corporate Management Team and the Audit Committee which set out:
  - weaknesses identified in the governance arrangements and
  - any corrective action necessary to resolve concerns identified;
- An annual review of the governance framework supported by officer assurance statements certified by Directors and Deputy Chief Executives;
- An annual report to the Corporate Management Team and the Audit Committee on the adequacy of governance arrangements; and
- An annual review of 'The Code', with any significant amendments being reported to the Audit Committee, endorsed by Cabinet and approved by Council.

The Council's key governance and business planning processes are also subject to audit on a risk assessed basis. Such work completed during the year forms part of the evidence in support of the Head of Internal Audit's annual opinion on the adequacy and effectiveness of the Council's system of internal control.

Key elements of the Local Code of Governance are outlined below:

The Council's Monitoring Officer is responsible for the maintenance of the Constitution and for reviewing its relevance and effectiveness, ensuring that it is fit for purpose at all times. Any changes to the Constitution are approved by full Council.

The Council operates a Leader and Cabinet model of governance, with the Leader (who is appointed by Full Council for a four year term) appointing up to 9 other Councillors to form the Cabinet. Cabinet is responsible for the majority of functions of the Council within the budget and policy framework set by full Council. Executive decisions are taken by the Cabinet collectively or by officers acting under delegated powers, depending upon the significance of the decision being made. For urgent issues, a chief officer can take a decision in consultation with the relevant portfolio holder.

The Council has three Scrutiny Committees which review and scrutinise proposed decisions in their respective areas of responsibility – People, Place and Policy & Resources. The committees will review and scrutinise decisions made or actions taken in connection with the discharge of any of the Council's functions. In accordance with the Health and Social Care Act 2012, the People Scrutiny Committee also scrutinises health matters.

Decisions made by the Cabinet may be called in to a Scrutiny Committee in accordance with the provisions of the Scrutiny Procedure Rules. A decision made by Cabinet can be called in by any two Members with written notice given to the Chief Executive within five working days from the date of publication of the digest.

Since May 2012 the Council has operated a pre-Cabinet scrutiny system where scrutiny and opposition councillors are given opportunities to contribute to and offer advice on key decisions prior to consideration by Cabinet. This is achieved by reports to Scrutiny Committees and the outcomes of cross party working groups.

The Council has a Standards Committee to promote and maintain high ethical standards of conduct for elected and co-opted Members. A key role of the Committee is to help elected and co-opted Members to observe the Members' Code of Conduct and to monitor the effectiveness of the Members' Code of Conduct. The Standards Committee also deals with formal complaints against Members.

The Council operates a development and training programme for Members to help support them in their strategic roles.

A local authority has a duty to ensure that it is fulfilling its responsibility for adequate and effective risk management, control and governance. To this end, the Council has in place an Audit Committee. The Audit Committee has a key role in overseeing and assessing the risk management, control, and corporate governance arrangements and advising the governing body on the adequacy and effectiveness of these arrangements.

The Council's major policy objectives and priorities are outlined in the Corporate Plan and Annual Report. The plan articulates the Council's vision, is subject to regular progress review, and is approved by the Corporate Management Team, Cabinet, and Council.

The Corporate Plan and Annual Report is underpinned by service plans which are monitored by Departmental Management Teams. In addition, a monthly performance report outlines key performance indicators that underpin the Council's corporate priorities and corporate priority actions. This is monitored by the Corporate Management Team, Cabinet, and each Scrutiny Committee.

Financial monitoring reports are produced on a monthly basis and form part of the Council's Monthly Performance Report. Reports outline explanations of variance from budget and identify a projected outturn for the year and are considered by Cabinet and the Scrutiny Committees. A three year Medium Term Financial Plan is refreshed annually and shaped by the priorities agreed by the Council and outlined in the Corporate Plan and Annual Report. The Council runs an annual budget process, which is subject to scrutiny by Scrutiny Committees, at the end of January, prior to consideration by Cabinet and decision by full Council in February. This enables costed, balanced, budgets to be set, which have consistently been within government limits, avoiding the need for a referendum to be held.

The Corporate Risk Register is formally reviewed each quarter by the Corporate Management Team (CMT), and the Audit Committee half yearly. Departmental risk registers are reviewed regularly by Departmental Management Teams.

The Council engages with its communities and its arrangements are formulated within a consultation and engagement framework. Consultation and engagement activity and the results of this activity are integrated into service planning and delivery and recorded and co-ordinated on the Council's consultation portal.

The Council has a Health and Safety Policy, with an accompanying action plan that is reviewed each year and overseen by the Strategic Health and Safety Group, chaired by a Deputy Chief Executive, which has assisted the Council in reaching Level 5 out of 5 on the RoSPA (Royal Society for the Prevention of Accidents) assessment.

A complaints procedure and a whistle-blowing policy are maintained and kept under review to enable issues to be raised by public, staff, Councillors and co-opted

Members, when they feel appropriate standards have not been met. A report analysing complaints, comments and compliments is submitted to Cabinet and Council annually.

### **Role of the Chief Financial Officer**

The Chief Financial Officer (CFO) occupies a key position in managing the Councils' finances and ensuring that resources are used wisely to secure positive results. In order to support the post holder in the fulfilment of their duties, and ensure that the Council has access to effective financial advice, in 2016 the Chartered Institute of Public Finance Accountants (CPIFA) issued an updated statement on the Role of the Chief Financial Officer in Local Government. The statement:

- Sets out how the requirements of legislation and professional standards should be fulfilled by CFOs in the carrying out of their role; and
- Includes five key principles that define the core activities and behaviours that belong to the role of the CFO in public service organisations and the organisational arrangements needed to support them.

These principles are:

- The CFO in a local authority is a key member of the leadership team, helping it to develop and implement strategy and to resource and deliver the authority's strategic objectives sustainably and in the public interest;
- The CFO in a local authority must be actively involved in, and able to bring influence to bear on, all material business decisions to ensure immediate and longer term implications, opportunities and risks are fully considered, and aligned with the authority's overall financial strategy;
- The CFO in a local authority must lead the promotion and delivery by the whole authority of good financial management so that public money is safeguarded at all times and used appropriately, economically, efficiently, and effectively;
- The CFO in a local authority must lead and direct a finance function that is resourced to be fit for purpose; and
- The CFO in a local authority must be professionally qualified and suitably experienced.

The Council has the necessary arrangements and procedures in place which ensure that these principles are complied with. This is through a combination of direct compliance by the CFO and, where not directly complied with, ensuring there are alternative procedures in place to make sure that the necessary outcomes and objectives are still achieved and suitable controls are in place. For example, this may include deputising arrangements and delegated authority for financial management in the clearance of relevant Member reports.

### **Review of Effectiveness**

The Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by: the work of the Senior Leadership Team; the Head of Internal Audit's annual report; by comments made by external auditors and other external agencies and inspectorates; by manager assurance statements and by a self-assessment reviewed by the Good Governance Group of senior managers (which reviews the Council's governance arrangements on a regular basis).

Following a **change of administration**, in May 2016, to a minority Conservative administration, there were no Council elections in May 2017. However, changes in allegiances of councillors in May 2017 resulted in a majority Conservative administration, providing relative political stability in the run up to local elections in May 2018.

**Changes to Senior Management:** The Council successfully appointed a new Chief Executive in March 2017 (the first new Chief Executive in 12 years), who undertook the role from July 2017 following the retirement of her predecessor in March 2017. This enabled the two Deputy Chief Executives to act into the Chief Executive role for two months each.

The appointment followed the most significant changes to senior management structures and departmental arrangements since 2006, (along with departures of three Directors), with the new arrangements and appointments embedded during 2017-18.

The Council played a central role in developing a new association of south Essex councils, **the Association of South Essex Local Authorities (ASELA)**, made up of Southend-on-Sea, Basildon, Brentwood, Castle Point, Essex County, Rochford, and Thurrock Councils. The Councils have recognised the need to work across borders to influence and secure strategic infrastructure, planning and growth.

Leaders and Chief Executives agreed, in June 2017, to develop a joint 'place vision' for the region up to 2050 that will show how South Essex is a dynamic, modern place providing the conditions for people, communities and businesses to prosper. Reinforced by a Memorandum of Understanding in February 2018, the stated aims of the Association will be to 'transform transport connectivity, open up spaces for housing, business and leisure development through a spatial strategy and shape local labour & skill markets'.

Each member of ASELA, is developing their own vision for 2050, to complement the South Essex vision. The **Southend 2050 programme**, therefore, aims to develop a shared vision of the place that Southend could become - capturing how it could feel to live, work or visit here in the future. A programme of work was developed, during

the year, to engage the borough's stakeholders, in a way that leaves a legacy of systematic on-going engagement.

The Council signalled that the 2050 programme will be a precursor to putting in place a refreshed approach to the governance framework, including business planning and risk and performance. Resetting the vision for the borough and Council, along with aligning all **transformation** activity, is helping to redefine the Council's relationship with citizens, customers and stakeholders. To this end a 'transformation diagnostic' was undertaken to capture current transformation activity and help identify next steps. This, along with a leadership development programme (encompassing members and officers) will help the Council create the right conditions to deliver the Southend 2050 vision and the high level outcomes that will make this a reality.

The conditions will include a refreshed set of values and behaviours across the Council's workforce as well as a move to outcome based planning. It is also anticipated that a refreshed approach to service redesign based on user research and a more clearly defined project management methodology will be introduced in 2018/19. The appropriate and relevant governance processes will be reviewed and adapted as these new tools are rolled out across the organisation.

The **adult social care transformation** programme has been at the forefront of a shift in culture, to improve outcomes, promote resilience, reduce service duplication, enable staff and enhance overall effectiveness. The work, also being rolled across children's services, has featured new approaches in restorative practice (working alongside clients, rather than making decisions about them), investing in staff and asset based Community Development (working alongside communities to use and develop local assets to address local challenges).

A Local Government Association and Association of Directors of Adult Social Services **peer review** of the Council's adult social care services provided positive feedback on efficiency, effectiveness and impact on desired outcomes. It also provided encouragement that the approach in adult social care should be scaled up across the Council and with partners.

In line with this approach, the Council revised a number of aspects of **officer governance processes**. This included: reducing the number of boards (removing the capital board, capital strategy and asset management Group and ICT boards), with key decisions taken by CMT; aligning corporate priority actions with major projects; holding more strategic discussions to help better align resources to priorities and introducing a quarterly 'health check' to provide focus on performance.

The Council's **capital programme** was given a four year focus, with the application of a new 'gateway review' process to enable items on a reserved list to be subject to further consideration before being included in the programme. This, among other things, enables consideration of levels of required resourcing to be

applied to projects in line with the capacity of the organisation and support for a more outcome focussed approach.

The Council established a cross party **Shareholder Board**, chaired by the Leader and reporting to Cabinet, to help provide more effective governance of its companies (currently six in number) and promote a unified structure and greater transparency and accountability. The Council also agreed that the Cabinet will receive an annual report on the operation of the Council's (three) joint ventures and (eight) charitable trusts.

Each actively trading company (South Essex Homes and Southend Care) has put in place their own governance arrangements which reflect the commercial environment within which they operate. These governance arrangements are similar to some of the Council's arrangements but do not replicate them exactly. The companies operate in accordance with business plans and progress against them is monitored internally and reported to the Council through the client management team and the shareholder function.

**Southend Care Ltd** began trading from 1 April 2017, as a Council owned company comprising adult social care services, to manage Delaware and Priory House adult care homes and Viking Day Centre. Further services were transferred during the year, meaning around 400 Council staff moved to the company in total.

Cabinet approved the establishment of a Council controlled, asset holding **Housing Investment Company** with a view to delivering significant homes for sale and rent over the next 10 years. This is designed, among other things, to help meet housing need, reduce cost pressures of temporary housing for the homeless and replace Right to Buy property, in a regeneration and income generation setting. The company has yet to trade. The work of the company will be part of a refreshed overarching housing strategy, the parameters for which were agreed by Cabinet in January 2018.

Changes to **management arrangements** saw a new grading structure at group management (4<sup>th</sup> tier) level, and an emphasis on **Group Managers** being part of the 'leadership' of the organisation.

Ofsted, the Care Quality Commission (CQC), HMI Constabulary and Fire & Rescue services (HMICFRS) and HMI Probation (HMIP) undertook a **joint targeted area inspection (JTAI)** of the multi-agency response to child sexual exploitation, children associated with gangs and at risk of exploitation and children missing from home, care or education in the borough. The inspection found that there are strong partnerships in the area and that the police and council work effectively together. It also found that the involvement of health agencies must be further developed to ensure that formal and robust processes are put in place. Work is already underway to make that happen, through the new Multi-

Agency Safeguarding Hub (MASH+) which has co located key professionals from across the agencies.

The **Children Services Improvement Plan** (developed as a result of the 2016 Ofsted Inspection of Children's Services) was refreshed to make it more outcome based in Autumn 2017. It continued to be overseen and progressed by an Improvement Board and Scrutiny Committee panel and also reviewed as part of the Corporate Risk Register. As part of the new Ofsted inspection regime, the Council undertook the required annual self-evaluation of social work practice along with the 'annual conversation' with Ofsted.

The **Transforming Care Partnership** was established. Chaired by the Deputy Chief Executive (People), it brings together all of the NHS Clinical Commissioning Groups across the County and the three top-tier local authorities (Essex, Southend and Thurrock). It leads locally on the national Transforming Care programme aimed at improving specialist care for people with a learning disability and/or autism who may suffer or have suffered serious mental health problems.

The **Local Safeguarding Children Board and Southend Safeguarding Adults Board** both revised their structure and processes to streamline and improve the level of challenge, with the recently appointed chair (the same person to enhance co-ordination) further establishing themselves in the role.

The Council continued to play an active part in the Mid and South Essex **Sustainability and Transformation Partnership (STP)**, working collaboratively with the five CCGs and Rochford and Castle Point Councils in relation to the proposed changes to local health services. A county wide overview and scrutiny committee was set up to scrutinise the implementation of the proposals for the reconfiguration of hospitals in Mid and South Essex, with Southend as lead authority. The Council, the Health and Wellbeing Board and the Joint Health Overview & Scrutiny Committee submitted responses to the STP consultation.

The **Health and Wellbeing Board (HWB)** continued to strengthen its arrangements. In particular:

- Southend's HWB Chair is an established member of regular meetings between Thurrock and Essex HWB Chairs and the Independent Chair of the STP, enabling the sharing of good practice and input into the STP programme.
- The HWB oversaw the development of the locality model, for the borough, which is aligned to the STP, and will create the infrastructure to enable the reconfiguration of acute and community based services.
- The Board refreshed the HWB Strategy, with a particular focus on increasing levels of physical activity, in view of the benefits of both physical and mental health.

- The Board continues to oversee the development of the early years 'A Better Start Southend', and has refreshed and strengthened the programme's governance arrangements

Chairs of the Community Safety Partnership, Safeguarding Boards and Health and Wellbeing Board, along with related colleagues and partners from the Police, Social Care and Health met to promote communication between the strands and ensure a co-ordinated approach to addressing complex issues.

**The Community Safety Partnership** undertook a review of its governance arrangements and priority setting, aimed at providing a strengthened focus (particularly in relation to tackling issues of gangs, 'county lines', child sexual exploitation and modern slavery), broadening its membership and providing a clearer alignment with the Health and Wellbeing Board priorities.

**The Education Board**, established by the Council in 2016/17, to improve engagement between the Council, its schools and academies, became fully functioning, offering a high level of scrutiny on areas of performance, finance and provision for vulnerable groups.

Southend Adult Community College was inspected by Ofsted, in October 2017, and found to be rated as 'good'.

The **Good Governance Group** of senior managers met quarterly to review the Council's governance arrangements to assess whether they are fit for purpose, comply with good practice requirements and ensure that sufficient assurance is available to support the production of the Annual Governance Statement.

**Procurement** – New financial regulations, introduced in 16/17 were embedded and new contract procedure rules updated to reflect the new management structure, reflect updated EU thresholds and put more emphasis on supporting local suppliers and support a more rigorous approach to achieving value for money.

Progress on the **Better Queensway** regeneration development saw Cabinet approval for the launch of a competitive dialogue procurement process to seek a development partner. A 'sponsoring group' of senior Members and managers was introduced to streamline decision making between Cabinet meetings and provide further support to the project board. An Internal Audit found that the arrangements introduced to manage the Better Queensway project are sound and the assurance 'satisfactory'.

Management arrangements for the **Airport Business Park landmark project** (a 21 hectare site, that seeks to develop a high quality business community) were subject to further review, with governance arrangements in relation to procurement further developed.

The Council continued to pursue its agenda for economic growth through the South East Local Enterprise Partnership (SELEP), with the Leader sitting on the main (Strategic) Board and 'Accountable Board' of upper tier

local authorities as well as the South Essex sub-board. The Council supported the adoption by SELEP of recommendations from the 2017 Mary Ney review of LEPs to strengthen good governance and probity.

The Council acted as the accountable body for managing the £13m South East Business Boost European Regional Development Fund programme, for the SELEP area. An audit of the programme was undertaken by the Ministry of Housing, Communities and Local Government for which all of the audit standards were met, and the Council complimented on its robust approach.

22 member training sessions were held during the year on a range of subjects, including: Clinical model transformation; a briefing on school admission arrangements and catchment areas; pier workshop and equality & diversity training.

The Council put in place arrangements to prepare for the introduction of the General Data Protection Regulation. These included a cross Council officer GDPR Project Group reporting to a Corporate Information Governance Group of senior officers and monthly reports to CMT as one of the 27 key Council work streams. An external review of the Council's level of preparation, along with an Internal Audit review were undertaken, with issues identified as needing to be addressed incorporated into the work of the project group. Around 200 staff received training on the implications of GDPR.

The Council's approach to information management was also reviewed by completing the annual NHS Digital **Information Governance toolkit**, enabling organisational assessment against Department of Health information governance policies and standards. For 2017/18 the Council achieved level 3 (the highest possible) in 24/28 requirements and level 2 in the remaining four.

Regular reviews of Internal Audit review recommendations are undertaken by the relevant Directors and Departmental Management Teams.

Progress on actions to enhance governance arrangements arising from the 2016/17 Annual Governance Statement were reported to Audit Committee during the 2017/18 financial year, with relevant outcomes against the action.

#### **INTERNAL AUDIT**

The annual risk based Audit Plan was prepared in consultation with Directors, Deputy Chief Executives and the Chief Executive. It was approved (but not directed) by the Audit Committee. Terms of Reference and reports are discussed with relevant Directors, Deputy Chief Executives or the Chief Executive before being finalised. The recommended actions required to mitigate risks audited are summarised in an action plan.

Internal Audit revisits action plans where the original report's opinion was either Partial or Minimal assurance. These actions are retested and the result of this work is

reported to CMT and Audit Committee as part of the Quarterly Performance Report.

#### **The Head of Internal Audit Opinion for the year ended 31 March 2018**

The Head of Internal Audit Annual Report and opinion for 2017/18 states that:

*'Governance comprises of the arrangements put in place to ensure that the intended outcomes for stakeholders are defined and achieved. Such arrangements can take many forms and still be effective. Appropriate assurance is then required that these processes are fit for purpose and being applied throughout the organisation. My 2016/17 Annual Report highlighted the need to review the Council's governance and assurance arrangements including the role of the Audit Committee.*

*Whilst some changes have been made to this framework in 2017/18, senior management will undertake a more substantial review of the risk management, control and governance arrangements once the new vision and strategic framework for the Council is in place. Therefore, the remainder of this report should be read within this context.*

*With regards to the assurance provided by audit work undertaken, in these areas, the design and operation of the Council's risk management, control and governance framework was satisfactory overall.*

*No issues have come to my attention this year, other than those already disclosed, that I believe need including in the Council's Annual Governance Statement'.*

#### **Compliance with Professional Standards, Head of Internal Audit Opinion.**

*'The Institute of Internal Auditors assessed the in-house team as fully meeting most of the Standards, as well as the Definition, Core Principles and the Code of Ethics in October 2017 (classified as "Generally Conforms", the highest rating).*

Good assessments were achieved in relation to:

- reflection of the Standards
- focus on performance, risk and adding value
- the quality assurance and improvement programme.

Needs improvement assessments were given in relation to:

- coordinating and maximising assurance
- the efficiency of its operations.

The only area where the Council has chosen not to implement the Standards relates to the appointment and removal of the Head of Internal Audit, as the Council's normal human resources practices would already mitigate this perceived potential risk.



External audit has confirmed it can rely on Internal Audit's work where it was relevant to its audit of the Council's Statement of Accounts.

**ISSUES FOR THE ANNUAL GOVERNANCE STATEMENT**

No issues have come to our attention this year, other than those already disclosed, that we believe need including in the Council's Annual Governance Statement.'

**EXTERNAL INSPECTIONS AND ASSESSMENTS**

Assurance over the control environment is also obtained from external inspections and assessments of service areas. External assessments for 2017/18 included:

- **Joint Targeted Area Inspection (JTAI)** on safeguarding for Southend, with a focus on child sexual exploitation (CSE).
- 7 Ofsted primary school inspections (6 'good', 1 'requires improvement').
- 4 Ofsted secondary school inspections (2 'good', 1 'requires improvement', 1 'inadequate').
- 1 Special School Inspection (1 'Outstanding')
- LGA/ADASS Peer Review of adult social care services.

These along with other external assessments, provide further independent assurance of governance arrangements and the quality of service provision. The Council is also regularly recognised through industry awards such as:

- The Council was highly commended in the MJ Achievement Awards, 2018 for Digital Transformation
- The Council was a finalist in the 2018 LGC Awards for its work to open a complex needs hostel in the Borough.

- The Council won the '30 Hours Team award', a programme to enable more parents to continue to work, at the national Childcare Works Awards 2018.
- Council and Metal Arts Organisations NetParks wellbeing project was highly commended at the 2017 Advancing Healthcare Awards and was also a finalist in the National Dementia Care Awards.
- The Council retained Purple Flag status in recognition of well managed night-time economies by the Association of Town and City Management.
- The Council's Education Board was highly commended in the Excellence in Governance and Scrutiny category at the Municipal Journal (MJ) Awards in June 2017.
- The Council was included in the Stonewall top 100 Workplace Equality Index (5<sup>th</sup> among local authorities) and was 7<sup>th</sup> in the Stonewall Education Equality Index 2017.
- The Council achieved the RSPCA Gold award for their 'Stray Dogs Footprint', which recognises the Council's level of service provided in terms of dog protection and silver award for Animal Establishments licensing.
- The Council was a finalist in the Public Finance Innovation Awards 2018.

**CONCLUSION**

We have been advised on the implications of the result of the review of the effectiveness of the governance framework by the Audit Committee and that the arrangements continue to be regarded as fit for purpose in accordance with the governance framework.

Actions to be specifically addressed are outlined below.

**Further Actions to strengthen the Council's Governance Arrangements for 2018/19**

| No. | Governance Issues    | Action                                                                                                                                                                                                                                                                                                                                       | Date of Implementation | Responsible Officer               |
|-----|----------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------|-----------------------------------|
| 1.  | Governance Framework | In the context of the Southend 2050 programme, continue to review the Council's governance and assurance framework to ensure it will be fit for purpose and support the move to an outcome based approach, the delivery of appropriate and relevant services and organisational objectives and the best possible use of available resources. | March 2019             | Alison Griffin<br>Chief Executive |

| No. | Governance Issues            | Action                                                                                                                                                                                                                                                                                                                                                                                     | Date of Implementation | Responsible Officer                                      |
|-----|------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------|----------------------------------------------------------|
| 2.  | Business Continuity Planning | An increased resource in a new resilience team will ensure that BCP is aligned to emergency planning and that the Council is able to respond appropriately to extreme/extraordinary situations. This will take account of recent audit recommendations where it is relevant and appropriate. It will also reflect the fast moving nature of the environment in which the Council operates. | March 2019             | John Williams<br>Director of Legal & Democratic Services |
| 3.  | Data Protection / Management | Continue to embed the Council's arrangements for being compliant with Data Protection legislation and effective use of information, ensuring this encompasses its arrangements in this regard for its companies and partners.                                                                                                                                                              | March 2019             | Joanna Ruffle<br>Director of Transformation              |
| 4.  | Council Companies            | Undertake a post implementation review of governance arrangements for Southend Care Ltd to ensure fitness of purpose for a council owned commercial organisation and review new arrangements for Stakeholder Board.                                                                                                                                                                        | March 2019             | Joe Chesterton<br>Director of Finance & Resources        |

#### Council's Corporate Governance Action Plan 2016/17

| No | Governance Issue                                                                                                              | Action                                                                                                                                                                                                                                                                                          | Responsible Officer                         | Comment on Progress                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
|----|-------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1  | Further embedding risk management                                                                                             | Develop further and align work on risk across the Council so that the approach to risk management is better embedded across the organisation, supports the governance framework and the transformation agenda and is better integrated into decision making.                                    | Alison Griffin<br>Chief Executive           | Review undertaken, with consideration of findings by Corporate Management Team, and some revisions made to approach. Agreed more significant changes will flow from Southend 2050 programme and associated review of Council's business planning processes.                                                                                                                                                                                                                                                                                                                             |
| 2  | Information Management, including General Data Protection Regulation (GDPR), data sharing, data quality, information Security | Ensure the Council's information management arrangements are developed so they are compliant with the General Data Protection Regulation, promote information and data sharing, ensure the quality of data used is sound and the Council has robust arrangements in relation to cyber security. | Joanna Ruffle<br>Director of Transformation | Cross Council officer GDPR project group met fortnightly, reporting to senior officer Corporate Information Governance Group, with monthly reports to CMT. Two reviews of Council's preparation undertaken, with identified issues incorporated into project group work. Around 200 staff received training on the implications of GDPR by 31.3.18 with further 100 and members to follow, complemented by a corporate communications programme. Council's approach to cyber security incorporated into Council's Digital strategy, with Council's approach reviewed by Internal Audit. |

| No | Governance Issue                   | Action                                                                                                                                                                          | Responsible Officer                         | Comment on Progress                                                                                                                                                                                                                                                                                                                                                                  |
|----|------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 3  | Business Continuity Planning       | To undertake actions in the BCP project plan, including recommendations and management actions arising from the Internal Audit review of the Council's BCP arrangements.        | Joanna Ruffle<br>Director of Transformation | All service areas have reviewed and refreshed business impact assessments and BCPs.<br><br>The majority of these were tested 'in anger' during the extended period of extreme weather in February/March 2018.                                                                                                                                                                        |
| 4. | Governance and assurance framework | Undertake a review of the Council's governance and assurance framework to ensure it remains fit for purpose and supports the delivery of service objectives across the Council' | Corporate Management Team                   | Review of Council's governance arrangements is being undertaken in the context of the Southend 2050 and Council's transformation programmes. Governance processes, including the performance, management, risk framework, business continuity planning, decision making processes, community engagement and information management were reviewed during the year and revisions made. |

We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

### Signed on Behalf of the Council



**Alison Griffin**  
Chief Executive &  
Town Clerk

31 May 2018



**Councillor John Lamb**  
Leader of the Council

31 May 2018



**INDEPENDENT AUDITOR'S REPORT  
TO THE MEMBERS OF SOUTHEND-  
ON-SEA BOROUGH COUNCIL**

**OPINION ON THE FINANCIAL STATEMENTS**

**OPINION ON FINANCIAL STATEMENTS**

**OPINION ON OTHER MATTERS**

**RESPECTIVE RESPONSIBILITIES OF THE DIRECTOR OF  
FINANCE AND RESOURCES AND AUDITOR**

**MATTERS ON WHICH WE REPORT BY EXCEPTION**

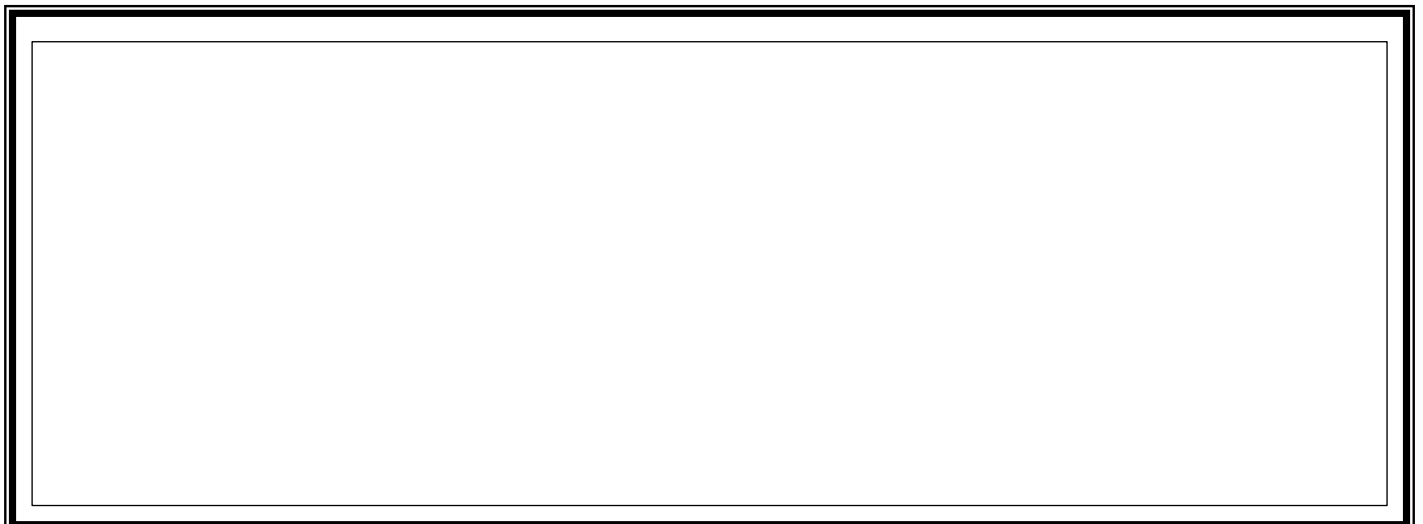
**SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS**

**CONCLUSION ON AUTHORITY'S ARRANGEMENTS FOR  
SECURING ECONOMY, EFFICIENCY AND EFFECTIVENESS IN  
THE USE OF RESOURCES  
RESPECTIVE RESPONSIBILITIES OF THE COUNCIL AND  
AUDITOR**

**CONCLUSION**

**DELAY IN CERTIFICATION OF COMPLETION OF THE AUDIT**

**SCOPE OF THE REVIEW OF ARRANGEMENTS FOR SECURING  
ECONOMY, EFFICIENCY AND EFFECTIVENESS IN THE USE OF  
RESOURCES**







# **MAIN FINANCIAL STATEMENTS**

## COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

| 2016/17<br>Restated                                                                                        |                      |                         |                                                      | 2017/18 |                           |                      |                         |
|------------------------------------------------------------------------------------------------------------|----------------------|-------------------------|------------------------------------------------------|---------|---------------------------|----------------------|-------------------------|
| Gross Expenditure<br>£000                                                                                  | Gross Income<br>£000 | Net Expenditure<br>£000 |                                                      | Notes   | Gross Expenditure<br>£000 | Gross Income<br>£000 | Net Expenditure<br>£000 |
| (6,853)                                                                                                    | (331)                | (7,184)                 | Leader                                               |         | (433)                     | (39)                 | (472)                   |
| 107,902                                                                                                    | (102,378)            | 5,524                   | Corporate and Community Support Services             |         | 95,852                    | (93,198)             | 2,654                   |
| 20,325                                                                                                     | (4,537)              | 15,788                  | Culture, Tourism and the Economy                     |         | 20,474                    | (5,464)              | 15,010                  |
| 41,232                                                                                                     | (13,546)             | 27,686                  | Transport, Waste and Regulatory Services             |         | 37,123                    | (10,515)             | 26,608                  |
| 7,839                                                                                                      | (1,875)              | 5,964                   | Housing, Planning and Sustainability                 |         | 7,852                     | (3,670)              | 4,182                   |
| 123,026                                                                                                    | (87,242)             | 35,784                  | Children and Learning                                |         | 116,651                   | (82,074)             | 34,577                  |
| 73,252                                                                                                     | (28,674)             | 44,578                  | Health and Adult Social Care                         |         | 72,439                    | (33,632)             | 38,807                  |
| 748                                                                                                        | (748)                | 0                       | Technology                                           |         | 948                       | (948)                | 0                       |
| <b>367,471</b>                                                                                             | <b>(239,331)</b>     | <b>128,140</b>          | <b>Net Cost of General Fund Services</b>             |         | <b>350,906</b>            | <b>(229,540)</b>     | <b>121,366</b>          |
| 18,644                                                                                                     | (30,313)             | (11,669)                | Local Authority Housing (HRA)                        |         | 19,294                    | (29,399)             | (10,105)                |
| <b>18,644</b>                                                                                              | <b>(30,313)</b>      | <b>(11,669)</b>         | <b>Net Cost of Housing Revenue Account Services</b>  |         | <b>19,294</b>             | <b>(29,399)</b>      | <b>(10,105)</b>         |
| <b>386,115</b>                                                                                             | <b>(269,644)</b>     | <b>116,471</b>          | <b>Cost of Services</b>                              |         | <b>370,200</b>            | <b>(258,939)</b>     | <b>111,261</b>          |
| 46,628                                                                                                     | 0                    | 46,628                  | Other Operating Expenditure                          | 10      | 27,116                    | 0                    | 27,116                  |
| 19,707                                                                                                     | (7,354)              | 12,353                  | Financing and Investment Income and Expenditure      | 11      | 18,969                    | (8,857)              | 10,112                  |
| 0                                                                                                          | (141,704)            | (141,704)               | Taxation and Non-Specific Grant Income               | 12      | 0                         | (139,048)            | (139,048)               |
| <b>452,450</b>                                                                                             | <b>(418,702)</b>     | <b>33,748</b>           | <b>(Surplus) or Deficit on Provision of Services</b> |         | <b>416,285</b>            | <b>(406,844)</b>     | <b>9,441</b>            |
| <b><i>Items that will not be reclassified to the (Surplus) or Deficit on the Provision of Services</i></b> |                      |                         |                                                      |         |                           |                      |                         |
| (Surplus) or Deficit on Revaluation of Property, Plant                                                     |                      |                         |                                                      |         |                           |                      |                         |
|                                                                                                            | (47,753)             |                         | and Equipment Assets                                 | 9       |                           |                      | (58,200)                |
|                                                                                                            | 57,755               |                         | Re-measurement of Net Pension Liability              | 9       |                           |                      | (48,102)                |
|                                                                                                            |                      | 10,002                  |                                                      |         |                           |                      | (106,302)               |
| <b><i>Items that may be reclassified to the (Surplus) or Deficit on the Provision of Services</i></b>      |                      |                         |                                                      |         |                           |                      |                         |
| (Surplus) or Deficit on Revaluation of Available for                                                       |                      |                         |                                                      |         |                           |                      |                         |
|                                                                                                            |                      | 2                       | Sale Financial Assets                                |         |                           |                      | (4)                     |
|                                                                                                            |                      | 2                       |                                                      |         |                           |                      | (4)                     |
|                                                                                                            |                      | <b>10,004</b>           | <b>Other Comprehensive Income and Expenditure</b>    |         |                           |                      | <b>(106,306)</b>        |
|                                                                                                            |                      | <b>43,752</b>           | <b>Total Comprehensive Income and Expenditure</b>    |         |                           |                      | <b>(96,865)</b>         |

## MOVEMENT IN RESERVES STATEMENT

| Note                                                                     | Revenue Reserves             |                                 |                            | Capital Reserves                 |                               |                                  | £000<br>Total Usable Reserves | Unusable Reserves           |                                                  |                          |                                    |                                   |                                            | £000<br>Unusable Reserves | £000<br>Total Authority Reserves |                                      |
|--------------------------------------------------------------------------|------------------------------|---------------------------------|----------------------------|----------------------------------|-------------------------------|----------------------------------|-------------------------------|-----------------------------|--------------------------------------------------|--------------------------|------------------------------------|-----------------------------------|--------------------------------------------|---------------------------|----------------------------------|--------------------------------------|
|                                                                          | £000<br>General Fund Balance | £000<br>Housing Revenue Account | £000<br>Earmarked Reserves | £000<br>Capital Receipts Reserve | £000<br>Major Repairs Reserve | £000<br>Capital Grants Unapplied |                               | £000<br>Revaluation Reserve | £000<br>Available for Sale Financial Instruments | £000<br>Pensions Reserve | £000<br>Capital Adjustment Account | £000<br>Deferred Capital Receipts | £000<br>Collection Fund Adjustment Account |                           |                                  | £000<br>Accumulated Absences Account |
| <b>Balance at 31 March 2016</b>                                          | 11,000                       | 3,502                           | 85,129                     | 7,498                            | 4,534                         | 8,848                            | 120,511                       | 191,525                     | 6                                                | (160,653)                | 283,234                            | 225                               | 3,430                                      | (1,111)                   | 316,656                          | 437,167                              |
| <b>Movement in Reserves during 2016/17</b>                               |                              |                                 |                            |                                  |                               |                                  |                               |                             |                                                  |                          |                                    |                                   |                                            |                           |                                  |                                      |
| Surplus (Deficit) on the Provision of Services                           | (43,393)                     | 9,645                           | 0                          | 0                                | 0                             | 0                                | (33,748)                      | 0                           | 0                                                | 0                        | 0                                  | 0                                 | 0                                          | 0                         | 0                                | (33,748)                             |
| Other Comprehensive Income and Expenditure                               | 0                            | 0                               | 0                          | 0                                | 0                             | 0                                | 0                             | 47,753                      | (2)                                              | (57,755)                 | 0                                  | 0                                 | 0                                          | 0                         | (10,004)                         | (10,004)                             |
| <b>Total Comprehensive Income and Expenditure</b>                        | <b>(43,393)</b>              | <b>9,645</b>                    | <b>0</b>                   | <b>0</b>                         | <b>0</b>                      | <b>0</b>                         | <b>(33,748)</b>               | <b>47,753</b>               | <b>(2)</b>                                       | <b>(57,755)</b>          | <b>0</b>                           | <b>0</b>                          | <b>0</b>                                   | <b>0</b>                  | <b>(10,004)</b>                  | <b>(43,752)</b>                      |
| Adjustments between accounting basis and funding basis under regulations | 19 45,576                    | (3,956)                         | 0                          | 3,521                            | 959                           | 2,952                            | 49,052                        | (13,382)                    | 0                                                | (4,209)                  | (31,252)                           | (225)                             | 350                                        | (334)                     | (49,052)                         | 0                                    |
| <b>Net Increase / Decrease before Transfers to earmarked reserves</b>    | <b>2,183</b>                 | <b>5,689</b>                    | <b>0</b>                   | <b>3,521</b>                     | <b>959</b>                    | <b>2,952</b>                     | <b>15,304</b>                 | <b>34,371</b>               | <b>(2)</b>                                       | <b>(61,964)</b>          | <b>(31,252)</b>                    | <b>(225)</b>                      | <b>350</b>                                 | <b>(334)</b>              | <b>(59,056)</b>                  | <b>(43,752)</b>                      |
| Transfers to / (from) Earmarked Reserves                                 | 20 (2,183)                   | (5,689)                         | 7,872                      | 0                                | 0                             | 0                                | 0                             | 0                           | 0                                                | 0                        | 0                                  | 0                                 | 0                                          | 0                         | 0                                | 0                                    |
| <b>Increase / Decrease in 2016/17</b>                                    | <b>0</b>                     | <b>0</b>                        | <b>7,872</b>               | <b>3,521</b>                     | <b>959</b>                    | <b>2,952</b>                     | <b>15,304</b>                 | <b>34,371</b>               | <b>(2)</b>                                       | <b>(61,964)</b>          | <b>(31,252)</b>                    | <b>(225)</b>                      | <b>350</b>                                 | <b>(334)</b>              | <b>(59,056)</b>                  | <b>(43,752)</b>                      |
| <b>Balance at 31 March 2017</b>                                          | <b>11,000</b>                | <b>3,502</b>                    | <b>93,001</b>              | <b>11,019</b>                    | <b>5,493</b>                  | <b>11,800</b>                    | <b>135,815</b>                | <b>225,896</b>              | <b>4</b>                                         | <b>(222,617)</b>         | <b>251,982</b>                     | <b>0</b>                          | <b>3,780</b>                               | <b>(1,445)</b>            | <b>257,600</b>                   | <b>393,415</b>                       |
| <b>Movement in Reserves during 2017/18</b>                               |                              |                                 |                            |                                  |                               |                                  |                               |                             |                                                  |                          |                                    |                                   |                                            |                           |                                  |                                      |
| Surplus (Deficit) on the Provision of Services                           | (17,743)                     | 8,302                           | 0                          | 0                                | 0                             | 0                                | (9,441)                       | 0                           | 0                                                | 0                        | 0                                  | 0                                 | 0                                          | 0                         | 0                                | (9,441)                              |
| Other Comprehensive Income and Expenditure                               | 0                            | 0                               | 0                          | 0                                | 0                             | 0                                | 0                             | 58,200                      | 4                                                | 48,102                   | 0                                  | 0                                 | 0                                          | 0                         | 106,306                          | 106,306                              |
| <b>Total Comprehensive Income and Expenditure</b>                        | <b>(17,743)</b>              | <b>8,302</b>                    | <b>0</b>                   | <b>0</b>                         | <b>0</b>                      | <b>0</b>                         | <b>(9,441)</b>                | <b>58,200</b>               | <b>4</b>                                         | <b>48,102</b>            | <b>0</b>                           | <b>0</b>                          | <b>0</b>                                   | <b>0</b>                  | <b>106,306</b>                   | <b>96,865</b>                        |
| Adjustments between accounting basis and funding basis under regulations | 19 13,228                    | (2,874)                         | 0                          | 2,346                            | 1,496                         | 186                              | 14,382                        | (11,510)                    | 0                                                | 5,593                    | (15,835)                           | 3,500                             | 3,765                                      | 105                       | (14,382)                         | 0                                    |
| <b>Net Increase / Decrease before Transfers to earmarked reserves</b>    | <b>(4,515)</b>               | <b>5,428</b>                    | <b>0</b>                   | <b>2,346</b>                     | <b>1,496</b>                  | <b>186</b>                       | <b>4,941</b>                  | <b>46,690</b>               | <b>4</b>                                         | <b>53,695</b>            | <b>(15,835)</b>                    | <b>3,500</b>                      | <b>3,765</b>                               | <b>105</b>                | <b>91,924</b>                    | <b>96,865</b>                        |
| Transfers to / (from) Earmarked Reserves                                 | 20 4,515                     | (5,428)                         | 913                        | 0                                | 0                             | 0                                | 0                             | 0                           | 0                                                | 0                        | 0                                  | 0                                 | 0                                          | 0                         | 0                                | 0                                    |
| <b>Increase / Decrease in 2017/18</b>                                    | <b>0</b>                     | <b>0</b>                        | <b>913</b>                 | <b>2,346</b>                     | <b>1,496</b>                  | <b>186</b>                       | <b>4,941</b>                  | <b>46,690</b>               | <b>4</b>                                         | <b>53,695</b>            | <b>(15,835)</b>                    | <b>3,500</b>                      | <b>3,765</b>                               | <b>105</b>                | <b>91,924</b>                    | <b>96,865</b>                        |
| <b>Balance at 31 March 2018</b>                                          | <b>11,000</b>                | <b>3,502</b>                    | <b>93,914</b>              | <b>13,365</b>                    | <b>6,989</b>                  | <b>11,986</b>                    | <b>140,756</b>                | <b>272,586</b>              | <b>8</b>                                         | <b>(168,922)</b>         | <b>236,147</b>                     | <b>3,500</b>                      | <b>7,545</b>                               | <b>(1,340)</b>            | <b>349,524</b>                   | <b>490,280</b>                       |

## BALANCE SHEET

| 31 March 2017<br>£000                            | Notes  | 31 March 2018<br>£000 |
|--------------------------------------------------|--------|-----------------------|
| 726,328 Property, Plant & Equipment              | 21     | 778,536               |
| 38,090 Heritage Assets                           | 22     | 37,700                |
| 25,344 Investment Property                       | 23     | 41,044                |
| 4,936 Intangible Assets                          |        | 6,439                 |
| 15,893 Long Term Investments                     | 24     | 22,678                |
| 2,367 Long Term Debtors                          | 24     | 5,206                 |
| <b>812,958 Long Term Assets</b>                  |        | <b>891,603</b>        |
| 30,231 Short term Investments                    | 24     | 20,232                |
| 154 Assets Held for Sale                         |        | 0                     |
| 166 Inventories                                  |        | 117                   |
| 33,118 Short Term Debtors                        | 25     | 34,673                |
| 39,871 Cash and Cash Equivalents                 | 24, 26 | 26,517                |
| <b>103,540 Current Assets</b>                    |        | <b>81,539</b>         |
| (6,356) Short Term Borrowings                    | 24     | (11,830)              |
| (38,905) Short Term Creditors                    | 27     | (45,585)              |
| (6,761) Provisions                               | 28     | (5,468)               |
| <b>(52,022) Current Liabilities</b>              |        | <b>(62,883)</b>       |
| (327) Long Term Creditors                        |        | (2,698)               |
| (235,620) Long Term Borrowing                    | 24     | (236,480)             |
| (222,617) Other Long Term Liabilities - Pensions | 36     | (168,922)             |
| (12,497) Other Long Term Liabilities - Other     | 24     | (11,879)              |
| <b>(471,061) Long Term Liabilities</b>           |        | <b>(419,979)</b>      |
| <b>393,415 Net Assets</b>                        |        | <b>490,280</b>        |
| 135,815 Usable Reserves                          | 29     | 140,756               |
| 257,600 Unusable Reserves                        | 30     | 349,524               |
| <b>393,415 Total Reserves</b>                    |        | <b>490,280</b>        |

## CASH FLOW STATEMENT

| 2016/17<br>£000                                                                                                                       | Notes     | 2017/18<br>£000 |
|---------------------------------------------------------------------------------------------------------------------------------------|-----------|-----------------|
| 33,748                                                                                                                                |           | 9,441           |
| Net (Surplus) or Deficit on the Provision of Services                                                                                 |           |                 |
| (72,162)                                                                                                                              | 39        | (31,616)        |
| Adjustments to Net Surplus or Deficit on the Provision of Services for non-cash Movements                                             |           |                 |
| 18,604                                                                                                                                | 40        | 5,749           |
| Adjustments for items included in the Net Surplus or Deficit on the Provision of Services that are Investing and Financing Activities |           |                 |
| (19,810)                                                                                                                              |           | (16,426)        |
| Net cash flows from Operating Activities                                                                                              |           |                 |
| 18,889                                                                                                                                | 41        | 40,408          |
| Investing Activities                                                                                                                  |           |                 |
| 4,646                                                                                                                                 | 42        | (10,628)        |
| Financing Activities                                                                                                                  |           |                 |
| 3,725                                                                                                                                 |           | 13,354          |
| Net Decrease in Cash and Cash Equivalents                                                                                             |           |                 |
| (43,596)                                                                                                                              |           | (39,871)        |
| Cash and Cash Equivalents at the beginning of the Reporting Period                                                                    |           |                 |
| <b>(39,871)</b>                                                                                                                       | <b>26</b> | <b>(26,517)</b> |
| <b>Cash and Cash Equivalents at the end of the Reporting Period</b>                                                                   |           |                 |



# **NOTES TO THE ACCOUNTS**





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## Note 1. Accounting Policies

### General Principles

The Statement of Accounts summarises the Council's transactions for the 2017/18 financial year and its position at the year-end of 31 March 2018. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015, which requires the Accounts to be prepared in accordance with proper accounting practices. These practices under Section 21 of the 2003 Act primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18, supported by International Financial Reporting Standards (IFRS), and statutory guidance issued under section 12 of the 2003 Act.

The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

### Accruals of Income and Expenditure

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- Revenue from the sale of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.
- Revenue from the provision of services is recognised when the Council can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount

is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

- Where it does not materially affect the accounts, and a full year's income and expenditure is recorded, an accrual need not be raised.

Accruals are not made for items under £5,000, except where in the opinion of the Director of Finance and Resources the absence of an accrual for a lesser amount would lead to a misrepresentation of the cost of a service.

### Cash and Cash Equivalents

Cash and Cash Equivalents is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours.

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Council's cash management.

### Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Council's financial position or financial performance.

Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

There is only one change to accounting policies in 2017/18 which relates to the capitalisation of borrowing costs and this does not require restatement of prior periods as the amounts are immaterial.

## Charges to Revenue for Non-Current Assets

Services, support services and trading accounts are debited with the following amounts to record the cost of holding non-current assets during the year:

- depreciation attributable to the assets used by the relevant service
- revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off
- amortisation of intangible fixed assets attributable to the service.

The Council is not required to raise Council tax to fund depreciation, revaluation and impairment losses or amortisations. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement equal to an amount calculated on a prudent basis determined by the Council in accordance with statutory guidance. Depreciation, revaluation and impairment losses and amortisations are therefore replaced by the contribution in the General Fund Balance (Minimum Revenue Provision), by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

## Council Tax and Non-Domestic Rates

Billing authorities act as agents, collecting council tax and non-domestic rates (NDR) on behalf of the major preceptors (including government for NDR) and, as principals, collecting council tax and NDR for themselves. Billing authorities are required by statute to maintain a separate fund (i.e. the Collection Fund) for the collection and distribution of amounts due in respect of council tax and NDR. Under the legislative framework for the Collection Fund, billing authorities, major preceptors and central government share proportionately the risks and rewards that the amount of council tax and NDR collected could be less or more than predicted.

### Accounting for Council Tax and NDR

The council tax and NDR income included in the Comprehensive Income and Expenditure Statement is the Council's share of accrued income for the year. However, regulations determine the amount of council tax and NDR that must be included in the Council's General Fund. Therefore, the difference between the income included in the Comprehensive Income and Expenditure Statement and the amount required by regulation to be credited to the General Fund is taken to the Collection Fund Adjustment Account and included as a reconciling item in the Movement in Reserves Statement.

The Balance Sheet includes the Council's share of the end of year balances in respect of council tax and NDR relating to arrears, impairment allowances for doubtful debts, overpayments and prepayments and appeals.

## Employee Benefits

### Post Employment Benefits

Different groups of employees of the Council are members of three separate pension schemes:

- The Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Education (DfE).
- The NHS Pension Scheme.
- The Local Government Pensions Scheme, administered by Essex County Council.

All schemes provide defined benefits to members (retirement lump sums and pensions), earned as employees work for the Council.

However, the arrangements for the teachers' and NHS schemes mean that liabilities for these benefits cannot ordinarily be identified specifically to the Council. The scheme is therefore accounted for as if it were a defined contribution scheme and no liability for future payments of benefits is recognised in the Balance Sheet. The Children and Learning line in the Comprehensive Income and Expenditure Statement is charged with the employer's contributions payable to Teachers' Pensions in the year and the Health and Adult Services line is charged with the employer's contributions payable to the NHS Pensions Scheme.

### The Local Government Pension Scheme

The Local Government Scheme is accounted for as a defined benefits scheme:

- The liabilities of the Essex Pension Fund attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and projections of projected earnings for current employees.
- Liabilities are discounted to their value at current prices, using a discount rate of 2.55%. The discount rate is the annualised yield at the 19 year point on the Merrill Lynch AA rated corporate bond curve which has been chosen to meet the requirements of IAS19 and with consideration of the duration of the Employer's liabilities. This is consistent with the approach used at the last accounting date.

- The assets of Essex Pension Fund attributable to the Council are included in the Balance Sheet at their fair value:
  - quoted securities – current bid price
  - unquoted securities – professional estimate
  - unitised securities – current bid price
  - property – market value.

The change in the net pensions liability is analysed into the following components:

- Service cost comprising:
  - current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked
  - past service cost – the increase in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement
  - net interest on the net defined benefit liability (asset), i.e. net interest expense for the authority – the change during the period in the net defined benefit liability (asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement – this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the period – taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.
- Remeasurements comprising:
  - the return on plan assets – excluding amounts included in net interest on the net defined benefit liability (asset) – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure
  - actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure

- contributions paid to the Essex Pension Fund – cash paid as employer’s contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

#### Discretionary Benefits

The Council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff (including teachers) are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

#### Events after the Balance Sheet Date

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events
- those that are indicative of conditions that arose after the reporting period – the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

## Fair Value Measurement

The Council measures some of its non-financial assets such as surplus assets and investment properties and some of its financial instruments such as investments in property funds, short dated bond funds, enhanced cash funds and money market funds at fair value at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

- a) in the principal market for the asset or liability, or
- b) in the absence of a principal market, in the most advantageous market for the asset or liability.

The Council measures the fair value of an asset or liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

When measuring the fair value of a non-financial asset, the Council takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use

The Council uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Inputs to the valuation techniques in respect of assets and liabilities for which fair value is measured or disclosed in the Council's financial statements are categorised within the fair value hierarchy, as follows:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities that the Council can access at the measurement date

Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly

Level 3 – unobservable inputs for the asset or liability.

## Financial Instruments

### *Financial Liabilities*

Financial liabilities are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement

for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

For the borrowings that the Council has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest); and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement in the year of repurchase/settlement. However, where repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and the write-down to the Comprehensive Income and Expenditure Statement is spread over the life of the loan by an adjustment to the effective interest rate.

Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance to be spread over future years. The Council has a policy of spreading the gain or loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

### *Financial Assets*

Financial assets are classified into two types:

- loans and receivables – assets that have fixed or determinable payments but are not quoted in an active market
- available-for-sale assets – assets that have a quoted market price and/or do not have fixed or determinable payments.

### *Loans and Receivables*

Loans and receivables are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive

Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans that the Council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the relevant service (for receivables specific to that service) or the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate.

Any gains and losses that arise on the derecognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

#### *Available-for-Sale Assets*

Available-for-sale assets are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Where the asset has fixed or determinable payments, annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the amortised cost of the asset multiplied by the effective rate of interest for the instrument. Where there are no fixed or determinable payments, income (e.g. dividends) is credited to the Comprehensive Income and Expenditure Statement when it becomes receivable by the Council.

Assets are maintained in the Balance Sheet at fair value. Values are based on the following principles:

- instruments with quoted market prices – the market price
- other instruments with fixed and determinable payments – discounted cash flow analysis
- equity shares with no quoted market prices – independent appraisal of company valuations.

Changes in fair value are balanced by an entry in the Available-for-Sale Reserve and the gain/ loss is recognised in the Surplus or Deficit on Revaluation of Available-for-Sale Financial Assets. The exception is where impairment losses have been incurred – these are debited to the Financing and Investment Income

and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any net gain or loss for the asset accumulated in the Available-for-Sale Reserve.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made (fixed or determinable payments) or fair value falls below cost, the asset is written down and a charge made to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. If the asset has fixed or determinable payments, the impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate. Otherwise, the impairment loss is measured as any shortfall of fair value against the acquisition cost of the instrument (net of any principal repayment and amortisation).

Any gains and losses that arise on the derecognition of the asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any accumulated gains or losses previously recognised in the Available-for-Sale Reserve. Where fair value cannot be measured reliably, the instrument is carried at cost (less any impairment losses).

#### **Government Grants and Contributions**

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Council when there is reasonable assurance that:

- the Council will comply with the conditions attached to the payments, and
- the grants or contributions will be received.

Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-Specific Grant Income (non-ringfenced revenue grants and all

capital grants) in the Comprehensive Income and Expenditure Statement.

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied reserve. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

### **Heritage Assets**

Tangible and Intangible Heritage Assets (described in this summary of significant accounting policies as heritage assets).

The Council's Heritage Assets consist of historic seaside assets, heritage land and buildings, antiques/collectables, museum collections and memorials/statues. These assets are held by the reporting entity in pursuit of its overall objectives in relation to the maintenance of the heritage. Heritage Assets are recognised and measured (including the treatment of revaluation gains and losses) in accordance with the Council's accounting policies on property, plant and equipment (PPE). However, some of the measurement rules are relaxed in relation to heritage assets as detailed below. The accounting policies in relation to heritage assets that are deemed to include elements of intangible heritage assets are also presented below. The Council's heritage assets are accounted for as follows.

#### **Historic Seaside Assets**

- The historic seaside assets comprise the pier, the cliff lift and the cliff bandstand. These assets are considered to be part of the fabric of the town as an historic seaside resort, and are treated in accordance with the Council's policies for PPE assets.

#### **Heritage Land and Buildings**

- These consist of the official mayor's residence, Porters, and Southchurch Hall, a grade I listed medieval manor house. These assets are considered to be part of the heritage of the town and are intended to be preserved for future generations because of their cultural, environmental or historical associations. These are treated in accordance with the Council's policies for PPE assets.

#### **Antiques / Collectables**

- These comprise furniture and furnishings, panelling, carpets, textiles, clocks, silver, plated wares and gold, works of art, ceramics and glass, books, pictures and presentation and commemorative wares. These items are reported in the Balance Sheet at insurance valuation which is based on market values. These assets are deemed to have indeterminate lives and a high residual value; hence the Council does not consider it appropriate to charge depreciation.
- The collection is relatively static and acquisitions and donations are rare. Where they do occur acquisitions are initially recognised at cost and donations are recognised at valuation.

#### **Museum Collections**

- The Council considers that obtaining valuations for the items that are exhibited within the borough's museums would involve a disproportionate cost in comparison to the benefits to the users of the Council's financial statements. This is because of the diverse nature of the assets held and the lack of comparable values. The Council does not recognise these exhibits on the Balance Sheet.
- The Saxon King artefacts form part of the Council's heritage assets and have been valued by a specialist in archaeology. These items are reported in the Balance Sheet at this valuation which is based on sale prices of comparable material and museum valuations for loan purposes, where relevant. These assets are deemed to have indeterminate lives and a high residual value; hence the Council does not consider it appropriate to charge depreciation.

#### **Memorials and Statues**

- These are a statue of Queen Victoria and a War Memorial. The Council does not consider that reliable cost or valuation information can be obtained for the items due to the lack of comparable market values. Consequently, the Council does not recognise these assets on the Balance Sheet.

#### ***Heritage Assets – General***

The carrying amounts of heritage assets are reviewed where there is evidence of impairment for heritage assets, e.g. where an item has suffered physical deterioration or breakage or where doubts arise as to its authenticity. Any impairment is recognised and measured in accordance with the Council's general policies on impairment – see "Property, Plant and Equipment" in this summary of significant accounting policies. The proceeds of any disposals are accounted for in accordance with the Council's general provisions relating to the disposal of property, plant and equipment. Disposal proceeds

are disclosed separately in the notes to the financial statements and are accounted for in accordance with statutory accounting requirements relating to capital expenditure and capital receipts (again see "Revenue Expenditure Funded from Capital under Statute" and "Property, Plant and Equipment" in this summary of significant accounting policies).

### **Interests in Companies and Other Entities**

The Council has material interests in wholly owned companies and trusts that have the nature of subsidiaries which require it to prepare group accounts. In the Council's own single-entity accounts, the interests in companies and other entities are recorded as financial assets at cost, less any provision for losses.

### **Investment Property**

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale.

Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between knowledgeable parties at arm's-length. Investment properties are not depreciated but are revalued annually according to market conditions at the year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

Rentals received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the General Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

### **Leases**

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases.

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

#### *The Council as Lessee*

##### *Finance Leases*

Property, Plant and Equipment held under finance leases is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the Council are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability. Contingent rents are charged as expenses in the periods in which they are incurred.

Lease payments are apportioned between:

- a charge for the acquisition of the interest in the property, plant or equipment – applied to write down the lease liability, and
- a finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

Property, Plant and Equipment recognised under finance leases is accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life (where ownership of the asset does not transfer to the Council at the end of the lease period).

The Council is not required to raise Council Tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. Depreciation and revaluation and impairment losses are therefore substituted by a revenue contribution in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

##### *Operating Leases*

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefitting from use of the leased property, plant or equipment.



Charges are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a rent-free period at the commencement of the lease).

#### *The Council as Lessor*

##### *Finance Leases*

Where the Council grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. A gain, representing the Council's net investment in the lease, is credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal), matched by a lease (long-term debtor) asset in the Balance Sheet.

Lease rentals receivable are apportioned between:

- a charge for the acquisition of the interest in the property – applied to write down the lease debtor (together with any premiums received), and
- finance income (credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

The gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to increase the General Fund Balance and is required to be treated as a capital receipt. Where a premium has been received, this is posted out of the General Fund Balance to the Capital Receipts Reserve in the Movement in Reserves Statement. Where the amount due in relation to the lease asset is to be settled by the payment of rentals in future financial years, this is posted out of the General Fund Balance to the Deferred Capital Receipts Reserve in the Movement in Reserves Statement. When the future rentals are received, the element for the capital receipt for the disposal of the asset is used to write down the lease debtor. At this point, the deferred capital receipts are transferred to the Capital Receipts Reserve.

The written-off value of disposals is not a charge against Council Tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are therefore appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

##### *Operating Leases*

Where the Council grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a premium paid at the commencement of the lease). Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

##### **Overheads and Support Services**

The costs of overheads and support services are charged to service segments in accordance with the Council's arrangements for accountability and financial performance.

##### **Property, Plant and Equipment**

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment.

##### *Recognition*

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Council and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred. For schools, capitalisation takes place for community and foundation schools only. Capital expenditure on voluntary aided schools, foundation trust schools or academies is treated as Revenue Expenditure Funded from Capital Under Statute.

##### *Measurement*

Assets are initially measured at cost, comprising:

- the purchase price
- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management

The Council does not generally capitalise borrowing costs incurred whilst assets are under construction,

with the exception of major invest to save schemes where the financing is structured to allow the initial roll up of revenue costs prior to savings or income streams being realised.

The cost of assets acquired other than by purchase is deemed to be its fair value, unless the acquisition does not have commercial substance (i.e. it will not lead to a variation in the cash flows of the Council). In the latter case, where an asset is acquired via an exchange, the cost of the acquisition is the carrying amount of the asset given up by the Council.

Donated assets are measured initially at fair value. The difference between fair value and any consideration paid is credited to the Taxation and Non-Specific Grant Income line of the Comprehensive Income and Expenditure Statement, unless the donation has been made conditionally. Until conditions are satisfied, the gain is held in the Donated Assets Account. Where gains are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance to the Capital Adjustment Account in the Movement in Reserves Statement.

Assets are then carried in the Balance Sheet using the following measurement bases:

- infrastructure, community assets, vehicles, plant, furniture and equipment, and assets under construction – depreciated historical cost
- dwellings – current value, determined using the basis of existing use value for social housing (EUV-SH)
- all other assets – current value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV).

Where there is no market-based evidence of current value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of current value.

Where non-property assets that have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for current value.

Assets included in the Balance Sheet at current value are revalued or have indexation adjustments applied sufficiently regularly to ensure that their carrying amount is not materially different from their current value at the year-end, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains.

Where decreases in value are identified, they are accounted for by:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down

against that balance (up to the amount of the accumulated gains)

- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

#### *Impairment*

Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for by:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss.

#### *Depreciation*

Depreciation is provided for on all Property, Plant and Equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (ie freehold land and certain Community Assets) and assets that are not yet available for use (ie assets under construction).

Depreciation is calculated on the following bases:

- dwellings and other buildings – straight-line allocation over the useful life of the property as estimated by the valuer
- vehicles, plant, furniture and equipment – a percentage of the value of each class of assets in the Balance Sheet, as advised by a suitably qualified officer
- infrastructure – straight-line allocation over 25 years, or other useful life agreed as reasonable

Where an item of Property, Plant and Equipment asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately.

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

#### *Disposals*

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. A proportion of receipts relating to housing disposals (75% for dwellings, 50% for land and other assets, net of statutory deductions and allowances) is payable to the Government. The balance of receipts is required to be credited to the Capital Receipts Reserve, and can then only be used for new capital investment or set aside to reduce the Council's underlying need to borrow (the capital financing requirement). Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

The written-off value of disposals is not a charge against Council tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

### **Provisions and Contingent Liabilities**

#### *Provisions*

Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. For instance, the Council may be involved in a court case that could eventually result in the

making of a settlement or the payment of compensation.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the Council becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.

Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the Council settles the obligation.

#### *Contingent Liabilities*

A contingent liability arises where an event has taken place that gives the Council a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts.

### **Reserves**

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against Council Tax for the expenditure.

Certain reserves are kept to manage the accounting processes for non-current assets, financial

instruments, retirement and employee benefits and do not represent usable resources for the Council – these reserves are explained in the relevant policies.

#### **Revenue Expenditure Funded from Capital under Statute**

Expenditure incurred during the year that may be capitalised under statutory provisions but that does not result in the creation of a non-current asset has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year. Where the Council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on the level of Council Tax.

#### **Schools**

The *Code of Practice on Local Authority Accounting in the United Kingdom* confirms that the balance of control for local authority maintained schools (i.e. those categories of school identified in the School Standards and Framework Act 1998, as amended) lies with the local authority. The Code also stipulates that those schools' assets, liabilities, reserves and cash flows are recognised in the local authority financial statements (and not the Group Accounts). Therefore schools' transactions, cash flows and balances are recognised in each of the financial statements of the Council as if they were the transactions, cash flows and balances of the Council.

#### **VAT**

VAT payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs. VAT receivable is excluded from income.

**Note 2. Accounting Standards that have been Issued but have not yet been Adopted**

The Code of Practice on Local Authority Accounting in the United Kingdom (the Code) requires the disclosure of information relating to the expected impact of an accounting change that will be required by a new standard that has been issued but not yet adopted. This applies to the adoption of the following new or amended standards within the 2018/19 Code:

- IFRS 9 Financial Instruments
- IFRS 15 *Revenue from Contracts with Customers* including amendments to IFRS 15 and Clarifications to IFRS 15 *Revenue from Contracts with Customers*
- Amendments to IAS 12 *Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses*
- Amendments to IAS 7 *Statement of Cash Flows: Disclosure Initiative*

The Code requires implementation from 1 April 2018. It is not anticipated that these accounting changes will have any material impact on the Council's Statement of Accounts.

**Note 3. Critical Judgements in applying Accounting Policies**

In applying the accounting policies set out in Note 1, the Council has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Statement of Accounts are:

- There is a high degree of uncertainty about future levels of funding for local government, particularly in light of the Fair Funding review, the awaited Spending Review and the outcome of the Brexit negotiations. However, the Council has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the Council might be impaired as a result of a need to close facilities and reduce levels of service provision.
- All community schools are owned by the Council and the land and buildings used by the schools are included on the Council's Balance Sheet. For the foundation schools the control of the land and buildings is vested with the Governing Body and so they are included on the Councils' Balance Sheet. For the foundation trust schools the land and buildings are vested with the trust so they are not included on the Council's Balance Sheet. For the Voluntary Aided schools the two Dioceses own the title to the assets, the schools use the assets under "mere" licences which pass no interest to the school and the Dioceses have not ceded control of the assets to the school, so the land and buildings used by the schools are not included on the Council's Balance Sheet. Academies are not considered to be maintained schools in the Council's control so the land and building assets are not owned by the Council and not included on the Council's Balance Sheet.

**Note 4. Assumptions made about the future and other major sources of estimation uncertainty**

The Statement of Accounts contains estimated figures that are based on assumptions made by the Council about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the Council's Balance Sheet at 31 March 2018 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

| Item                                              | Uncertainties                                                                                                                                                                                                                                                                                                                                                                                         | Effect if actual results differ from assumptions                                                                                                                                                                                                                                                                                                                                                                                      |
|---------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Pensions Liability</b>                         | Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied. | The effects on the net pensions liability of changes in individual assumptions can be measured. As examples, an increase in life expectancy of retired employees of 1 year would increase the net pension liability by £23.5M, and an increase in the discount rate of 0.1% would decrease the net pension liability by £11.1M.<br><br>The full effects on the net pensions liability are fully disclosed in note 36 to the Accounts. |
| <b>Property, Plant and Equipment Revaluations</b> | The uncertainties arise as a result of the estimations used by the valuer. The basis of these estimations is set out in note 21 but different valuers could arrive at different results whilst still using the same basis for those estimations.                                                                                                                                                      | The actual value of the asset only becomes apparent when it is sold. The accounting treatment is set out in the disposals paragraph of the Property, Plant and Equipment section of Note 1.                                                                                                                                                                                                                                           |

#### **Note 5. Events after the Balance Sheet date**

The Statement of Accounts was authorised for issue by the Director of Finance and Resources on 31 May 2018. Events taking place after this date are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing at 31 March 2018, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

On 1 May 2018 Our Lady of Lourdes Catholic Primary School and Sacred Heart Catholic Primary School changed to academy status with the long term assets transferring to an academy trust. For Our Lady of Lourdes Catholic Primary School the land value was owned by the Council and not the Diocese so £635,000 will be removed from the net book value of schools long term assets. For Sacred Heart Catholic Primary School this will have no impact on the net book value of schools long term assets as the Council used the assets under licence which passed no interest to the school and the Diocese had not ceded control of the assets to the school, so the land and buildings are not included on the Council's Balance Sheet.

On 1<sup>st</sup> July 2018 Southchurch High School (formerly Futures) changed to academy status with the long term assets transferring to an academy trust. This will have no impact on the net book value of schools long term assets as this was a Foundation Trust with the land and buildings vested with the trust so they were not included on the Council's Balance Sheet.

## NOTES SUPPORTING THE COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

### Note 6. Expenditure and Funding Analysis

The Expenditure and Funding Analysis shows how annual expenditure is used and funded from resources (government grants, rents, council tax and business rates) by the Council in comparison with those resources consumed or earned by the Council in accordance with generally accepted accounting practices. It also shows how this expenditure is allocated for decision making purposes between the Council's Portfolios. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement.

| Net Expenditure Chargeable to the General Fund and HRA Balances | 2016/17 Restated                                     |                                                                       | Notes                                                        | 2017/18                                                         |                                                      |                                                                       |
|-----------------------------------------------------------------|------------------------------------------------------|-----------------------------------------------------------------------|--------------------------------------------------------------|-----------------------------------------------------------------|------------------------------------------------------|-----------------------------------------------------------------------|
|                                                                 | Adjustments between the Funding and Accounting Basis | Net Expenditure in the Comprehensive Income and Expenditure Statement |                                                              | Net Expenditure Chargeable to the General Fund and HRA Balances | Adjustments between the Funding and Accounting Basis | Net Expenditure in the Comprehensive Income and Expenditure Statement |
| £000                                                            | £000                                                 | £000                                                                  |                                                              | £000                                                            | £000                                                 | £000                                                                  |
| (2,041)                                                         | (5,143)                                              | (7,184)                                                               | Leader                                                       | 9,355                                                           | (9,827)                                              | (472)                                                                 |
| 2,772                                                           | 2,752                                                | 5,524                                                                 | Corporate & Community Support Services                       | 814                                                             | 1,840                                                | 2,654                                                                 |
| 15,351                                                          | 437                                                  | 15,788                                                                | Culture, Tourism & the Economy                               | 15,089                                                          | (79)                                                 | 15,010                                                                |
| 23,064                                                          | 4,622                                                | 27,686                                                                | Transport, Waste & Regulation                                | 26,313                                                          | 295                                                  | 26,608                                                                |
| 5,625                                                           | 339                                                  | 5,964                                                                 | Housing, Planning & Sustainability                           | 4,247                                                           | (65)                                                 | 4,182                                                                 |
| 33,040                                                          | 2,744                                                | 35,784                                                                | Children & Learning                                          | 39,466                                                          | (4,889)                                              | 34,577                                                                |
| 43,222                                                          | 1,356                                                | 44,578                                                                | Health & Adult Social Care                                   | 39,150                                                          | (343)                                                | 38,807                                                                |
| (12)                                                            | 12                                                   | 0                                                                     | Technology                                                   | (34)                                                            | 34                                                   | 0                                                                     |
| <b>121,021</b>                                                  | <b>7,119</b>                                         | <b>128,140</b>                                                        | <b>Net Cost of General Fund Services</b>                     | <b>134,400</b>                                                  | <b>(13,034)</b>                                      | <b>121,366</b>                                                        |
| (6,065)                                                         | (5,604)                                              | (11,669)                                                              | Local Authority Housing (HRA)                                | (5,388)                                                         | (4,717)                                              | (10,105)                                                              |
| <b>(6,065)</b>                                                  | <b>(5,604)</b>                                       | <b>(11,669)</b>                                                       | <b>Net Cost of Housing Revenue Account Services</b>          | <b>(5,388)</b>                                                  | <b>(4,717)</b>                                       | <b>(10,105)</b>                                                       |
| <b>114,956</b>                                                  | <b>1,515</b>                                         | <b>116,471</b>                                                        | <b>Net Cost of Services</b>                                  | <b>129,012</b>                                                  | <b>(17,751)</b>                                      | <b>111,261</b>                                                        |
| 9,333                                                           | 49,648                                               | 58,981                                                                | Other Income and Expenditure                                 | (8,337)                                                         | 45,565                                               | 37,228                                                                |
| (124,289)                                                       | (17,415)                                             | (141,704)                                                             | Taxation and non-specific Grant Income                       | (120,675)                                                       | (18,373)                                             | (139,048)                                                             |
| <b>(114,956)</b>                                                | <b>32,233</b>                                        | <b>(82,723)</b>                                                       | <b>Other Income and Expenditure</b>                          | <b>(129,012)</b>                                                | <b>27,192</b>                                        | <b>(101,820)</b>                                                      |
| <b>0</b>                                                        | <b>33,748</b>                                        | <b>33,748</b>                                                         | <b>(Surplus) or Deficit</b>                                  | <b>7</b>                                                        | <b>0</b>                                             | <b>9,441</b>                                                          |
| 14,502                                                          |                                                      |                                                                       | <b>Opening General Fund and HRA Balance</b>                  | 14,502                                                          |                                                      |                                                                       |
| 0                                                               |                                                      |                                                                       | Surplus or (Deficit) on General Fund and HRA Balance in Year | 0                                                               |                                                      |                                                                       |
| <b>14,502</b>                                                   |                                                      |                                                                       | <b>Closing General Fund and HRA Balance</b>                  | <b>14,502</b>                                                   |                                                      |                                                                       |

The 2016/17 comparative has been restated to reflect the changes made to portfolio structure of the Council in 2017/18. The adjustments required to convert the accounts from the funding basis to the comprehensive income and expenditure statement are set out below.

| 2016/17<br>Restated            |                                 |                              |                                                                                   | 2017/18                        |                                 |                              |                                                                                   |
|--------------------------------|---------------------------------|------------------------------|-----------------------------------------------------------------------------------|--------------------------------|---------------------------------|------------------------------|-----------------------------------------------------------------------------------|
| IAS 19 Adjustments             |                                 | Other<br>Differences<br>£000 | Total<br>Adjustments<br>between the<br>Funding and<br>Accounting<br>Basis<br>£000 | IAS 19 Adjustments             |                                 | Other<br>Differences<br>£000 | Total<br>Adjustments<br>between the<br>Funding and<br>Accounting<br>Basis<br>£000 |
| Pension<br>Adjustments<br>£000 | for Capital<br>Purposes<br>£000 |                              |                                                                                   | Pension<br>Adjustments<br>£000 | for Capital<br>Purposes<br>£000 |                              |                                                                                   |
| a                              | b                               | c                            | Notes                                                                             | a                              | b                               | c                            |                                                                                   |
| (4,828)                        | (276)                           | (39)                         | (5,143) Leader                                                                    | (9,797)                        | (6)                             | (24)                         | (9,827)                                                                           |
| 273                            | (1,562)                         | 4,041                        | 2,752 Corporate & Community Support<br>Services                                   | (115)                          | (3,284)                         | 5,239                        | 1,840                                                                             |
| 558                            | 1,089                           | (1,210)                      | 437 Culture, Tourism & the Economy                                                | (227)                          | 1,128                           | (980)                        | (79)                                                                              |
| 326                            | 4,295                           | 1                            | 4,622 Transport, Waste & Regulation                                               | (123)                          | 419                             | (1)                          | 295                                                                               |
| 212                            | 38                              | 89                           | 339 Housing, Planning & Sustainability                                            | (85)                           | 0                               | 20                           | (65)                                                                              |
| 972                            | (1,157)                         | 2,929                        | 2,744 Children & Learning                                                         | (427)                          | (5,745)                         | 1,283                        | (4,889)                                                                           |
| 1,184                          | 172                             | 0                            | 1,356 Health & Adult Social Care                                                  | (362)                          | 17                              | 2                            | (343)                                                                             |
| 0                              | 13                              | (1)                          | 12 Technology                                                                     | 0                              | 36                              | (2)                          | 34                                                                                |
| <b>(1,303)</b>                 | <b>2,612</b>                    | <b>5,810</b>                 | <b>7,119</b> Net Cost of General Fund Services                                    | <b>(11,136)</b>                | <b>(7,435)</b>                  | <b>5,537</b>                 | <b>(13,034)</b>                                                                   |
| 0                              | (5,709)                         | 105                          | (5,604) Local Authority Housing (HRA)                                             | 0                              | (4,749)                         | 32                           | (4,717)                                                                           |
| <b>0</b>                       | <b>(5,709)</b>                  | <b>105</b>                   | <b>(5,604)</b> Net Cost of Housing Revenue<br>Account Services                    | <b>0</b>                       | <b>(4,749)</b>                  | <b>32</b>                    | <b>(4,717)</b>                                                                    |
| <b>(1,303)</b>                 | <b>(3,097)</b>                  | <b>5,915</b>                 | <b>1,515</b> Net Cost of Services                                                 | <b>(11,136)</b>                | <b>(12,184)</b>                 | <b>5,569</b>                 | <b>(17,751)</b>                                                                   |
| 5,513                          | 60,922                          | (16,787)                     | 49,648 Other Income and Expenditure                                               | 5,543                          | 39,210                          | 812                          | 45,565                                                                            |
| 0                              | (12,616)                        | (4,799)                      | (17,415) Taxation and non-specific Grant<br>Income                                | 0                              | (10,624)                        | (7,749)                      | (18,373)                                                                          |
| <b>4,210</b>                   | <b>45,209</b>                   | <b>(15,671)</b>              | <b>33,748</b> (Surplus) or Deficit                                                | <b>(5,593)</b>                 | <b>16,402</b>                   | <b>(1,368)</b>               | <b>9,441</b>                                                                      |

#### a IAS19 Pension Adjustments

Net change for the removal of actual pension contributions and the addition of IAS 19 *Employee Benefits* pension related expenditure and income:

For **services** this represents the removal of the employer pension contributions made by the Council as allowed by statute and the replacement with current service costs and past service costs.

For **financing and investment income and expenditure** – the net interest on the defined benefit liability is charged to the CIES.

#### b Adjustments for Capital Purposes

Adjustments for capital purposes – for **services** this column adds in impairment and revaluation gains and losses in the services line and consolidates out interest payments and income for the HRA, and for:

**Other operating expenditure** – adjusts for capital disposals with a transfer of income on disposal of assets and the amounts written off for those assets.

**Financing and investment income and expenditure** – the statutory charges for capital financing ie Minimum Revenue Provision and other revenue contributions are deducted from other income and expenditure as these are not chargeable under generally accepted accounting practices.

**Taxation and non-specific grant income and expenditure** – capital grants are adjusted for income not chargeable under generally accepted accounting practices. The Taxation and Non Specific Grant Income and Expenditure line is credited with capital grants receivable in the year without conditions or for which conditions were satisfied in the year.



**c Other Differences**

Other differences between amounts debited/credited to the Comprehensive Income and Expenditure Statement and amounts payable/receivable to be recognised under statute:

For **services** this column adjusts for the accrued value of holiday entitlements not taken as at the balance sheet date, consolidates in the in year activity of maintained schools and moves the value of traded services and investment properties to **financing and investment income and expenditure**.

The charge under **Taxation and non-specific grant income and expenditure** represents the difference between what is chargeable under statutory regulations for council tax and NDR that was projected to be received at the start of the year and the income recognised under generally accepted accounting practices in the Code. This is a timing difference as any difference will be brought forward in future Surpluses or Deficits on the Collection Fund.

**Note 7. Expenditure and Income Analysed by Nature**

The Council's expenditure and income as set out in the Comprehensive Income and Expenditure Statement is analysed as follows.

|                                                       | Notes | 2017/18<br>£000  | 2016/17<br>£000  |
|-------------------------------------------------------|-------|------------------|------------------|
| <b>Income</b>                                         |       |                  |                  |
| Fees, Charges and other Service Income                | 8     | (79,000)         | (73,243)         |
| Interest and Investment Income                        | 11    | (2,294)          | (1,277)          |
| Gains on Revaluation                                  |       | (11,066)         | (10,278)         |
| Income from Council Tax                               | 12    | (75,043)         | (69,574)         |
| Income from Non-domestic Rates                        | 12    | (20,247)         | (22,793)         |
| Government Grants and Contributions                   | 18    | (219,194)        | (241,537)        |
| <b>Total Income</b>                                   |       | <b>(406,844)</b> | <b>(418,702)</b> |
| <b>Expenditure</b>                                    |       |                  |                  |
| Employee Benefits Expenses                            |       | 60,391           | 59,888           |
| Other Service Expenses                                |       | 276,465          | 291,557          |
| Support Service Recharges (net)                       |       | (613)            | (426)            |
| Depreciation, Amortisation and Impairment             |       | 36,210           | 38,147           |
| Interest Payments                                     | 11    | 11,173           | 11,143           |
| Pensions Interest and Expected Return                 | 11    | 5,543            | 5,513            |
| Precepts and Levies                                   | 10    | 990              | 946              |
| Payments to Housing Capital Receipts Pool             | 10    | 533              | 557              |
| Losses on the disposal of Assets                      | 10    | 25,593           | 45,125           |
| <b>Total Expenditure</b>                              |       | <b>416,285</b>   | <b>452,450</b>   |
| <b>Surplus or Deficit on the Provsion of Services</b> |       | <b>9,441</b>     | <b>33,748</b>    |

## Note 8. Segmental Income

Fees, charges and other Income generated on a portfolio service basis is analysed as follows.

|                                                           | 2017/18<br>£000 | 2016/17<br>£000<br>Restated |
|-----------------------------------------------------------|-----------------|-----------------------------|
| Leader                                                    | (33)            | 5                           |
| Corporate & Community Support Services                    | (8,017)         | (8,711)                     |
| Culture, Tourism & the Economy                            | (3,942)         | (2,701)                     |
| Transport, Waste & Regulation                             | (9,218)         | (9,394)                     |
| Housing, Planning & Sustainability                        | (1,390)         | (1,076)                     |
| Children & Learning                                       | (8,521)         | (5,213)                     |
| Health & Adult Social Care                                | (13,488)        | (12,281)                    |
| Technology                                                | (947)           | (746)                       |
| <b>Total Income from General Fund Services</b>            | <b>(45,556)</b> | <b>(40,117)</b>             |
| Local Authority Housing (HRA)                             | (27,950)        | (28,072)                    |
| <b>Total Income from Housing Revenue Account Services</b> | <b>(27,950)</b> | <b>(28,072)</b>             |
| <b>Total Income from Services</b>                         | <b>(73,506)</b> | <b>(68,189)</b>             |
| Other Income and Expenditure                              | (5,494)         | (5,054)                     |
| <b>Total Income</b>                                       | <b>(79,000)</b> | <b>(73,243)</b>             |

## Note 9. Material Items of Income and Expense

In relation to 2017/18:

- The Surplus on Revaluation of non-current assets of £58.200M consists of £59.822M of revaluation gains from the increase in the value of Property Plant and Equipment, £0.242M of revaluation gains from the increase in the value of Heritage Assets, and £1.864M of accumulated revaluation gains lost as a result of downwards revaluation and impairment losses.
- During the year six schools and the Renown Centre transferred to academy status. As a result the carrying amount of the assets of £27.214M has been written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal
- The performance of the Essex Pension Fund during 2017/18 was better than anticipated, with an increase in the underlying value of scheme assets and a positive change in actuarial assumptions underpinning the scheme. This has led to an actuarial gain passing through the Comprehensive Income and Expenditure Statement of £48.102M.

In relation to 2016/17:

- The Surplus on Revaluation of non-current assets of £47.753M consists of £57.231M of revaluation gains from the increase in the value of Property Plant and Equipment, £1.222M of revaluation gains from the increase in the value of Heritage Assets, and £10.700M of accumulated revaluation gains lost as a result of downwards revaluation and impairment losses.

- During the year ten schools transferred to academy status. As a result the carrying amount of the assets of £45.895M has been written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal
- Despite a large increase in the underlying value of scheme assets, the performance of the Essex Pension Fund during 2016/17 was worse than anticipated, following a change in actuarial assumptions underpinning the scheme. This has led to a net actuarial loss passing through the Comprehensive Income and Expenditure Statement of £57.755M.

#### Note 10. Other Operating Expenditure

|                                                          | 2017/18<br>£000 | 2016/17<br>£000 |
|----------------------------------------------------------|-----------------|-----------------|
| Leigh Town Council Precept and Grant                     | 411             | 406             |
| Levies                                                   | 579             | 540             |
| Payments to the Government Housing Capital Receipts Pool | 533             | 557             |
| Losses on the Disposal of Non-current Assets             | 25,593          | 45,125          |
| <b>Total</b>                                             | <b>27,116</b>   | <b>46,628</b>   |

#### Note 11. Financing and Investment Income and Expenditure

|                                                                                             | 2017/18<br>£000 | 2016/17<br>£000 |
|---------------------------------------------------------------------------------------------|-----------------|-----------------|
| Interest Payable and Similar Charges                                                        | 11,093          | 11,143          |
| Interest on net pension liability                                                           | 5,543           | 5,513           |
| Interest Receivable and Similar Income                                                      | (2,294)         | (1,277)         |
| Income and Expenditure in relation to Investment Properties and changes in their Fair Value | (5,271)         | (4,147)         |
| Deficit on Traded Services                                                                  | 961             | 1,121           |
| Other                                                                                       | 80              | 0               |
| <b>Total</b>                                                                                | <b>10,112</b>   | <b>12,353</b>   |

See also note 23 for more information on Investment Properties.

**Note 12. Taxation and Non Specific Grant Incomes**

|                                  | 2017/18<br>£000 | 2016/17<br>£000 |
|----------------------------------|-----------------|-----------------|
| Council Tax Income               | 75,043          | 69,574          |
| Retained Business Rates          | 20,247          | 22,793          |
| Non-Ringfenced Government Grants | 33,134          | 36,721          |
| Capital Grants and Contributions | 10,624          | 12,616          |
| <b>Total</b>                     | <b>139,048</b>  | <b>141,704</b>  |

**Note 13. Pooled Budgets**

The Better Care Fund, an agreement between Southend-on-Sea Borough Council and NHS Southend Clinical Commissioning Group, came into place for the 2015/16 financial year. The purpose of the fund is to encourage the integration of Health and Adult Social Care commissioning. The agreement is made in accordance with Section 75 of the National Health Service Act 2006 and any surplus or deficit generated will be the responsibility of the respective partner to whom it is attributable. The pooled budget is hosted by Southend-on-Sea Borough Council on behalf of the two partners in line with the agreement.

The Contributions into the pool are the minimum requirements under rules set by the Department of Health and the Ministry of Housing, Communities and Local Government. The expenditure by each of the partners is negotiated between them each year, and set within the Section 75 agreement referred to above.

|                                               | 2017/18<br>£000 | 2016/17<br>£000 |
|-----------------------------------------------|-----------------|-----------------|
| <b>Funding provided to the pooled budget</b>  |                 |                 |
| Southend-on-Sea Borough Council               | (5,288)         | (1,193)         |
| NHS Southend Clinical Commissioning Group     | (12,152)        | (11,938)        |
| <b>Total Funding</b>                          | <b>(17,440)</b> | <b>(13,131)</b> |
| <b>Expenditure met from the pooled budget</b> |                 |                 |
| Southend-on-Sea Borough Council               | 11,039          | 6,842           |
| NHS Southend Clinical Commissioning Group     | 6,401           | 6,289           |
| <b>Total Expenditure</b>                      | <b>17,440</b>   | <b>13,131</b>   |
| <b>Net Pooled Budget</b>                      | <b>0</b>        | <b>0</b>        |
| <b>Southend-on-Sea Borough Council share</b>  | <b>0</b>        | <b>0</b>        |

**Note 14. Members' Allowances**

The Council paid the following amounts to Members of the Council during the year.

|                                 | <b>2017/18</b> | <b>2016/17</b> |
|---------------------------------|----------------|----------------|
|                                 | <b>£000</b>    | <b>£000</b>    |
| Basic Allowances                | 450            | 447            |
| Special Allowances              | 184            | 187            |
| Travel & Subsistence            | 3              | 1              |
| <b>Total Members Allowances</b> | <b>637</b>     | <b>635</b>     |

A full list of the Members' allowances, including their travel and subsistence, is published in the Additional Financial Information Section and on the Council's website (<http://www.southend.gov.uk>).

## Note 15. Officers' Remuneration

The remuneration paid to the Council's senior employees is as follows:

| <b>2017/18</b>                                                                           |                                                 |                                            |                                              |                                                                   |                             |                                                                   |                |
|------------------------------------------------------------------------------------------|-------------------------------------------------|--------------------------------------------|----------------------------------------------|-------------------------------------------------------------------|-----------------------------|-------------------------------------------------------------------|----------------|
| <b>Post holder information (Post title)</b>                                              | <b>Salary (Including fees &amp; Allowances)</b> | <b>Compensation for loss of employment</b> | <b>Benefits in Kind (e.g. Car Allowance)</b> | <b>Total Remuneration excluding pension contributions 2017/18</b> | <b>Pension contribution</b> | <b>Total Remuneration including pension contributions 2017/18</b> |                |
|                                                                                          | <b>£</b>                                        | <b>£</b>                                   | <b>£</b>                                     | <b>£</b>                                                          | <b>£</b>                    | <b>£</b>                                                          |                |
| <b>Chief Executive</b> - Alison Griffin from 3 July 2017<br><i>annualised</i>            | 101,712                                         | 0                                          | 0                                            | <b>101,712</b>                                                    | 16,884                      | <b>118,596</b>                                                    | <b>158,997</b> |
| <b>Deputy Chief Executives</b>                                                           |                                                 |                                            |                                              |                                                                   |                             |                                                                   |                |
| People - Simon Leftley <i>acting as Chief Executive from 1 April 2017 to 16 May 2017</i> | 130,685                                         | 0                                          | 0                                            | <b>130,685</b>                                                    | 21,694                      | <b>152,379</b>                                                    |                |
| Place - Andrew Lewis <i>acting as Chief Executive from 17 May 2017 to 2 July 2017</i>    | 122,835                                         | 0                                          | 0                                            | <b>122,835</b>                                                    | 20,391                      | <b>143,226</b>                                                    |                |
| <b>Directors</b>                                                                         |                                                 |                                            |                                              |                                                                   |                             |                                                                   |                |
| Legal & Democratic Services<br><i>annualised as reduced hours</i>                        | 77,279                                          | 0                                          | 0                                            | <b>77,279</b>                                                     | 12,828                      | <b>90,107</b>                                                     | <b>112,634</b> |
| Finance & Resources                                                                      | 96,599                                          | 0                                          | 0                                            | <b>96,599</b>                                                     | 14,731                      | <b>111,330</b>                                                    |                |
| Transformation                                                                           | 88,749                                          | 0                                          | 0                                            | <b>88,749</b>                                                     | 14,732                      | <b>103,481</b>                                                    |                |
| Public Health                                                                            | 121,368                                         | 0                                          | 66                                           | <b>121,434</b>                                                    | 17,453                      | <b>138,887</b>                                                    |                |
| Public Health Improvement to 30 April 2017<br><i>annualised</i>                          | 6,938                                           | 0                                          | 0                                            | <b>6,938</b>                                                      | 690                         | <b>7,628</b>                                                      | <b>96,265</b>  |
| Strategy & Commissioning                                                                 | 96,249                                          | 0                                          | 0                                            | <b>96,249</b>                                                     | 15,977                      | <b>112,226</b>                                                    |                |
| Adult Services & Housing                                                                 | 88,749                                          | 0                                          | 0                                            | <b>88,749</b>                                                     | 14,732                      | <b>103,481</b>                                                    |                |
| Children's Services                                                                      | 88,749                                          | 0                                          | 0                                            | <b>88,749</b>                                                     | 14,732                      | <b>103,481</b>                                                    |                |
| Learning                                                                                 | 88,749                                          | 0                                          | 0                                            | <b>88,749</b>                                                     | 14,732                      | <b>103,481</b>                                                    |                |
| Public Protection                                                                        | 79,874                                          | 0                                          | 0                                            | <b>79,874</b>                                                     | 13,259                      | <b>93,133</b>                                                     |                |
| Planning & Transport                                                                     | 88,749                                          | 0                                          | 0                                            | <b>88,749</b>                                                     | 14,732                      | <b>103,481</b>                                                    |                |
| Culture, Tourism & Property                                                              | 88,749                                          | 0                                          | 0                                            | <b>88,749</b>                                                     | 14,732                      | <b>103,481</b>                                                    |                |
| Regeneration & Business Development                                                      | 79,874                                          | 0                                          | 0                                            | <b>79,874</b>                                                     | 13,259                      | <b>93,133</b>                                                     |                |
| Digital Futures                                                                          | 88,749                                          | 0                                          | 0                                            | <b>88,749</b>                                                     | 14,732                      | <b>103,481</b>                                                    |                |

| 2016/17                                                                   |                                           |                                          |                                            |                                                                 |                           |                                                                 |
|---------------------------------------------------------------------------|-------------------------------------------|------------------------------------------|--------------------------------------------|-----------------------------------------------------------------|---------------------------|-----------------------------------------------------------------|
| Post holder information (Post title)                                      | Salary (Including fees & Allowances)<br>£ | Compensation for loss of employment<br>£ | Benefits in Kind (e.g. Car Allowance)<br>£ | Total Remuneration excluding pension contributions 2016/17<br>£ | Pension contribution<br>£ | Total Remuneration including pension contributions 2016/17<br>£ |
| <b>Chief Executive - Rob Tinlin</b><br><i>annualised as reduced hours</i> | 121,499                                   | 0                                        | 0                                          | <b>121,499</b>                                                  | 0                         | <b>121,499</b><br><b>151,874</b>                                |
| <b>Deputy Chief Executives</b>                                            |                                           |                                          |                                            |                                                                 |                           |                                                                 |
| People                                                                    | 126,520                                   | 0                                        | 0                                          | <b>126,520</b>                                                  | 18,219                    | <b>144,739</b>                                                  |
| Place                                                                     | 115,435                                   | 0                                        | 0                                          | <b>115,435</b>                                                  | 16,623                    | <b>132,058</b>                                                  |
| <b>Heads of Service</b>                                                   |                                           |                                          |                                            |                                                                 |                           |                                                                 |
| Legal & Democratic Services<br><i>annualised as reduced hours</i>         | 77,148                                    | 0                                        | 0                                          | <b>77,148</b>                                                   | 11,109                    | <b>88,257</b><br><b>110,321</b>                                 |
| Finance & Resources                                                       | 93,695                                    | 0                                        | 1,395                                      | <b>95,090</b>                                                   | 12,361                    | <b>107,451</b>                                                  |
| Transformation                                                            | 88,923                                    | 0                                        | 0                                          | <b>88,923</b>                                                   | 12,805                    | <b>101,728</b>                                                  |
| Public Health                                                             | 121,368                                   | 0                                        | 0                                          | <b>121,368</b>                                                  | 10,866                    | <b>132,234</b>                                                  |
| Public Health Improvement                                                 | 83,250                                    | 0                                        | 0                                          | <b>83,250</b>                                                   | 7,453                     | <b>90,703</b>                                                   |
| Strategy & Commissioning                                                  | 93,749                                    | 0                                        | 212                                        | <b>93,961</b>                                                   | 13,500                    | <b>107,461</b>                                                  |
| Adult Services & Housing                                                  | 85,850                                    | 0                                        | 0                                          | <b>85,850</b>                                                   | 12,362                    | <b>98,212</b>                                                   |
| Children's Services                                                       | 76,384                                    | 0                                        | 0                                          | <b>76,384</b>                                                   | 10,999                    | <b>87,383</b>                                                   |
| Learning                                                                  | 77,124                                    | 0                                        | 0                                          | <b>77,124</b>                                                   | 11,105                    | <b>88,229</b>                                                   |
| Public Protection to 12 March 2017<br><i>annualised</i>                   | 84,935                                    | 0                                        | 0                                          | <b>84,935</b>                                                   | 12,134                    | <b>97,069</b><br><b>102,696</b>                                 |
| Planning & Transport                                                      | 75,087                                    | 0                                        | 0                                          | <b>75,087</b>                                                   | 10,813                    | <b>85,900</b>                                                   |
| Culture, Tourism & Property                                               | 69,927                                    | 0                                        | 0                                          | <b>69,927</b>                                                   | 10,070                    | <b>79,997</b>                                                   |
| Regeneration & Business Development from<br><i>annualised</i>             | 28,227                                    | 0                                        | 0                                          | <b>28,227</b>                                                   | 4,065                     | <b>32,292</b><br><b>77,500</b>                                  |
| Digital Futures                                                           | 88,749                                    | 0                                        | 0                                          | <b>88,749</b>                                                   | 12,780                    | <b>101,529</b>                                                  |
| <b>Posts declared redundant during the year</b>                           |                                           |                                          |                                            |                                                                 |                           |                                                                 |
| Corporate Director - Corporate Services to 29 September 2016              | 59,679                                    | 165,700                                  | 0                                          | <b>225,379</b>                                                  | 8,594                     | <b>233,973</b>                                                  |
| Head of Service - Culture to 30 September 2016                            | 58,992                                    | 141,936                                  | 0                                          | <b>200,928</b>                                                  | 6,505                     | <b>207,433</b>                                                  |

The Council's other employees receiving more than £50,000 remuneration for the year (excluding employer's pension contributions) were paid the following amounts:

|                      | 2017/18         |           |            | 2016/17         |           |            |
|----------------------|-----------------|-----------|------------|-----------------|-----------|------------|
|                      | Number of Staff |           |            | Number of Staff |           |            |
|                      | Council         | Schools   | Total      | Council         | Schools   | Total      |
| £50,000 to £54,999   | 30              | 12        | 42         | 33              | 17        | 50         |
| £55,000 to £59,999   | 15              | 7         | 22         | 24              | 12        | 36         |
| £60,000 to £64,999   | 13              | 2         | 15         | 4               | 9         | 13         |
| £65,000 to £69,999   | 7               | 7         | 14         | 6               | 8         | 14         |
| £70,000 to £74,999   | 2               | 2         | 4          | 1               | 6         | 7          |
| £75,000 to £79,999   | 1               | 2         | 3          | 1               | 3         | 4          |
| £80,000 to £84,999   | 0               | 1         | 1          | 0               | 5         | 5          |
| £85,000 to £89,999   | 0               | 3         | 3          | 0               | 2         | 2          |
| £90,000 to £94,999   | 0               | 0         | 0          | 0               | 1         | 1          |
| £95,000 to £99,999   | 0               | 0         | 0          | 0               | 1         | 1          |
| £105,000 to £109,999 | 0               | 0         | 0          | 0               | 1         | 1          |
| £165,000 to £169,999 | 1               | 0         | 1          | 0               | 0         | 0          |
| <b>Total</b>         | <b>69</b>       | <b>36</b> | <b>105</b> | <b>69</b>       | <b>65</b> | <b>134</b> |

Remuneration includes all sums paid to or receivable by employees, expense allowances chargeable to tax, severance payments and the money value of benefits.

#### Exit package cost band including special payments

|                      | Total number of exit packages by cost band |           |           |            |           |           | Total cost of exit packages |                  |
|----------------------|--------------------------------------------|-----------|-----------|------------|-----------|-----------|-----------------------------|------------------|
|                      | 2017/18                                    |           |           | 2016/17    |           |           | 2017/18                     | 2016/17          |
|                      | Compulsory                                 | Other     | Total     | Compulsory | Other     | Total     | £                           | £                |
| <b>Council Staff</b> |                                            |           |           |            |           |           |                             |                  |
| £0 - £19,999         | 3                                          | 4         | 7         | 8          | 9         | 17        | 71,713                      | 170,674          |
| £20,000 - £39,999    | 0                                          | 0         | 0         | 2          | 4         | 6         | 0                           | 173,561          |
| £40,000 - £59,999    | 1                                          | 1         | 2         | 1          | 3         | 4         | 82,611                      | 206,884          |
| £60,000 - £79,999    | 0                                          | 0         | 0         | 2          | 0         | 2         | 0                           | 146,417          |
| £80,000 - £99,999    | 0                                          | 0         | 0         | 0          | 2         | 2         | 0                           | 178,812          |
| £100,000 - £149,999  | 0                                          | 1         | 1         | 0          | 1         | 1         | 135,759                     | 141,936          |
| £150,000 - £199,999  | 0                                          | 0         | 0         | 0          | 1         | 1         | 0                           | 165,700          |
| <b>Total</b>         | <b>4</b>                                   | <b>6</b>  | <b>10</b> | <b>13</b>  | <b>20</b> | <b>33</b> | <b>290,083</b>              | <b>1,183,984</b> |
| <b>School Staff</b>  |                                            |           |           |            |           |           |                             |                  |
| £0 - £19,999         | 10                                         | 14        | 24        | 9          | 6         | 15        | 175,277                     | 86,425           |
| £20,000 - £39,999    | 1                                          | 1         | 2         | 0          | 0         | 0         | 51,813                      | 0                |
| £60,000 - £79,999    | 0                                          | 0         | 0         | 0          | 1         | 1         | 0                           | 68,482           |
| <b>Total</b>         | <b>11</b>                                  | <b>15</b> | <b>26</b> | <b>9</b>   | <b>7</b>  | <b>16</b> | <b>227,090</b>              | <b>154,907</b>   |
| <b>Total</b>         | <b>15</b>                                  | <b>21</b> | <b>36</b> | <b>22</b>  | <b>27</b> | <b>49</b> | <b>517,173</b>              | <b>1,338,891</b> |



## Note 16. External Audit Costs

The Council has incurred the following costs in relation to the audit of the Statement of Accounts, certification of grant claims and to non-audit services provided by the Council's external auditors:

|                                                                | 2017/18<br>£000 | 2016/17<br>£000 |
|----------------------------------------------------------------|-----------------|-----------------|
| Fees payable with regard to external audit services            | 143             | 144             |
| Fees payable for the certification of grant claims and returns | 33              | 34              |
| Fees payable in respect of other services provided             | 4               | 0               |
| <b>Total Audit Costs</b>                                       | <b>180</b>      | <b>178</b>      |

## Note 17. Dedicated Schools Grant

The Council's expenditure on schools is funded primarily by grant monies provided by the Department for Education, the Dedicated Schools Grant (DSG). An element of DSG is recouped by the Department to fund academy schools in the Council's area. DSG is ring fenced and can only be applied to meet expenditure properly included in the Schools Budget, as defined in the School Finance (England) Regulations 2011. The Schools Budget includes elements for a range of educational services provided on an authority-wide basis and for the Individual Schools Budget (ISB), which is divided into a budget share for each maintained school.

Details of the deployment of DSG receivable are as follows:

|                                                                            | 2017/18<br>Central<br>Expenditure<br>£000 | 2017/18<br>Individual<br>Schools<br>Budget<br>£000 | 2017/18<br>Total<br>£000 | 2016/17<br>Total<br>£000 |
|----------------------------------------------------------------------------|-------------------------------------------|----------------------------------------------------|--------------------------|--------------------------|
| Final DSG before academy recoupment                                        |                                           |                                                    | 143,695                  | 139,546                  |
| Expected Early Years funding Adjustment                                    |                                           |                                                    | 0                        | 200                      |
| Academy figure recouped                                                    |                                           |                                                    | (87,090)                 | (73,464)                 |
| <b>Total DSG after academy recoupment</b>                                  |                                           |                                                    | <b>56,605</b>            | <b>66,282</b>            |
| Plus: Brought forward from prior year                                      |                                           |                                                    | 326                      | 1,594                    |
| Less: Carry forward to following year, agreed in advance                   |                                           |                                                    | (326)                    | (788)                    |
| <b>Total DSG available</b>                                                 |                                           |                                                    | <b>56,605</b>            | <b>67,088</b>            |
| Agreed initial budgeted distribution                                       | 2,508                                     | 60,645                                             | 63,153                   | 80,268                   |
| In year adjustments (early years, academy recoupment and NNDR adjustments) | 0                                         | (6,970)                                            | (6,970)                  | (13,391)                 |
| <b>Final budget distribution</b>                                           | <b>2,508</b>                              | <b>53,675</b>                                      | <b>56,183</b>            | <b>66,877</b>            |
| Less: Actual central expenditure                                           | (2,428)                                   |                                                    | (2,428)                  | (1,982)                  |
| Less: Actual ISB deployed to Schools and providers                         |                                           | (54,146)                                           | (54,146)                 | (65,357)                 |
| <b>Carry forward to following year</b>                                     | <b>80</b>                                 | <b>(471)</b>                                       | <b>(391)</b>             | <b>(462)</b>             |
| Plus: Carry forward agreed in advance                                      |                                           |                                                    | 326                      | 788                      |
| <b>Total DSG Carried Forward</b>                                           |                                           |                                                    | <b>(65)</b>              | <b>326</b>               |

## Note 18. Grant Income

The Council credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2017/18.

|                                                           | 2017/18<br>£000 | 2016/17<br>£000 |
|-----------------------------------------------------------|-----------------|-----------------|
| <b>Credited to Taxation and Non Specific Grant Income</b> |                 |                 |
| <b>Non-Ringfenced Government Grants</b>                   |                 |                 |
| Business Rates Top Up and S31 Grants                      | 14,793          | 11,252          |
| Revenue Support Grant                                     | 14,759          | 21,411          |
| New Homes Bonus                                           | 2,033           | 2,634           |
| Adult Social Care Grant                                   | 828             | 0               |
| Education Support Grant                                   | 704             | 1,374           |
| Other non-ringfenced government grants                    | 17              | 50              |
|                                                           | <b>33,134</b>   | <b>36,721</b>   |
| <b>Capital Grants and Contributions</b>                   |                 |                 |
| Highways Infrastructure                                   | 4,343           | 5,789           |
| Airport Business Park                                     | 1,898           | 3,205           |
| Schools                                                   | 1,787           | 1,033           |
| Street Lighting Renewal                                   | 1,401           | 2,341           |
| Housing                                                   | 666             | 0               |
| Southend Central Area Action Plan (non transport)         | 494             | 0               |
| Other                                                     | 35              | 248             |
|                                                           | <b>10,624</b>   | <b>12,616</b>   |
| <b>Total</b>                                              | <b>43,758</b>   | <b>49,337</b>   |

|                                            | 2017/18<br>£000 | 2016/17<br>£000 |
|--------------------------------------------|-----------------|-----------------|
| <b>Credited to Services</b>                |                 |                 |
| Housing Benefits                           | 79,965          | 86,597          |
| Dedicated Schools Grant                    | 55,770          | 66,282          |
| Public Health Grant                        | 9,712           | 9,957           |
| REFCUS                                     | 4,226           | 7,275           |
| Funding from Clinical Commissioning Groups | 6,502           | 5,884           |
| Improved Better Care Fund                  | 3,989           | 0               |
| Pupil Premium                              | 3,157           | 4,250           |
| Education and Skills Funding Agency        | 2,886           | 5,549           |
| Housing Benefit Administration             | 1,349           | 0               |
| Universal Infant Free School Meals Grant   | 1,337           | 1,132           |
| Other Service Grants and Contributions     | 6,543           | 5,274           |
| <b>Total</b>                               | <b>175,436</b>  | <b>192,200</b>  |

With the exception of a grant for £2,197,000 for schools relating to 2018/19 which has been recognised as a capital grant received in advance, the Council has recognised all of the grants and contributions received as income through the Comprehensive Income and Expenditure Statement, as any conditions attached to the grants and contributions that may have required the monies or property to be returned to the giver have been met.

## NOTES SUPPORTING THE MOVEMENT IN RESERVES STATEMENT

### **Note 19. Adjustments between Accounting Basis and Funding Basis under Regulations**

This note details the adjustments that are made to the total comprehensive income and expenditure recognised by the Council in the year in accordance with proper accounting practice to the resources that are specified by statutory provisions as being available to the Council to meet future capital and revenue expenditure. The following sets out a description of the reserves that the adjustments are made against.

#### **General Fund Balance**

The General Fund is the statutory fund into which all the receipts of a council are required to be paid, and out of which all liabilities of the Council are to be met, except to the extent that statutory rules might provide otherwise. These rules can also specify the financial year in which liabilities and payments should impact on the General Fund Balance, which is not necessarily in accordance with proper accounting practice. The General Fund Balance therefore summarises the resources that the Council is statutorily empowered to spend on its services or on capital investment (or the deficit of resources that the Council is required to recover) at the end of the financial year.

#### **Housing Revenue Account Balance**

The Housing Revenue Account Balance reflects the statutory obligation to maintain a revenue account for local authority council housing provision in accordance with Part VI of the Local Government and Housing Act 1989. It contains the balance of income and expenditure as defined by the 1989 Act that is available to fund future expenditure in connection with the Council's landlord function or (where in deficit) that is required to be recovered from tenants in future years.

#### **Major Repairs Reserve**

The Council is required to maintain the Major Repairs Reserve, which controls an element of the capital resources limited to being used on capital expenditure on HRA assets or the financing of historical capital expenditure by the HRA. The balance shows the capital resources that have yet to be applied at the year-end.

#### **Capital Receipts Reserve**

The Capital Receipts Reserve holds the proceeds from the disposal of land or other assets, which are restricted by statute from being used other than to fund new capital expenditure or to be set aside to finance historical capital expenditure. The balance on the reserve shows the resources that have yet to be applied for these purposes at the year-end.

#### **Capital Grants Unapplied**

The Capital Grants Unapplied Account (Reserve) holds the grants and contributions received towards capital projects for which the Council has met the conditions that would otherwise require repayment of the monies but which have yet to be applied to meet expenditure. The balance is restricted by grant terms as to the capital expenditure against which it can be applied and/or the financial year in which this can take place.

| 2017/18                                                                                                                                                    | Usable Reserves              |                                    |                                  |                               |                                  |                                          |
|------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------|------------------------------------|----------------------------------|-------------------------------|----------------------------------|------------------------------------------|
|                                                                                                                                                            | General Fund Balance<br>£000 | Housing Revenue<br>Account<br>£000 | Capital Receipts Reserve<br>£000 | Major Repairs Reserve<br>£000 | Capital Grants Unapplied<br>£000 | Movement in Unusable<br>Reserves<br>£000 |
| <b>Adjustments primarily involving the Capital Adjustment Account</b>                                                                                      |                              |                                    |                                  |                               |                                  |                                          |
| <b>Reversal of items debited or credited to the comprehensive income and expenditure statement:</b>                                                        |                              |                                    |                                  |                               |                                  |                                          |
| Charges for depreciation of non-current assets                                                                                                             | 13,312                       | 6,036                              | 0                                | 0                             | 0                                | (19,348)                                 |
| Revaluation and impairment losses on property, plant and equipment and intangible assets                                                                   | (4,222)                      | (850)                              | 0                                | 0                             | 0                                | 5,072                                    |
| Movements in the market value of investment properties                                                                                                     | (3,212)                      | 0                                  | 0                                | 0                             | 0                                | 3,212                                    |
| Amortisation of intangible assets                                                                                                                          | 1,367                        | 0                                  | 0                                | 0                             | 0                                | (1,367)                                  |
| Capital grants and contributions applied                                                                                                                   | (3,906)                      | 1,043                              | 0                                | 0                             | (1,338)                          | 4,201                                    |
| Revenue expenditure funded from capital under statute                                                                                                      | 12,276                       | 439                                | 0                                | 0                             | 0                                | (12,715)                                 |
| Amounts of non-current assets written off on disposal or sale as part of the gain / loss on disposal to the comprehensive income and expenditure statement | 27,616                       | 1,591                              | 0                                | 0                             | 0                                | (29,207)                                 |
| <b>Insertion of items not debited or credited to the comprehensive income and expenditure statement:</b>                                                   |                              |                                    |                                  |                               |                                  |                                          |
| Statutory provision for the financing of capital investment                                                                                                | (1,197)                      | 0                                  | 0                                | 0                             | 0                                | 1,197                                    |
| Capital expenditure charged against the General Fund and HRA Balances                                                                                      | (5,239)                      | (632)                              | 0                                | 0                             | 0                                | 5,871                                    |
| <b>Adjustments primarily involving the Capital Grants Unapplied Account</b>                                                                                |                              |                                    |                                  |                               |                                  |                                          |
| Capital grants and contributions unapplied credited to the comprehensive income and expenditure statement                                                  | (10,328)                     | (1,658)                            | 0                                | 0                             | 11,986                           | 0                                        |
| Application of grants to capital financing transferred to the capital adjustment account                                                                   | 0                            | 0                                  | 0                                | 0                             | (10,462)                         | 10,462                                   |
| <b>Adjustments primarily involving the Major Repairs Reserve</b>                                                                                           |                              |                                    |                                  |                               |                                  |                                          |
| Reverse MRA credited to HRA                                                                                                                                | 0                            | (6,036)                            | 0                                | 0                             | 0                                | 6,036                                    |
| Reversal of HRA Depreciation credited to the Major Repairs Reserve                                                                                         | 0                            | 0                                  | 0                                | 6,036                         | 0                                | (6,036)                                  |
| Use of the major repairs reserve to finance new capital expenditure                                                                                        | 0                            | 0                                  | 0                                | (4,540)                       | 0                                | 4,540                                    |
| <b>Adjustments primarily involving the Deferred Capital Receipts Account</b>                                                                               |                              |                                    |                                  |                               |                                  |                                          |
| Transfer of deferred capital receipt recognised as income in the Comprehensive Income and Expenditure Account                                              | (3,500)                      | 0                                  | 0                                | 0                             | 0                                | 3,500                                    |

| 2017/18                                                                                                                                                                                                                                      | Usable Reserves              |                                    |                                  |                               |                                  |                                          |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------|------------------------------------|----------------------------------|-------------------------------|----------------------------------|------------------------------------------|
|                                                                                                                                                                                                                                              | General Fund Balance<br>£000 | Housing Revenue<br>Account<br>£000 | Capital Receipts Reserve<br>£000 | Major Repairs Reserve<br>£000 | Capital Grants Unapplied<br>£000 | Movement in Unusable<br>Reserves<br>£000 |
| <b>Adjustments primarily involving the Capital Receipts Reserve</b>                                                                                                                                                                          |                              |                                    |                                  |                               |                                  |                                          |
| Transfer of cash sale proceeds credited as part of the gain / loss on disposal to the comprehensive income and expenditure statement                                                                                                         | (808)                        | (2,807)                            | 3,615                            | 0                             | 0                                | 0                                        |
| Use of the capital receipts reserve towards administrative costs of non-current asset disposals                                                                                                                                              | 0                            | 0                                  | 0                                | 0                             | 0                                | 0                                        |
| Use of the capital receipts reserve to repay borrowing                                                                                                                                                                                       | 0                            | 0                                  | 0                                | 0                             | 0                                | 0                                        |
| Use of the capital receipts reserve to finance new capital expenditure                                                                                                                                                                       | 0                            | 0                                  | (737)                            | 0                             | 0                                | 737                                      |
| Contribution from the capital receipts reserve to finance the payments to the government capital receipts pool                                                                                                                               | 532                          | 0                                  | (532)                            | 0                             | 0                                | 0                                        |
| <b>Adjustments primarily involving the Pensions Reserve</b>                                                                                                                                                                                  |                              |                                    |                                  |                               |                                  |                                          |
| Reversal of items relating to retirement benefits debited or credited to the comprehensive income and expenditure statement (see note 36)                                                                                                    | 14,013                       | 0                                  | 0                                | 0                             | 0                                | (14,013)                                 |
| Employer's pensions contributions and direct payments to pensioners payable in the year                                                                                                                                                      | (19,606)                     | 0                                  | 0                                | 0                             | 0                                | 19,606                                   |
| <b>Adjustments primarily involving the Collection Fund Adjustment Account</b>                                                                                                                                                                |                              |                                    |                                  |                               |                                  |                                          |
| Amount by which council tax and business rate income credited to the comprehensive income and expenditure statement is different from council tax and business rate income calculated for the year in accordance with statutory requirements | (3,765)                      | 0                                  | 0                                | 0                             | 0                                | 3,765                                    |
| <b>Adjustments primarily involving the Accumulated Absences Account</b>                                                                                                                                                                      |                              |                                    |                                  |                               |                                  |                                          |
| Amount by which officer remuneration charged to the comprehensive income and expenditure statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements                      | (105)                        | 0                                  | 0                                | 0                             | 0                                | 105                                      |
| <b>Total Adjustments</b>                                                                                                                                                                                                                     | <b>13,228</b>                | <b>(2,874)</b>                     | <b>2,346</b>                     | <b>1,496</b>                  | <b>186</b>                       | <b>(14,382)</b>                          |

| 2016/17 Comparative Figures                                                                                                                                | Usable Reserves              |                                    |                                  |                               |                                  |                                          |
|------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------|------------------------------------|----------------------------------|-------------------------------|----------------------------------|------------------------------------------|
|                                                                                                                                                            | General Fund Balance<br>£000 | Housing Revenue<br>Account<br>£000 | Capital Receipts Reserve<br>£000 | Major Repairs Reserve<br>£000 | Capital Grants Unapplied<br>£000 | Movement in Unusable<br>Reserves<br>£000 |
| <b>Adjustments primarily involving the Capital Adjustment Account</b>                                                                                      |                              |                                    |                                  |                               |                                  |                                          |
| <b>Reversal of items debited or credited to the comprehensive income and expenditure statement:</b>                                                        |                              |                                    |                                  |                               |                                  |                                          |
| Charges for depreciation of non-current assets                                                                                                             | 13,513                       | 5,600                              | 0                                | 0                             | 0                                | (19,113)                                 |
| Revaluation and impairment losses on property, plant and equipment and intangible assets                                                                   | 4,952                        | (531)                              | 0                                | 0                             | 0                                | (4,421)                                  |
| Movements in the market value of investment properties                                                                                                     | (2,339)                      | (72)                               | 0                                | 0                             | 0                                | 2,411                                    |
| Amortisation of intangible assets                                                                                                                          | 892                          | 0                                  | 0                                | 0                             | 0                                | (892)                                    |
| Capital grants and contributions applied                                                                                                                   | (9,405)                      | 1,314                              | 0                                | 0                             | 3,650                            | 4,441                                    |
| Revenue expenditure funded from capital under statute                                                                                                      | 5,733                        | 126                                | 0                                | 0                             | 0                                | (5,859)                                  |
| Amounts of non-current assets written off on disposal or sale as part of the gain / loss on disposal to the comprehensive income and expenditure statement | 47,819                       | 1,875                              | 0                                | 0                             | 0                                | (49,694)                                 |
| <b>Insertion of items not debited or credited to the comprehensive income and expenditure statement:</b>                                                   |                              |                                    |                                  |                               |                                  |                                          |
| Statutory provision for the financing of capital investment                                                                                                | (6,484)                      | 0                                  | 0                                | 0                             | 0                                | 6,484                                    |
| Capital expenditure charged against the General Fund and HRA Balances                                                                                      | (2,319)                      | (1,835)                            | 0                                | 0                             | 0                                | 4,154                                    |
| <b>Adjustments primarily involving the Capital Grants Unapplied Account</b>                                                                                |                              |                                    |                                  |                               |                                  |                                          |
| Capital grants and contributions unapplied credited to the comprehensive income and expenditure statement                                                  | (9,983)                      | (1,817)                            | 0                                | 0                             | 11,800                           | 0                                        |
| Application of grants to capital financing transferred to the capital adjustment account                                                                   | 0                            | 0                                  | 0                                | 0                             | (12,498)                         | 12,498                                   |
| <b>Adjustments primarily involving the Major Repairs Reserve</b>                                                                                           |                              |                                    |                                  |                               |                                  |                                          |
| Reverse MRA credited to HRA                                                                                                                                | 0                            | (5,600)                            | 0                                | 0                             | 0                                | 5,600                                    |
| Reversal of HRA Depreciation credited to the Major Repairs Reserve                                                                                         | 0                            | 0                                  | 0                                | 5,600                         | 0                                | (5,600)                                  |
| Use of the major repairs reserve to finance new capital expenditure                                                                                        | 0                            | 0                                  | 0                                | (4,641)                       | 0                                | 4,641                                    |
| <b>Adjustments primarily involving the Deferred Capital Receipts Account</b>                                                                               |                              |                                    |                                  |                               |                                  |                                          |
| Transfer of deferred capital receipt recognised as income in the Comprehensive Income and Expenditure Account                                              | 0                            | 0                                  | 225                              | 0                             | 0                                | (225)                                    |

| 2016/17 Comparative Figures                                                                                                                                                                                             | Usable Reserves              |                                    |                                  |                               |                                  |                                          |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------|------------------------------------|----------------------------------|-------------------------------|----------------------------------|------------------------------------------|
|                                                                                                                                                                                                                         | General Fund Balance<br>£000 | Housing Revenue<br>Account<br>£000 | Capital Receipts Reserve<br>£000 | Major Repairs Reserve<br>£000 | Capital Grants Unapplied<br>£000 | Movement in Unusable<br>Reserves<br>£000 |
| <b>Adjustments primarily involving the Capital Receipts Reserve</b>                                                                                                                                                     |                              |                                    |                                  |                               |                                  |                                          |
| Transfer of cash sale proceeds credited as part of the gain / loss on disposal to the comprehensive income and expenditure statement                                                                                    | (1,553)                      | (3,016)                            | 4,569                            | 0                             | 0                                | 0                                        |
| Use of the capital receipts reserve towards administrative costs of non-current asset disposals                                                                                                                         | 0                            | 0                                  | 0                                | 0                             | 0                                | 0                                        |
| Use of the capital receipts reserve to repay borrowing                                                                                                                                                                  | 0                            | 0                                  | 0                                | 0                             | 0                                | 0                                        |
| Use of the capital receipts reserve to finance new capital expenditure                                                                                                                                                  | 0                            | 0                                  | (716)                            | 0                             | 0                                | 716                                      |
| Contribution from the capital receipts reserve to finance the payments to the government capital receipts pool                                                                                                          | 557                          | 0                                  | (557)                            | 0                             | 0                                | 0                                        |
| <b>Adjustments primarily involving the Pensions Reserve</b>                                                                                                                                                             |                              |                                    |                                  |                               |                                  |                                          |
| Reversal of items relating to retirement benefits debited or credited to the comprehensive income and expenditure statement (see note 36)                                                                               | 12,929                       | 0                                  | 0                                | 0                             | 0                                | (12,929)                                 |
| Employer's pensions contributions and direct payments to pensioners payable in the year                                                                                                                                 | (8,720)                      | 0                                  | 0                                | 0                             | 0                                | 8,720                                    |
| <b>Adjustments primarily involving the Collection Fund Adjustment Account</b>                                                                                                                                           |                              |                                    |                                  |                               |                                  |                                          |
| Amount by which council tax income credited to the comprehensive income and expenditure statement is different from council tax income calculated for the year in accordance with statutory requirements                | (350)                        | 0                                  | 0                                | 0                             | 0                                | 350                                      |
| <b>Adjustments primarily involving the Accumulated Absences Account</b>                                                                                                                                                 |                              |                                    |                                  |                               |                                  |                                          |
| Amount by which officer remuneration charged to the comprehensive income and expenditure statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements | 334                          | 0                                  | 0                                | 0                             | 0                                | (334)                                    |
| <b>Total Adjustments</b>                                                                                                                                                                                                | <b>45,576</b>                | <b>(3,956)</b>                     | <b>3,521</b>                     | <b>959</b>                    | <b>2,952</b>                     | <b>(49,052)</b>                          |

## Note 20. Transfers to / from Earmarked Reserves

This note sets out the amounts set aside from the General Fund and HRA balances in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund and HRA expenditure in 2017/18.

| Earmarked Reserves<br>Prior year comparative<br>restated | Balance at               | Transfers     |                 | Balance at               | Transfers     |                 | Balance at               |
|----------------------------------------------------------|--------------------------|---------------|-----------------|--------------------------|---------------|-----------------|--------------------------|
|                                                          | 31 March<br>2016<br>£000 | To<br>£000    | From<br>£000    | 31 March<br>2017<br>£000 | To<br>£000    | From<br>£000    | 31 March<br>2018<br>£000 |
| <b>Schools Balances</b>                                  | <b>9,461</b>             | <b>0</b>      | <b>(3,304)</b>  | <b>6,157</b>             | <b>0</b>      | <b>(2,079)</b>  | <b>4,078</b>             |
| <b>General Fund Reserves</b>                             |                          |               |                 |                          |               |                 |                          |
| Capital Investment Reserves                              | 12,378                   | 2,328         | (2,870)         | 11,836                   | 5,598         | (4,520)         | 12,914                   |
| Insurance Reserves                                       | 4,933                    | 1,300         | 0               | 6,233                    | 567           | 0               | 6,800                    |
| Corporate Reserves                                       | 19,305                   | 8,437         | (1,243)         | 26,499                   | 12,591        | (15,409)        | 23,681                   |
| Service Reserves                                         | 16,059                   | 5,699         | (6,722)         | 15,036                   | 2,794         | (3,370)         | 14,460                   |
| Grants Reserves                                          | 5,799                    | 1,035         | (2,477)         | 4,357                    | 1,085         | (1,772)         | 3,670                    |
| Monies held in Trust                                     | 53                       | 0             | 0               | 53                       | 0             | 0               | 53                       |
| <b>Total GF Reserves</b>                                 | <b>58,527</b>            | <b>18,799</b> | <b>(13,312)</b> | <b>64,014</b>            | <b>22,635</b> | <b>(25,071)</b> | <b>61,578</b>            |
| <b>HRA Service Reserves</b>                              | <b>17,141</b>            | <b>7,524</b>  | <b>(1,835)</b>  | <b>22,830</b>            | <b>6,061</b>  | <b>(633)</b>    | <b>28,258</b>            |
| <b>Total Earmarked Reserves</b>                          | <b>85,129</b>            | <b>26,323</b> | <b>(18,451)</b> | <b>93,001</b>            | <b>28,696</b> | <b>(27,783)</b> | <b>93,914</b>            |

### Schools Balances

The schools balances for both revenue and capital are all committed to be spent on the education service. The amounts disclosed in the balance sheet represent an amalgamation of unspent and overspent balances.

### Capital Investment Reserves

Amounts set aside to fund future capital projects.

### Insurance Reserve

A reserve that covers potential claim liabilities arising from the Employers' Liability, Public Liability, Property and other insurable risks retained by the Council.

### Corporate Reserves

Amounts set aside to fund the costs of corporate, non-service specific activities, such as business transformation, interest equalisation and pensions.

### Service Reserves

Amounts set aside to fund the costs of service specific activities, such as waste management and benefits subsidy. Separate service reserves are held for General Fund and Housing Revenue Account services.

### Grants Reserves

In compliance with Recommended Practice, service grant income received in the year has been fully recognised, even where it has not necessarily been or planned to be spent. In these cases the spending power of the grant has been preserved through the use of earmarked reserves.

### Monies held in Trust

The Council holds monies in respect of two trust funds (see note 46) and on behalf of a number of children pending them reaching the age of 18.

The reserves have been regrouped into more logical categories, but the total amounts remain unaltered.



## NOTES SUPPORTING THE BALANCE SHEET

### Note 21. Property, Plant and Equipment

| Movements in 2017/18                                | Council Dwellings<br>£000 | Other Land & Buildings<br>£000 | Vehicles, Plant, Furniture &<br>Equipment<br>£000 | Infrastructure Assets<br>£000 | Community Assets<br>£000 | Surplus Assets<br>£000 | Assets under Construction<br>£000 | Total Property, Plant &<br>Equipment<br>£000 |
|-----------------------------------------------------|---------------------------|--------------------------------|---------------------------------------------------|-------------------------------|--------------------------|------------------------|-----------------------------------|----------------------------------------------|
| <b>Cost or Valuation as at 1 April 2017</b>         | <b>353,728</b>            | <b>287,821</b>                 | <b>15,877</b>                                     | <b>135,843</b>                | <b>738</b>               | <b>1,078</b>           | <b>4,728</b>                      | <b>799,813</b>                               |
| Additions                                           | 5,356                     | 14,873                         | 1,335                                             | 10,316                        | 283                      | 0                      | 3,890                             | 36,053                                       |
| Revaluations via Revaluation Reserve                | 16,083                    | 35,362                         | 0                                                 | 0                             | 55                       | 0                      | 0                                 | 51,500                                       |
| Revaluations recognised in the CIES                 | 1,051                     | 4,963                          | (84)                                              | (325)                         | 0                        | 7                      | 0                                 | 5,612                                        |
| Disposals                                           | (1,588)                   | (27,905)                       | (3,214)                                           | 0                             | 0                        | 0                      | 0                                 | (32,707)                                     |
| <b>Gross Book Value as at 31 March 2018</b>         | <b>374,630</b>            | <b>315,114</b>                 | <b>13,914</b>                                     | <b>145,834</b>                | <b>1,076</b>             | <b>1,085</b>           | <b>8,618</b>                      | <b>860,271</b>                               |
| <b>Accumulated Depreciation as at 1 April 2017</b>  | <b>(10,187)</b>           | <b>(11,964)</b>                | <b>(6,772)</b>                                    | <b>(44,555)</b>               | <b>0</b>                 | <b>(7)</b>             | <b>0</b>                          | <b>(73,485)</b>                              |
| Depreciation                                        | (5,823)                   | (5,305)                        | (1,341)                                           | (6,232)                       | 0                        | (7)                    | 0                                 | (18,708)                                     |
| Written out to Revaluation Reserve                  | 32                        | 6,426                          | 0                                                 | 0                             | 0                        | 0                      | 0                                 | 6,458                                        |
| Written out to the CIES                             | 2                         | 284                            | 21                                                | 39                            | 0                        | 0                      | 0                                 | 346                                          |
| On Disposals                                        | 66                        | 623                            | 2,965                                             | 0                             | 0                        | 0                      | 0                                 | 3,654                                        |
| <b>Accumulated Depreciation as at 31 March 2018</b> | <b>(15,910)</b>           | <b>(9,936)</b>                 | <b>(5,127)</b>                                    | <b>(50,748)</b>               | <b>0</b>                 | <b>(14)</b>            | <b>0</b>                          | <b>(81,735)</b>                              |
| <b>Net Book Value as at 31 March 2017</b>           | <b>343,541</b>            | <b>275,857</b>                 | <b>9,105</b>                                      | <b>91,288</b>                 | <b>738</b>               | <b>1,071</b>           | <b>4,728</b>                      | <b>726,328</b>                               |
| <b>Net Book Value as at 31 March 2018</b>           | <b>358,720</b>            | <b>305,178</b>                 | <b>8,787</b>                                      | <b>95,086</b>                 | <b>1,076</b>             | <b>1,071</b>           | <b>8,618</b>                      | <b>778,536</b>                               |

| <b>Movements in 2016/17</b>                                 | <b>Council Dwellings<br/>£000</b> | <b>Other Land &amp; Buildings<br/>£000</b> | <b>Vehicles, Plant, Furniture &amp;<br/>Equipment<br/>£000</b> | <b>Infrastructure Assets<br/>£000</b> | <b>Community Assets<br/>£000</b> | <b>Surplus Assets<br/>£000</b> | <b>Assets under Construction<br/>£000</b> | <b>Total Property, Plant &amp;<br/>Equipment<br/>£000</b> |
|-------------------------------------------------------------|-----------------------------------|--------------------------------------------|----------------------------------------------------------------|---------------------------------------|----------------------------------|--------------------------------|-------------------------------------------|-----------------------------------------------------------|
| <b>Cost or Valuation as at 1<br/>April 2016</b>             | <b>329,954</b>                    | <b>313,838</b>                             | <b>14,565</b>                                                  | <b>121,880</b>                        | <b>1,411</b>                     | <b>640</b>                     | <b>2,630</b>                              | <b>784,918</b>                                            |
| Additions                                                   | 7,040                             | 11,219                                     | 3,542                                                          | 15,567                                | 245                              | 0                              | 2,446                                     | 40,059                                                    |
| Revaluations via<br>Revaluation Reserve                     | 17,817                            | 23,945                                     | 0                                                              | 0                                     | (384)                            | 163                            | 0                                         | 41,541                                                    |
| Revaluations recognised<br>in the CIES                      | 501                               | (9,176)                                    | (1,871)                                                        | (1,604)                               | (534)                            | 275                            | 0                                         | (12,409)                                                  |
| Disposals                                                   | (1,932)                           | (51,853)                                   | (359)                                                          | 0                                     | 0                                | 0                              | 0                                         | (54,144)                                                  |
| Transfers                                                   | 348                               | (152)                                      | 0                                                              | 0                                     | 0                                | 0                              | (348)                                     | (152)                                                     |
| <b>Gross Book Value as at<br/>31 March 2017</b>             | <b>353,728</b>                    | <b>287,821</b>                             | <b>15,877</b>                                                  | <b>135,843</b>                        | <b>738</b>                       | <b>1,078</b>                   | <b>4,728</b>                              | <b>799,813</b>                                            |
| <b>Accumulated<br/>Depreciation as at 1<br/>April 2016</b>  | <b>(4,873)</b>                    | <b>(20,778)</b>                            | <b>(7,637)</b>                                                 | <b>(39,861)</b>                       | <b>0</b>                         | <b>(5)</b>                     | <b>0</b>                                  | <b>(73,154)</b>                                           |
| Depreciation                                                | (5,391)                           | (6,201)                                    | (1,001)                                                        | (5,870)                               | 0                                | (8)                            | 0                                         | (18,471)                                                  |
| Written out to Revaluation<br>Reserve                       | 15                                | 4,970                                      | 0                                                              | 0                                     | 0                                | 5                              | 0                                         | 4,990                                                     |
| Written out to the CIES                                     | 5                                 | 5,557                                      | 1,755                                                          | 1,176                                 | 0                                | 1                              | 0                                         | 8,494                                                     |
| On Disposals                                                | 57                                | 4,478                                      | 111                                                            | 0                                     | 0                                | 0                              | 0                                         | 4,646                                                     |
| On Transfers                                                | 0                                 | 10                                         | 0                                                              | 0                                     | 0                                | 0                              | 0                                         | 10                                                        |
| <b>Accumulated<br/>Depreciation as at 31<br/>March 2017</b> | <b>(10,187)</b>                   | <b>(11,964)</b>                            | <b>(6,772)</b>                                                 | <b>(44,555)</b>                       | <b>0</b>                         | <b>(7)</b>                     | <b>0</b>                                  | <b>(73,485)</b>                                           |
| <b>Net Book Value as at 31<br/>March 2016</b>               | <b>325,081</b>                    | <b>293,060</b>                             | <b>6,928</b>                                                   | <b>82,019</b>                         | <b>1,411</b>                     | <b>635</b>                     | <b>2,630</b>                              | <b>711,764</b>                                            |
| <b>Net Book Value as at 31<br/>March 2017</b>               | <b>343,541</b>                    | <b>275,857</b>                             | <b>9,105</b>                                                   | <b>91,288</b>                         | <b>738</b>                       | <b>1,071</b>                   | <b>4,728</b>                              | <b>726,328</b>                                            |

## Depreciation

The following useful lives have been used in the calculation of depreciation:

| <b>2016/17<br/>Useful Economic Life<br/>Years</b> | <b>Fixed Asset Category</b>              | <b>2017/18<br/>Useful Economic Life<br/>Years</b> |
|---------------------------------------------------|------------------------------------------|---------------------------------------------------|
| Between 10 and 60                                 | Council Dwellings                        | Between 18 and 60                                 |
| Between 1 and 60                                  | Other Land & Buildings                   | Between 1 and 60                                  |
| Between 1 and 35                                  | Vehicles, Plant, Furniture and Equipment | Between 1 and 34                                  |
| Between 2 and 45                                  | Infrastructure Assets                    | Between 1 and 44                                  |
| Nil                                               | Community Assets                         | Nil                                               |
| Between 25 and 50                                 | Surplus Assets                           | Between 34 and 59                                 |
| Nil                                               | Assets Under Construction                | Nil                                               |

## Revaluations

The Council carries out a rolling programme that ensures that all Property, Plant and Equipment required to be measured at current value is revalued at least every five years. Valuations were carried out using external valuers. Valuations of land and buildings were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors (RICS). Valuations of vehicles, plant, furniture and equipment are based on current prices where there is an active second-hand market or latest list prices adjusted for the condition of the asset.

A variety of assets were revalued this year, some as part of the 5 year rolling programme. The main assets were schools, sports pavilions, park conveniences, park mess rooms, day centres, the Beach Club and Lagoon conveniences. The significant assumptions applied in estimating their current values were:

- The data provided by the Council was accurate at 1 April 2017;
- The Council has good title to the asset, free from onerous covenant and other encumbrances;
- There are no planning proposals that are likely to have an effect on the value of the properties;
- All properties are at a suitable level of condition for service provision and that all internal and external repairs and maintenance have been carried out;
- No deleterious or hazardous material has been used in the construction of the properties or has since been incorporated;
- No contaminative or potentially contaminative uses have ever been carried out on the property;
- The use of relevant data from the Building Cost Information Service of RICS (BCIS).

The following table shows the progress of the Council's rolling programme for the revaluations of fixed assets.

| <b>Year of Rolling Programme</b> | <b>Internal/ External Valuation</b> | <b>Valuer</b>     | <b>Assets Revalued</b>                                                                                                                                                                                                                                                                  |
|----------------------------------|-------------------------------------|-------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 2013/2014                        | External                            | Wilks Head & Eve  | Theatres, parks, pier assets (excluding structure), Southend Adult Community Centre and General Fund council dwellings                                                                                                                                                                  |
| 2014/2015                        | External                            | Wilks Head & Eve  | Investment properties, foundation schools, pier structure and the Forum                                                                                                                                                                                                                 |
| 2015/2016                        | External                            | Wilks Head & Eve  | Housing Revenue Account council dwellings, investment properties, garages and hostels                                                                                                                                                                                                   |
| 2016/2017                        | External                            | Whybrow and Dodds | Car parks, clubs, bus station, community centres, depots, libraries, museum, shelters, leisure centres, theatres, public conveniences, investment properties, care homes, cemetery offices, crematorium, Porters, Southchurch Hall, the Cliff Lift and council administrative buildings |
| 2017/18                          | External                            | Whybrow and Dodds | Schools, Sports Pavilions, Park WCs, Park Messrooms, Day Centres, The Beach Club and Lagoon WCs                                                                                                                                                                                         |

The basis for valuation is set out in the statement of accounting policies.

## **Note 22. Heritage Assets**

The Council's Heritage Assets consist of historic seaside assets, heritage land and buildings, antiques/collectables, museum exhibits and memorials/statues.

### Historic Seaside Assets

The historic seaside assets comprise the pier, the cliff lift and the cliff bandstand. These assets are considered to be part of the fabric of the town as an historic seaside resort.

### Heritage Land and Buildings

These consist of the official mayor's residence, Porters, and Southchurch Hall, a grade I listed medieval manor house. These assets are considered to be part of the heritage of the town and are intended to be preserved for future generations because of their cultural, environmental or historical associations.

### Antiques / Collectables

These comprise furniture and furnishings, panelling, carpets, textiles, clocks, silver, plated wares and gold, works of art, ceramics and glass, books, pictures and presentation and commemorative wares. These antiques/collectables date from between the 16<sup>th</sup> Century and the 20<sup>th</sup> Century.

### Museum Collections

The Council considers that obtaining valuations for the items that are exhibited within the borough's museums would involve a disproportionate cost in comparison to the benefits to the users of the Council's financial statements. This is because of the diverse nature of the assets held and the lack of comparable values. The Council does not recognise these exhibits on the Balance Sheet.

The exception is the Saxon King artefacts which form part of the Council's heritage assets and have been valued by a specialist in archaeology. These items are reported in the Balance Sheet at this valuation which is based on sale prices of comparable material and museum valuations for loan purposes, where relevant. The valuations also take into account the condition of the objects, their rare or unique nature and their relationship to material from other high-status burial contexts such as Sutton Hoo and Taplow. These assets are deemed to have indeterminate lives and a high residual value; hence the Council does not consider it appropriate to charge depreciation. Of these items, at 31 March 2018 £748,000 worth were in storage within the borough with the remainder on loan to a museum in London. On 2 May 2018 the rest of the collection was returned to the borough.

### Memorials and Statues

These are a statue of Queen Victoria which was presented to the town to mark the Queens Jubilee in 1897, and a Lutyens War Memorial to commemorate lives lost in the First World War which was built in 1920. The Council does not consider that reliable cost or valuation information can be obtained for the items due to the lack of comparable market values. Consequently, the Council does not recognise these assets on the balance sheet.

Reconciliation of the carrying value of heritage assets held by the Council:

|                                                     | Historic Seaside Assets<br>£000 | Heritage Land & Buildings<br>£000 | Antiques and Collectables<br>£000 | Museum Collections<br>£000 | Total Heritage Assets<br>£000 |
|-----------------------------------------------------|---------------------------------|-----------------------------------|-----------------------------------|----------------------------|-------------------------------|
| <b>Movements in 2017/18</b>                         |                                 |                                   |                                   |                            |                               |
| <b>Cost or Valuation as at 1 April 2017</b>         | <b>35,727</b>                   | <b>1,964</b>                      | <b>665</b>                        | <b>1,557</b>               | <b>39,913</b>                 |
| Additions                                           | 855                             | 4                                 | 0                                 | 0                          | 859                           |
| Revaluations via Revaluation Reserve                | (6)                             |                                   | 231                               | 0                          | 225                           |
| Revaluations recognised in the CIES                 | (846)                           | (4)                               | 0                                 | 0                          | (850)                         |
| <b>Gross Book Value as at 31 March 2018</b>         | <b>35,730</b>                   | <b>1,964</b>                      | <b>896</b>                        | <b>1,557</b>               | <b>40,147</b>                 |
| <b>Accumulated Depreciation as at 1 April 2017</b>  | <b>(1,779)</b>                  | <b>(44)</b>                       | <b>0</b>                          | <b>0</b>                   | <b>(1,823)</b>                |
| Depreciation                                        | (599)                           | (42)                              | 0                                 | 0                          | (641)                         |
| Written out to Revaluation Reserve                  | 17                              | 0                                 | 0                                 | 0                          | 17                            |
| Written out to the CIES                             | 0                               | 0                                 | 0                                 | 0                          | 0                             |
| <b>Accumulated Depreciation as at 31 March 2018</b> | <b>(2,361)</b>                  | <b>(86)</b>                       | <b>0</b>                          | <b>0</b>                   | <b>(2,447)</b>                |
| <b>Net Book Value as at 31 March 2017</b>           | <b>33,948</b>                   | <b>1,920</b>                      | <b>665</b>                        | <b>1,557</b>               | <b>38,090</b>                 |
| <b>Net Book Value as at 31 March 2018</b>           | <b>33,369</b>                   | <b>1,878</b>                      | <b>896</b>                        | <b>1,557</b>               | <b>37,700</b>                 |

|                                                     | Historic Seaside Assets<br>£000 | Heritage Land & Buildings<br>£000 | Antiques and Collectables<br>£000 | Museum Collections<br>£000 | Total Heritage Assets<br>£000 |
|-----------------------------------------------------|---------------------------------|-----------------------------------|-----------------------------------|----------------------------|-------------------------------|
| <b>Movements in 2016/17</b>                         |                                 |                                   |                                   |                            |                               |
| <b>Cost or Valuation as at 1 April 2016</b>         | <b>35,663</b>                   | <b>914</b>                        | <b>665</b>                        | <b>1,501</b>               | <b>38,743</b>                 |
| Additions                                           | 561                             | 3                                 | 0                                 | 56                         | 620                           |
| Revaluations via Revaluation Reserve                | 71                              | 1,045                             | 0                                 | 0                          | 1,116                         |
| Revaluations recognised in the CIES                 | (568)                           | 2                                 | 0                                 | 0                          | (566)                         |
| <b>Gross Book Value as at 31 March 2017</b>         | <b>35,727</b>                   | <b>1,964</b>                      | <b>665</b>                        | <b>1,557</b>               | <b>39,913</b>                 |
| <b>Accumulated Depreciation as at 1 April 2016</b>  | <b>(1,274)</b>                  | <b>(86)</b>                       | <b>0</b>                          | <b>0</b>                   | <b>(1,360)</b>                |
| Depreciation                                        | (600)                           | (42)                              | 0                                 | 0                          | (642)                         |
| Written out to Revaluation Reserve                  | 22                              | 84                                | 0                                 | 0                          | 106                           |
| Written out to the CIES                             | 73                              | 0                                 | 0                                 | 0                          | 73                            |
| <b>Accumulated Depreciation as at 31 March 2017</b> | <b>(1,779)</b>                  | <b>(44)</b>                       | <b>0</b>                          | <b>0</b>                   | <b>(1,823)</b>                |
| <b>Net Book Value as at 31 March 2016</b>           | <b>34,389</b>                   | <b>828</b>                        | <b>665</b>                        | <b>1,501</b>               | <b>37,383</b>                 |
| <b>Net Book Value as at 31 March 2017</b>           | <b>33,948</b>                   | <b>1,920</b>                      | <b>665</b>                        | <b>1,557</b>               | <b>38,090</b>                 |

## Basis of valuation

| Asset                | Date of last valuation | Valuer                                                | Qualification | Method of valuation          |
|----------------------|------------------------|-------------------------------------------------------|---------------|------------------------------|
| Cliff Lift           | 01/04/2016             | Whybrow and Dodds                                     | MRICS         | Existing use value           |
| Porters              | 01/04/2016             | Whybrow and Dodds                                     | MRICS         | Depreciated replacement cost |
| Porters contents     | 16/08/2013             | Webb Valuations Fine Art Ltd                          | FRICS         | Current replacement cost     |
| Southchurch Hall     | 01/04/2016             | Whybrow and Dodds                                     | MRICS         | Depreciated replacement cost |
| Pier                 | 01/04/2014             | Wilks Head and Eve                                    | MRICS         | Depreciated replacement cost |
| Bandstand            | 01/04/2011             | David Heales - Internal Valuer                        | MRICS         | Existing use value           |
| Saxon King artefacts | 01/10/2009             | Lesley Webster FSA - Society for Medieval Archaeology | FSA           | Current replacement cost     |

## Note 23. Investment Properties

There are no restrictions on the Council's ability to realise the value inherent in its investment property or on the Council's right to the remittance of income and the proceeds of disposal. The Council has no contractual obligations to purchase, construct or develop investment property or repairs, maintenance or enhancement. The following table summarises the movement in the fair value of investment properties over the year:

|                                          | 2017/18<br>£000 | 2016/17<br>£000 |
|------------------------------------------|-----------------|-----------------|
| Balance at start of the year             | 25,344          | 23,087          |
| Additions:                               |                 |                 |
| Subsequent Expenditure                   | 12,488          | 0               |
| Transfers:                               |                 |                 |
| (to) / from Assets Held for Sale (<1 yr) | 0               | (154)           |
| Revaluations and impairments             | 3,212           | 2,411           |
| <b>Balance at end of the year</b>        | <b>41,044</b>   | <b>25,344</b>   |

All the Council's investment properties are categorised as commercial.

The fair value of these assets has been measured using the income approach, by means of the discounted cash flow method, where the expected cash flows from the properties are discounted (using a market-derived discount rate) to establish the present value of the net income stream.

Third party resources have been used to value these assets. Typical valuation inputs which have been analysed in arriving at the fair valuations include:

- rental incomes;
- CBRE UK Property Investment Yields;
- external valuers' professional judgement on yields.

The Council's investment properties are therefore categorised as Level 3 in the fair value hierarchy as the measurement technique uses significant unobservable inputs to determine the fair value measurements (see the accounting policy for Fair Value Measurement in note 1). There is no

reasonably available information that indicates that market participants would use different assumptions.

In estimating the fair value of the Council's investment properties, the highest and best use of the properties is their current use.

## Note 24. Financial Instruments

### Categories of Financial Instruments

The following categories of financial instrument are carried in the Balance Sheet:

|                                               | Long-term                |                          | Current                  |                          |
|-----------------------------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
|                                               | 31 March<br>2018<br>£000 | 31 March<br>2017<br>£000 | 31 March<br>2018<br>£000 | 31 March<br>2017<br>£000 |
| <b>Investments, Cash and Cash Equivalents</b> |                          |                          |                          |                          |
| Loans and Receivables                         | 53                       | 34                       | 13,510                   | 26,948                   |
| Available for sale Financial Assets           | 22,625                   | 15,859                   | 33,239                   | 43,154                   |
| <b>Total Investments</b>                      | <b>22,678</b>            | <b>15,893</b>            | <b>46,749</b>            | <b>70,102</b>            |
| <b>Debtors</b>                                |                          |                          |                          |                          |
| Loans and Receivables                         | 5,206                    | 2,367                    | 26,757                   | 23,674                   |
| <b>Total Debtors</b>                          | <b>5,206</b>             | <b>2,367</b>             | <b>26,757</b>            | <b>23,674</b>            |
| <b>Borrowings</b>                             |                          |                          |                          |                          |
| Financial Liabilities at Amortised Cost       | 248,359                  | 248,117                  | 11,830                   | 6,356                    |
| <b>Total Borrowings</b>                       | <b>248,359</b>           | <b>248,117</b>           | <b>11,830</b>            | <b>6,356</b>             |
| <b>Creditors</b>                              |                          |                          |                          |                          |
| Financial Liabilities at Amortised Cost       | 2                        | 0                        | 24,427                   | 24,590                   |
| <b>Total Creditors</b>                        | <b>2</b>                 | <b>0</b>                 | <b>24,427</b>            | <b>24,590</b>            |

### Reclassifications

There were no reclassifications of financial instruments in 2017/18.



## Income, Expense, Gains and Losses

| 2017/18                                                                                                           | Financial Liabilities measured at Amortised Cost | Financial Assets: Loans and Receivables | Financial Assets: Available for Sale | Total          |
|-------------------------------------------------------------------------------------------------------------------|--------------------------------------------------|-----------------------------------------|--------------------------------------|----------------|
|                                                                                                                   | £000                                             | £000                                    | £000                                 | £000           |
| Interest Expense                                                                                                  | 10,871                                           | 0                                       | 0                                    | 10,871         |
| Fee Expense                                                                                                       | (93)                                             | 0                                       | 83                                   | (10)           |
| <b>Total Expense in Surplus or Deficit on the Provision of Services</b>                                           | <b>10,778</b>                                    | <b>0</b>                                | <b>83</b>                            | <b>10,861</b>  |
| Interest Income                                                                                                   | 0                                                | (100)                                   | (2,027)                              | (2,127)        |
| <b>Total Income in Surplus or Deficit on the Provision of Services</b>                                            | <b>0</b>                                         | <b>(100)</b>                            | <b>(2,027)</b>                       | <b>(2,127)</b> |
| Gains on Revaluation                                                                                              | 0                                                | 0                                       | 9                                    | 9              |
| Amounts Recycled to the Surplus or Deficit on the Provision of Services after Impairment                          | 0                                                | 0                                       | (5)                                  | (5)            |
| <b>Surplus / Deficit arising on Revaluation of Financial Assets in Other Comprehensive Income and Expenditure</b> | <b>0</b>                                         | <b>0</b>                                | <b>4</b>                             | <b>4</b>       |
| <b>Net Gain / (Loss) for the year</b>                                                                             | <b>10,778</b>                                    | <b>(100)</b>                            | <b>(1,940)</b>                       | <b>8,738</b>   |

The fee expense for financial liabilities measured at amortised cost is negative due to the change in accounting policy regarding the capitalisation of borrowing costs as set out in note 1.

| 2016/17 Comparative Figures                                                                                       | Financial Liabilities measured at Amortised Cost | Financial Assets: Loans and Receivables Restated | Financial Assets: Available for Sale Restated | Total          |
|-------------------------------------------------------------------------------------------------------------------|--------------------------------------------------|--------------------------------------------------|-----------------------------------------------|----------------|
|                                                                                                                   | £000                                             | £000                                             | £000                                          | £000           |
| Interest Expense                                                                                                  | 11,096                                           | 0                                                | 0                                             | 11,096         |
| Fee Expense                                                                                                       | 29                                               | 0                                                | 127                                           | 156            |
| <b>Total Expense in Surplus or Deficit on the Provision of Services</b>                                           | <b>11,125</b>                                    | <b>0</b>                                         | <b>127</b>                                    | <b>11,252</b>  |
| Interest Income                                                                                                   | 0                                                | (60)                                             | (1,217)                                       | (1,277)        |
| <b>Total Expense in Surplus or Deficit on the Provision of Services</b>                                           | <b>0</b>                                         | <b>(60)</b>                                      | <b>(1,217)</b>                                | <b>(1,277)</b> |
| Gains on Revaluation                                                                                              | 0                                                | 0                                                | 5                                             | 5              |
| Amounts Recycled to the Surplus or Deficit on the Provision of Services after Impairment                          | 0                                                | 0                                                | (7)                                           | (7)            |
| <b>Surplus / Deficit arising on Revaluation of Financial Assets in Other Comprehensive Income and Expenditure</b> | <b>0</b>                                         | <b>0</b>                                         | <b>(2)</b>                                    | <b>(2)</b>     |
| <b>Net Gain / (Loss) for the year</b>                                                                             | <b>11,125</b>                                    | <b>(60)</b>                                      | <b>(1,092)</b>                                | <b>9,973</b>   |

### Fair Values of Assets and Liabilities

Financial liabilities, financial assets represented by loans and receivables and long-term debtors and creditors are carried in the Balance Sheet at amortised cost. Their fair value can be assessed by calculating the present value of the cash flows that will take place over the remaining term of the instruments, using the following assumptions:

- estimated ranges of interest rates at 31 March 2018 of 1.67% to 2.77% for loans from the PWLB based on new lending rates for equivalent loans at that date
- no early repayment or impairment is recognised
- where an instrument will mature in the next 12 months, carrying amount is assumed to approximate to fair value
- the fair value of trade and other receivables is taken to be the invoiced or billed amount.

The fair values calculated are the same as the carrying amount except where shown below:

The fair value of the financial liabilities are categorised as Level 2 in the fair value hierarchy as the measurement technique uses inputs other than quoted prices included within Level 1 that are observable for the loans.

The financial liabilities where the fair value differs from the carrying value are held with PWLB and market lenders. All of these borrowings were not quoted on an active market and a Level 1 valuation is not available. To provide a fair value which provides a comparison to the carrying amount a financial model valuation has been used. This valuation applies the net present value approach, which provides an estimate of the value of payments in the future in today's terms as at the balance sheet date. Our accounting policy uses new loan borrowing rates to discount the future cash flows.

|                       | 31 March 2018   |            | 31 March 2017   |            |
|-----------------------|-----------------|------------|-----------------|------------|
|                       | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
|                       | £000            | £000       | £000            | £000       |
| Financial Liabilities | 284,616         | 349,781    | 279,062         | 342,660    |
| Long Term Creditors   | 2               | 0          | 0               | 0          |

The fair value of the liabilities is higher than the carrying amount because the Council's portfolio of loans includes a number of fixed rate loans where the interest rate payable is higher than the prevailing rates at the Balance Sheet date. This shows a notional future loss (based on economic conditions at 31 March 2018) arising from a commitment to pay interest to lenders above current market rates.

|                   | 31 March 2018   | 31 March 2017   |
|-------------------|-----------------|-----------------|
|                   | Carrying Amount | Carrying Amount |
|                   | £000            | £000            |
| Financial Assets  | 96,184          | 109,669         |
| Long Term Debtors | 5,206           | 2,367           |

Short term debtors and creditors are carried at cost as this is a fair approximation of their value.

Available for sale assets are carried in the Balance Sheet at their fair value. The fair value of the property funds have been measured using the quoted price of units plus the distribution to be reinvested as notified by each fund. These assets have therefore been categorised as Level 2 in the fair value hierarchy as they have inputs other than quoted prices that are observable.

The fair value of the short dated bond funds, the enhanced cash fund and the money market funds have been measured using the quoted price of units. These assets have therefore been categorised as Level 1 in the fair value hierarchy as they have unadjusted quoted prices in active markets for identical assets that the authority can access at the measurement date. The table below sets out the input level in the fair value hierarchy and the valuation techniques for each type of fund.

| Recurring Fair Value Measurements | Input level in Fair Value Hierarchy | Valuation Technique used to Measure Fair Value                  | Source of Prices or Inputs                                                                       | 31 March 2018<br>£000 | 31 March 2017<br>£000 |
|-----------------------------------|-------------------------------------|-----------------------------------------------------------------|--------------------------------------------------------------------------------------------------|-----------------------|-----------------------|
| <b>Available for Sale:</b>        |                                     |                                                                 |                                                                                                  |                       |                       |
| Money Market Funds                | Level 1                             | Unadjusted quoted prices in active markets for identical assets | Unit price of fund                                                                               | 13,007                | 23,007                |
| Enhanced Cash Fund                | Level 1                             | Unadjusted quoted prices in active markets for identical assets | Unit price of fund                                                                               | 5,039                 | 5,022                 |
| Short Dated Bond Funds            | Level 1                             | Unadjusted quoted prices in active markets for identical assets | Unit price of fund                                                                               | 15,193                | 15,125                |
| Property Funds                    | Level 2                             | Inputs other than quoted prices that are observable             | Unit price of fund, adjusted for fund manager's estimate of income distribution for quarter four | 22,625                | 15,859                |
| <b>Total Available for Sale</b>   |                                     |                                                                 |                                                                                                  | <b>55,864</b>         | <b>59,013</b>         |

#### Note 25. Debtors

|                                       | 31 March 2018<br>£000 | 31 March 2017<br>£000 |
|---------------------------------------|-----------------------|-----------------------|
| Central government bodies             | 12,525                | 12,897                |
| Local authorities                     | 1,595                 | 2,486                 |
| NHS bodies                            | 1,230                 | 1,747                 |
| Public corporations and trading funds | 1                     | 0                     |
| Other entities and individuals        | 19,322                | 15,988                |
| <b>Total Debtors</b>                  | <b>34,673</b>         | <b>33,118</b>         |
| Value of impairment included above    | (11,848)              | (11,715)              |

#### Note 26. Cash and Cash Equivalents

The balance of Cash and Cash Equivalents is made up of the following elements:

|                                               | 31 March 2018<br>£000 | 31 March 2017<br>£000 |
|-----------------------------------------------|-----------------------|-----------------------|
| Cash and cash equivalents held by the Council | 19,462                | 30,216                |
| Bank Current Accounts                         | 7,055                 | 9,655                 |
| <b>Total Cash and Cash Equivalents</b>        | <b>26,517</b>         | <b>39,871</b>         |

## Note 27. Creditors

|                                       | 31 March 2018<br>£000 | 31 March 2017<br>£000 |
|---------------------------------------|-----------------------|-----------------------|
| Central government bodies             | 10,063                | 6,611                 |
| Other local authorities               | 6,018                 | 5,237                 |
| NHS bodies                            | 1,269                 | 695                   |
| Public corporations and trading funds | 5                     | 26                    |
| Other entities and individuals        | 28,230                | 26,336                |
| <b>Total Creditors</b>                | <b>45,585</b>         | <b>38,905</b>         |

## Note 28. Provisions

|                                    | Insurance<br>£000 | Redundancy<br>£000 | Business<br>Rate<br>Appeals<br>£000 | Other<br>Provisions<br>£000 | Total<br>£000 |
|------------------------------------|-------------------|--------------------|-------------------------------------|-----------------------------|---------------|
| <b>Balance at 1 April 2016</b>     | 3,869             | 1,006              | 1,878                               | 826                         | 7,579         |
| Additional provisions made in year | 0                 | 1,500              | 739                                 | 0                           | 2,239         |
| Amounts used in year               | (1,195)           | (1,257)            | (367)                               | (238)                       | (3,057)       |
| <b>Balance at 1 April 2017</b>     | 2,674             | 1,249              | 2,250                               | 588                         | 6,761         |
| Additional provisions made in year | 0                 | 0                  | 1,235                               | 169                         | 1,404         |
| Amounts used in year               | 0                 | (291)              | (1,978)                             | 0                           | (2,269)       |
| Unused amounts reversed in year    | (269)             | 0                  | 0                                   | (159)                       | (428)         |
| <b>Balance at 31 March 2018</b>    | <b>2,405</b>      | <b>958</b>         | <b>1,507</b>                        | <b>598</b>                  | <b>5,468</b>  |

### Insurance Provision

This reflects the total value of claims outstanding at the year-end for which the Council has a future liability of uncertain timing. In addition the Council keeps an insurance reserve (shown in Note 20) to mitigate against the risk of potential claims arising in the future.

### Redundancy

Estimated payments to be made in 2018/19 as a result of organisational management decisions taken during 2017/18, relating to redundancy, and therefore properly chargeable to 2017/18.

### Business Rates Appeals Provision

This reflects the Council's share of the potential for successful appeals by local businesses against the rateable value of the premises they use, and therefore the potential need for the Council to refund rates paid in 2017/18 and prior years. The overall liability is shared with Central Government and the Essex Fire Service.

**Note 29. Usable Reserves**

Movements in the Council's usable reserves are detailed in the Movement in Reserves Statement and Notes 19 and 20.

**Note 30. Unusable Reserves**

Movements in the Council's unusable reserves are detailed in the Movement in Reserves Statement and in the individual tables below.

**Revaluation Reserve**

The Revaluation Reserve contains the gains made by the Council arising from increases in the value of its Property, Plant and Equipment. The balance is reduced when assets with accumulated gains are:

- revalued downwards or impaired and the gains are lost
- used in the provision of services and the gains are consumed through depreciation, or
- disposed of and the gains are realised.

The Reserve contains only revaluation gains accumulated since 1 April 2007, the date that the Reserve was created. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account.

|                                                                                                                           | <b>2017/18</b> | <b>2016/17</b>  |
|---------------------------------------------------------------------------------------------------------------------------|----------------|-----------------|
|                                                                                                                           | <b>£000</b>    | <b>£000</b>     |
| <b>Balance at 1 April</b>                                                                                                 | <b>225,896</b> | <b>191,525</b>  |
| Upward revaluation of assets                                                                                              | 60,064         | 58,453          |
| Downward revaluation of assets and impairment losses not charged to the Surplus / Deficit on the provision of services    | (1,864)        | (10,700)        |
| Surplus or Deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the provision of services | <u>58,200</u>  | <u>47,753</u>   |
| Difference between fair value and historical cost depreciation                                                            | (3,892)        | (3,118)         |
| Balance attributable to disposal/write offs                                                                               | <u>(7,618)</u> | <u>(10,264)</u> |
| Amount written off to the capital adjustment account                                                                      | (11,510)       | (13,382)        |
| <b>Balance at 31 March</b>                                                                                                | <b>272,586</b> | <b>225,896</b>  |

**Capital Adjustment Account**

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The Account is debited with the cost of acquisition, construction or enhancement as depreciation, downward revaluation and impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert current value figures to a historical cost basis). The Account is credited with the amounts set aside by the Council as finance for the costs of acquisition, construction and enhancement.

The Account contains accumulated gains and losses on Investment Properties and gains recognised on donated assets that have yet to be consumed by the Council.

The Account also contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains.

Note 19 provides details of the source of all the transactions posted to the Account, apart from those involving the Revaluation Reserve.

|                                                                                                                                                            | 2017/18  |                | 2016/17        |
|------------------------------------------------------------------------------------------------------------------------------------------------------------|----------|----------------|----------------|
|                                                                                                                                                            | £000     | £000           | £000           |
| <b>Balance at 1 April</b>                                                                                                                                  |          | <b>251,982</b> | <b>283,234</b> |
| <i>Reversal of items relating to capital expenditure debited or credited to the comprehensive income and expenditure statement</i>                         |          |                |                |
| Charges for depreciation and revaluation gains and losses and impairment losses on non-current assets                                                      | (14,276) |                | (23,534)       |
| Amortisation of intangible assets                                                                                                                          | (1,367)  |                | (892)          |
| Revenue expenditure funded from capital under statute                                                                                                      | (12,715) |                | (5,859)        |
| Amounts of non-current assets written off on disposal or sale as part of the gain / loss on disposal to the comprehensive income and expenditure statement | (29,207) |                | (49,694)       |
|                                                                                                                                                            |          | (57,565)       | (79,979)       |
| Adjusting amounts written out of the revaluation reserve                                                                                                   |          | 11,510         | 13,382         |
| Net written out amount of the cost of non-current assets consumed in the year                                                                              |          | (46,055)       | (66,597)       |
| <i>Capital financing applied in the year</i>                                                                                                               |          |                |                |
| Use of the capital receipts reserve to finance new capital expenditure                                                                                     | 737      |                | 716            |
| Use of the major repairs reserve to finance new capital expenditure                                                                                        | 4,540    |                | 4,641          |
| Capital grants and contributions credited to the comprehensive income and expenditure statement that have been applied to capital financing                | 14,663   |                | 16,939         |
| Statutory provision for the financing of capital investment charged against the general fund and HRA balances                                              | 1,197    |                | 6,484          |
| Use of the capital receipts reserve to repay borrowing                                                                                                     |          |                | 0              |
| Capital expenditure charged against the general fund and HRA balances                                                                                      | 5,871    |                | 4,154          |
|                                                                                                                                                            |          | 27,008         | 32,934         |
| Movements in the market value of investment properties debited or credited to the comprehensive income and expenditure statement                           |          | 3,212          | 2,411          |
| <b>Balance at 31 March</b>                                                                                                                                 |          | <b>236,147</b> | <b>251,982</b> |

## Pensions Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post-employment benefits and for funding benefits in accordance with statutory provisions. The Council accounts for post-employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the Council makes employer's contributions to pension funds or eventually pays any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Council has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

|                                                                                                                                                                                    | 2017/18<br>£000  | 2016/17<br>£000  |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------|------------------|
| <b>Balance at 1 April</b>                                                                                                                                                          | <b>(222,617)</b> | <b>(160,653)</b> |
| Remeasurements of the net defined benefit liability/(asset)                                                                                                                        | 48,102           | (57,755)         |
| Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement | (14,013)         | (12,929)         |
| Employer's pensions contributions and direct payments to pensioners payable in the year                                                                                            | 19,606           | 8,720            |
| <b>Balance at 31 March</b>                                                                                                                                                         | <b>(168,922)</b> | <b>(222,617)</b> |

## Note 31. Capital Expenditure and Capital Financing

The total amount of capital expenditure incurred in the year is shown in the table below (including the value of assets acquired under finance leases), together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the Council, i.e. borrowing, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the Council that has yet to be financed. The CFR is analysed in the second part of this note.



|                                                             | 31 March 2018<br>£000 | 31 March 2017<br>£000 |
|-------------------------------------------------------------|-----------------------|-----------------------|
| <b>Capital Investment</b>                                   |                       |                       |
| Property, Plant and Equipment                               | 36,053                | 40,059                |
| Investment Assets                                           | 12,488                |                       |
| Intangible Assets                                           | 2,904                 | 1,791                 |
| Heritage Assets                                             | 859                   | 620                   |
| Revenue Expenditure Funded from Capital Under Statute       | 12,715                | 5,859                 |
| <b>Total Capital Investment</b>                             | <b>65,019</b>         | <b>48,329</b>         |
| <b>Sources of Finance</b>                                   |                       |                       |
| Usable Capital Receipts                                     | 737                   | 716                   |
| Government Grants and other Contributions                   | 14,663                | 16,939                |
| Sums set aside from Revenue:                                |                       |                       |
| Direct Revenue Contributions                                | 5,871                 | 4,154                 |
| Major Repairs Reserve                                       | 4,540                 | 4,641                 |
| <b>Total Financing from Internal Resources</b>              | <b>25,811</b>         | <b>26,450</b>         |
| Credit arrangements                                         | 2,937                 | 476                   |
| Un-supported Capital Borrowing                              | 36,271                | 21,403                |
| <b>Total Financing from Borrowing / Credit Arrangements</b> | <b>39,208</b>         | <b>21,879</b>         |
| <b>Total Capital Financing</b>                              | <b>65,019</b>         | <b>48,329</b>         |

|                                                            | 31 March 2018<br>£000 | 31 March 2017<br>£000 |
|------------------------------------------------------------|-----------------------|-----------------------|
| <b>Opening Capital Financing Requirement</b>               | <b>304,559</b>        | <b>288,516</b>        |
| <b>Explanation of Movements in Year</b>                    |                       |                       |
| Borrowing (unsupported by Government financial assistance) | 36,271                | 21,403                |
| Assets acquired under Finance Leases                       | 2,937                 | 476                   |
| Minimum Revenue Provision                                  | (580)                 | (5,836)               |
| <b>Closing Capital Financing Requirement</b>               | <b>343,187</b>        | <b>304,559</b>        |
| <b>of which</b>                                            |                       |                       |
| General Fund CFR                                           | 244,447               | 205,819               |
| Housing Revenue Account CFR                                | 98,740                | 98,740                |
|                                                            | <b>343,187</b>        | <b>304,559</b>        |

## Note 32. Leases

### The Council as Lessee

#### Finance Leases

The Council has acquired a minibus for a school and grounds maintenance vehicles and equipment under finance leases. The assets acquired under these leases are carried as Property, Plant and Equipment in the Balance Sheet.

The Council is committed to making minimum payments under these leases comprising settlement of the long-term liability for the interest in the property acquired by the Council and finance costs that will be payable by the Council in future years while the liability remains outstanding.

With effect from 30 September 2013 the Council leased a proportion of the library and education centre at The Forum from the Forum Management Company Limited on a finance lease, based on the gross internal area used. There was no premium paid and the rent is a peppercorn so there are no minimum lease payments to disclose.

With effect from 2016/17 the Council has recognised an embedded finance lease with a term of 14.67 years within the waste contract, relating to the Waste Transfer Station. There was no premium paid and the minimum lease payments each year are £305,000.

#### Operating Leases

The Council has acquired grounds maintenance equipment and vehicles for social care, a school, South Essex homes and our haulage pool under operating leases, which have typical lives of 5 to 7 years.

### Council as Lessor

#### Operating Leases

The Council leases out property and equipment under operating leases for the following purposes:

- for the provision of community services, such as sports facilities, tourism services and community centres
- for economic development purposes to provide suitable affordable accommodation for local businesses.

The future minimum lease payments receivable under non-cancellable operating leases in future years are:

|                                                   | <b>31 March 2018</b> | <b>31 March 2017</b> |
|---------------------------------------------------|----------------------|----------------------|
|                                                   | <b>£000</b>          | <b>£000</b>          |
| Not later than one year                           | 2,766                | 1,739                |
| Later than one year and not later than five years | 9,628                | 6,186                |
| Later than five years                             | 102,362              | 73,955               |
|                                                   | <b>114,756</b>       | <b>81,880</b>        |

The minimum lease payments receivable do not include rents that are contingent on events taking place after the lease was entered into, such as rental payments that vary with turnover. In 2017/18 £25,000 contingent rents were estimated to be receivable by the Council (2016/17 £30,000 estimated).

### Finance Leases

On 14 August 2013 the Council leased the Belfairs Woodland Centre to Essex Wildlife Trust Limited on a finance lease with a term of 25 years. There was no premium paid and the rent is a peppercorn so there are no minimum lease payments to disclose at 31 March 2018. The Council has a gross investment in the lease of £318,000, as there are no minimum lease payments and the residual value is anticipated to be half the net book value of the asset, as the lease term is half the estimated useful economic life. The gross investment is expected to be received at the end of the lease.

With effect from 30 September 2013 the Council leased the library and education centre at The Forum to the Forum Management Company Limited on a finance lease with a term of 98½ years. There was no premium paid and the rent is a peppercorn so there are no minimum lease payments to disclose. The Council does not have any gross investment in the lease, as there are no minimum lease payments and no residual value anticipated for the property.

### **Note 33. Downward Revaluation and Impairment Losses**

Various assets were revalued at 1 April 2017 which led to a small downward valuation or impairment loss of £0.555M in total.

Further HRA garages were demolished resulting in impairments of £0.566M.

An impairment review was also undertaken of capital additions of which £1.971M was considered not to increase the asset value and therefore was impaired.

As a result of the regular review of the fixed asset register small downward revaluations and impairments were identified within the Council Dwellings (£1.053M), Other Land and Buildings (£0.386M), Vehicles, Plant, Furniture and Equipment (£0.014M) and Infrastructure (£0.100M) categories of assets.

### **Note 34. Termination Benefits**

The Council continues to undergo a significant programme of cost reduction involving, amongst other things, a reduction in the number of employees. This has given rise to a number of redundancy payment obligations that, although not actually paid in 2017/18, can be accommodated with the redundancy provision (see note 28).

### **Note 35. Pension Schemes Accounted for as Defined Contribution Schemes**

#### **Teachers' Pension Scheme**

Teachers employed by the Council are members of the Teachers' Pension Scheme (TPS), administered by the Department for Education. The Scheme provides teachers with specified benefits upon their retirement, and the Council contributes towards the costs by making contributions based on a percentage of members' pensionable salaries.

The Scheme is technically a defined benefit scheme. However, the Scheme is unfunded and the Department for Education uses a notional fund as the basis for calculating the employers' contribution rate paid by local authorities. The Council is not able to identify its share of the underlying financial position and performance of the Scheme with sufficient reliability for accounting purposes. For the purposes of this Statement of Accounts, it is therefore accounted for on the same basis as a defined contribution scheme.

In 2017/18 the Council paid £2.7M to Teachers' Pensions in respect of teachers' retirement benefits, representing 16.48% of pensionable pay. The figures for 2016/17 were £3.5M and 16.48% respectively. There were no contributions remaining payable at the year end.

The Council is responsible for the costs of any additional benefits awarded upon early retirement outside of the terms of the teachers' scheme. These costs are accounted for on a defined benefit basis. There were added years payments of £2,608 awarded in respect of the teachers' pension scheme in 2017/18 (2016/17 £4,827).

It is estimated that the Council will pay £2.0m to the TPS in 2018/19. The payment is declining as more schools convert to academy status and therefore are no longer part of the Council.

### **NHS Staff Pension Scheme**

A number of NHS staff transferred to the Council as of 1 April 2013 as part of the transfer of Public Health from the NHS. These staff have maintained their membership in the NHS Pension Scheme. The Scheme provides these staff with specified benefits upon their retirement and the Council contributes towards the costs by making contributions based on a percentage of members' pensionable salaries.

The scheme is an unfunded defined benefit scheme. However, the Council is not able to identify its share of the underlying financial position and performance of the Scheme with sufficient reliability for accounting purposes. For the purposes of this Statement of Accounts, it is therefore accounted for on the same basis as a defined contribution scheme.

In 2017/18, the Council paid £81,000 (2016/17 £121,000 (restated)) in respect of retirement benefits to NHS Pensions in respect of staff who have transferred into the Council from the NHS, representing 14% of pensionable pay. It is estimated that the Council will similarly pay £80,000 to NHS Pensions in 2018/19.

### **Note 36. Defined Benefit Pension Schemes**

#### **Participation in Pensions Schemes**

As part of the terms and conditions of employment of its officers and other employees, the Council makes contributions towards the cost of post-employment (retirement) benefits. Although these benefits will not actually be payable until employees retire, the Council has a commitment to make the payments (for those benefits) and to disclose them at the time that employees earn their future entitlement.

The Council participates in the Local Government Pension Scheme (LGPS) administered by Essex County Council. This is a funded defined benefit final salary scheme, meaning that the Council and employees pay contributions into a fund, calculated at a level to balance the pension liabilities with investment assets.

#### **Transactions relating to post-employment benefits**

We recognise the cost of retirement benefits in the reported cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge we are required to make against Council tax is based on the cash payable in the year, so the real cost of post-employment/retirement benefits is reversed out of the General Fund via the Movement in Reserves Statement. The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement during the year:

|                                                                                                                                               | 2017/18<br>£000 | 2016/17<br>£000 |
|-----------------------------------------------------------------------------------------------------------------------------------------------|-----------------|-----------------|
| <b>Comprehensive Income and Expenditure Statement</b>                                                                                         |                 |                 |
| <b>Cost of Services</b>                                                                                                                       |                 |                 |
| Current Service Cost                                                                                                                          | 18,259          | 12,258          |
| (Gain) / Loss from Settlement                                                                                                                 | (10,085)        | (5,720)         |
| Cost of Curtailments                                                                                                                          | 128             | 725             |
| Administration Expense                                                                                                                        | 168             | 153             |
| <b>Financing and Investment Income and Expenditure</b>                                                                                        |                 |                 |
| Net Interest Expense                                                                                                                          | 5,543           | 5,513           |
| <b>Total post-employment benefit charged to the surplus or deficit on the provision of services</b>                                           | <b>14,013</b>   | <b>12,929</b>   |
| <b>Other post-employment benefit charged to the comprehensive income and expenditure statement</b>                                            |                 |                 |
| Return on plan assets in excess of interest                                                                                                   | (19,123)        | (57,173)        |
| Other actuarial gains on assets                                                                                                               | 0               | (1,313)         |
| Change in financial assumptions                                                                                                               | (28,979)        | 126,441         |
| Change in demographic assumptions                                                                                                             | 0               | (9,957)         |
| Experience gain on defined benefit obligation                                                                                                 | 0               | (243)           |
| <b>Remeasurements and Other Comprehensive Income</b>                                                                                          | <b>(48,102)</b> | <b>57,755</b>   |
| <b>Total post-employment benefit (credited) / charged to the Comprehensive Income and Expenditure Statement</b>                               | <b>(34,089)</b> | <b>70,684</b>   |
| <b>Movement in Reserves Statement</b>                                                                                                         |                 |                 |
| Reversal of net charges made to the surplus or deficit for the provision of services for post-employment benefits in accordance with the code | 34,089          | (70,684)        |
| <b>Actual amount charged against the General Fund Balance for Pensions in the year</b>                                                        |                 |                 |
| Employer's contributions payable to scheme                                                                                                    | 19,606          | 8,720           |

### Pension Assets and Liabilities Recognised in the Balance Sheet

The amount included in the Balance Sheet arising from the Council's obligation in respect of its defined benefit plan is as follows:

| <b>Actuarial Gains/(Losses)</b>                              | <b>2017/18<br/>£000</b> | <b>2016/17<br/>£000</b> |
|--------------------------------------------------------------|-------------------------|-------------------------|
| Present Value of the defined benefit obligation              | 616,828                 | 647,083                 |
| Fair Value of Plan Assets                                    | (447,906)               | (424,466)               |
| <b>Net Liability arising from defined benefit obligation</b> | <b>168,922</b>          | <b>222,617</b>          |

### Reconciliation of Present Value of the Scheme Liabilities (Defined Benefit Obligation)

|                                                                          | <b>2017/18<br/>£000</b> | <b>2016/17<br/>£000</b> |
|--------------------------------------------------------------------------|-------------------------|-------------------------|
| Opening Balance at 1 April                                               | 647,083                 | 524,060                 |
| Current Service Cost                                                     | 18,259                  | 12,258                  |
| Interest Cost                                                            | 16,812                  | 18,405                  |
| Contributions by Scheme Participants                                     | 3,132                   | 3,299                   |
| Actuarial gains / losses arising from changes in demographic assumptions | 0                       | (9,957)                 |
| Actuarial gains / losses arising from changes in financial assumptions   | (28,979)                | 126,441                 |
| Other                                                                    | 0                       | (243)                   |
| Losses on Curtailments                                                   | 128                     | 725                     |
| Benefits Paid                                                            | (16,129)                | (16,604)                |
| Liabilities extinguished on Settlements                                  | (23,478)                | (11,301)                |
| <b>Closing Balance at 31 March</b>                                       | <b>616,828</b>          | <b>647,083</b>          |

## Reconciliation of fair value of the scheme assets

|                                                                                      | 2017/18<br>£000 | 2016/17<br>£000 |
|--------------------------------------------------------------------------------------|-----------------|-----------------|
| Opening Balance at 1 April                                                           | 424,466         | 363,407         |
| Interest Income                                                                      | 11,269          | 12,892          |
| The return on plan assets, excluding the amount included in the net interest expense | 19,123          | 57,173          |
| Other Actuarial Gains                                                                | 0               | 1,313           |
| Employer Contributions                                                               | 19,606          | 8,720           |
| Contributions by Scheme Participants                                                 | 3,132           | 3,299           |
| Benefits Paid                                                                        | (16,129)        | (16,604)        |
| Payment of Bulk Transfer Value                                                       | (13,393)        | (5,581)         |
| Administrative Expense                                                               | (168)           | (153)           |
| <b>Closing Balance at 31 March</b>                                                   | <b>447,906</b>  | <b>424,466</b>  |

## Local Government Pension Scheme assets

The estimated asset allocation as at 31 March is as follows:

|                     | 2017/18        |             | 2016/17        |             |
|---------------------|----------------|-------------|----------------|-------------|
|                     | £000           |             | £000           |             |
| Equity Investments  | 292,329        | 65.3%       | 289,920        | 68.3%       |
| Government Bonds    | 29,797         | 6.7%        | 16,059         | 3.8%        |
| Other Bonds         | 16,639         | 3.7%        | 17,251         | 4.1%        |
| Property            | 42,486         | 9.5%        | 41,295         | 9.7%        |
| Cash / Liquidity    | 15,403         | 3.4%        | 12,776         | 3.0%        |
| Alternative Assets  | 33,085         | 7.4%        | 28,309         | 6.7%        |
| Other Managed Funds | 18,167         | 4.1%        | 18,856         | 4.4%        |
|                     | <b>447,906</b> | <b>100%</b> | <b>424,466</b> | <b>100%</b> |

Of the equities allocation, 100% are overseas investments. 100% of the equities are listed.

The Government Bonds allocation consists entirely of UK index linked government securities.

The Other Bonds allocation consists entirely of UK corporate bonds.

Of the Property allocation, 36% is listed.

The Alternative Assets allocation is made up of 42% in Private Equity, 42% in Infrastructure and 16% in Timber.

### Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc.

The Pension Fund liabilities have been assessed by Barnett Waddingham, an independent firm of actuaries, estimates being based on the last full revaluation of the scheme as at 31 March 2016.

The significant assumptions used by the actuary have been:

|                                         | 2017/18 | 2016/17 |
|-----------------------------------------|---------|---------|
| <b>Mortality assumptions:</b>           |         |         |
| Longevity at 65 for Current Pensioners  |         |         |
| Men                                     | 22.2    | 22.1    |
| Women                                   | 24.7    | 24.6    |
| Longevity at 65 for Future Pensioners   |         |         |
| Men                                     | 24.4    | 24.3    |
| Women                                   | 27.0    | 26.9    |
| Rate of Inflation (RPI)                 | 3.3%    | 3.6%    |
| Rate of Inflation (CPI)                 | 2.3%    | 2.7%    |
| Rate of increases in salaries           | 3.8%    | 4.2%    |
| Rate of increase in pensions            | 2.3%    | 2.7%    |
| Rate for discounting scheme liabilities | 2.55%   | 2.7%    |

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the table above. The sensitivity analyses below have been determined based on reasonably possible changes of the assumptions occurring at the end of the reporting period and assumes for each change that the assumption analysed changes while all the other assumptions remain constant. The assumptions in longevity, for example, assume that life expectancy increases or decreases for men and women. In practice, this is unlikely to occur, and changes in some of the assumptions may be interrelated. The estimations in the sensitivity analysis have followed the accounting policies of the scheme, i.e. on an actuarial basis using the projected unit credit method. The methods and types of assumptions used in preparing the sensitivity analysis below did not change from those used in the previous period.

| Impact on the Defined Benefit Obligation in the Scheme                | Increase in Assumption<br>£000 | Decrease in Assumption<br>£000 |
|-----------------------------------------------------------------------|--------------------------------|--------------------------------|
| Longevity (increase or decrease in 1 year)                            | 23,472                         | (22,585)                       |
| Rate of inflation (increase or decrease by 0.1%)                      | 10,416                         | (10,227)                       |
| Rate of increase in salaries (increase or decrease by 0.1%)           | 953                            | (948)                          |
| Rate of increase in pensions (increase or decrease by 0.1%)           | 10,416                         | (10,227)                       |
| Rate of discounting scheme liabilities (increase or decrease by 0.1%) | (11,137)                       | 11,352                         |



### **Impact on the Council's Cash Flows**

One of the objectives of the scheme is to keep employers' contributions at as constant a rate as possible. The Council has agreed a strategy with the scheme's actuary to achieve a funding level of 100% over the next 8 years. Funding levels are monitored on an annual basis. The next triennial valuation is due to be completed as at 31 March 2019.

The scheme will need to take account of the national changes to the scheme under the Public Pensions Service Act 2013. Under the Act, the Local Government Pension Scheme in England and Wales, and the other main existing public service schemes may not provide benefits in relation to service after 31 March 2014 (or service after 31 March 2015 for other main existing public service pension schemes in England and Wales). The Act provides for scheme regulations to be made within a common framework, to establish new career average revalued earnings schemes to pay pensions and other benefits to certain public servants.

The Council anticipates paying a £7.749M contribution to the scheme in 2018/19.

The weighted average duration of the defined benefit obligation for scheme members is 19 years (19 years 2016/17).

### **Note 37. Nature and Extent of Risks Arising from Financial Instruments**

The Council's activities expose it to a variety of financial risks:

- Credit risk – the possibility that other parties might fail to pay amounts due to the Council;
- Liquidity risk – the possibility that the Council might not have funds available to meet its commitments to make payments;
- Market risk – the possibility that financial loss might arise for the Council as a result of changes in such measures as interest rates and stock market movements.

The Council's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the resources available to fund services. Risk management is carried out by a central treasury team, under policies approved by the Council in the annual Treasury Management Strategy. The Council provides written principles for overall risk management, as well as written policies covering specific areas, such as interest rate risk, credit risk and the investment of surplus cash.

#### Credit Risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Council's customers. The risk with banks and financial institutions is minimised through the Annual Investment Strategy, which requires that deposits are not made with financial institutions unless they meet identified minimum credit criteria, the credit ratings being set by Moody, Standard & Poors and Fitch Ratings Services. Regard is also given to rating watches and outlooks and relevant market information as appropriate. The Annual Investment Strategy also imposes a maximum sum to be invested with a financial institution located within each category.

The credit criteria in respect of financial assets held by the Council are as detailed in the Annual Investment Strategy which can be accessed from the Council's website.

The Council's maximum exposure to credit risk in relation to its investments in banks and building societies of £14M cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. Recent experience has shown that it is rare for such entities to be unable to meet their commitments. A risk of irrecoverability applies to all of the Council's deposits, but there was no evidence at the 31 March 2018 that this was likely to crystallise.

The following analysis summarises the Council's potential maximum exposure to credit risk on other financial assets, based on experience of default and uncollectability over the last five financial years, adjusted to reflect current market conditions.

| Credit Risk                                             | Amounts<br>£000 | Historical<br>experience of<br>default<br>% | 31 March 2018                                                         | Estimated<br>maximum<br>exposure to<br>default and<br>uncollectability<br>£000 | 31 March 2017                                                                  |
|---------------------------------------------------------|-----------------|---------------------------------------------|-----------------------------------------------------------------------|--------------------------------------------------------------------------------|--------------------------------------------------------------------------------|
|                                                         |                 |                                             | Historical<br>experience<br>adjusted for<br>market<br>conditions<br>% |                                                                                | Estimated<br>maximum<br>exposure to<br>default and<br>uncollectability<br>£000 |
| Deposits With Banks And<br>Other Financial Institutions | 13,563          | 0.00%                                       | 0.00%                                                                 | 0                                                                              | 0                                                                              |
| Bonds And Other<br>Securities                           | 55,864          | 0.00%                                       | 0.00%                                                                 | 0                                                                              | 0                                                                              |
| Customers                                               | 28,094          | 0.43%                                       | 0.92%                                                                 | 220                                                                            | 240                                                                            |

No credit limits were exceeded during the reporting period and the Council does not expect any losses from non-performance by any of its counterparties in relation to deposits and bonds.

The past due but not impaired amount can be analysed by age as follows:

|                        | 31 March 2018<br>£000 | 31 March 2017<br>£000 |
|------------------------|-----------------------|-----------------------|
| Less Than Three Months | 4,567                 | 4,735                 |
| Three To Six Months    | 722                   | 649                   |
| Six Months To One Year | 586                   | 427                   |
| More Than One Year     | 2,581                 | 2,667                 |
| <b>Total</b>           | <b>8,456</b>          | <b>8,478</b>          |

#### Liquidity Risk

The Council has a comprehensive cash flow management system that seeks to ensure that cash is available as needed. If unexpected movements happen, the Council has ready access to borrowings from other Local Authorities and the Public Works Loans Board. There is no significant risk that it will be unable to raise finance to meet its commitments under financial instruments. Instead, the risk is that the Council will be bound to replenish a significant proportion of its borrowings at a time of unfavourable interest rates. The Council sets limits on the proportion of its fixed rate borrowing during specified periods. The strategy for long term borrowing is to ensure that not more than 40% of loans are due to mature between 2 and 5 years, through a combination of careful planning of new loans taken out and (where it is economic to do so) making early repayments. The maturity analysis of financial liabilities is as follows:

|                                            | 31 March 2018<br>£000 | 31 March 2017<br>£000 |
|--------------------------------------------|-----------------------|-----------------------|
| Less than 1 year                           | 10,929                | 10,815                |
| Between 1 and 2 years                      | 18,021                | 10,929                |
| Between 2 and 5 years                      | 33,359                | 41,446                |
| Between 5 and 10 years                     | 87,357                | 78,335                |
| Between 10 and 15 years                    | 96,247                | 103,486               |
| Between 15 and 20 years                    | 83,702                | 72,993                |
| More than 20 years                         | 90,151                | 106,471               |
| <b>Total Cost of Loans Over Their Life</b> | <b>419,766</b>        | <b>424,475</b>        |
| This total consists of:                    |                       |                       |
| Principal Amount of Loans                  | 236,557               | 235,718               |
| Future Interest Element                    | 183,209               | 188,757               |
| <b>Total Cost of Loans Over Their Life</b> | <b>419,766</b>        | <b>424,475</b>        |

These amounts are higher than those recognised in note 24 as they include the interest for each year of the loans, included in the year it falls due.

All trade and other payables are due to be paid in less than one year.

#### Market Risk

##### *Interest rate risk*

The Council is exposed to risk in terms of its exposure to interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the Council. For instance, a rise in interest rates would have the following effects:

- borrowings at variable rates – the interest expense charged to the Surplus or Deficit on the Provision of Services will rise
- borrowings at fixed rates – the fair value of the liabilities borrowings will fall
- investments at variable rates – the interest income credited to the Surplus or Deficit on the Provision of Services will rise
- investments at fixed rates – the fair value of the assets will fall.

Borrowings are not carried at fair value, so nominal gains and losses on fixed rate borrowings would not impact on the Surplus of Deficit on the Provision of Services or Other Comprehensive Income and Expenditure. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Surplus or Deficit on the Provision of Services and affect the General Fund Balance. Movements in the fair value of fixed rate investments that have a quoted market price will be reflected in Other Comprehensive Income and Expenditure.

The Council has a number of strategies for managing interest rate risk. Policy is to keep an appropriate mix of fixed and variable rate loans. During periods of falling interest rates, and where economic circumstances make it favourable, fixed rate loans will be repaid early to limit exposure to losses.

The treasury management team, together with its advisers, has an active strategy for assessing interest rate exposure that feeds into the setting of the annual budget and which is used to update the budget during the year. This allows any adverse changes to be accommodated. The analysis will also advise whether new borrowing taken out is fixed or variable.

According to this assessment strategy, at 31 March 2018, if interest rates had been 1% higher with all other variables held constant, the financial effect would be:

|                                                                                                                                                                              | <b>£000</b>  |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------|
| Increase in interest payable on variable rate borrowings                                                                                                                     | 0            |
| Increase in interest receivable on variable rate investments                                                                                                                 | (824)        |
| Increase in government grant receivable for financing costs                                                                                                                  | 0            |
| <b>Impact on Surplus or Deficit on the Provision of Services</b>                                                                                                             | <b>(824)</b> |
| Share of overall impact debited to the HRA                                                                                                                                   | (64)         |
| Decrease in fair value of fixed rate investment assets                                                                                                                       | 0            |
| <b>Impact on Other Comprehensive Income and Expenditure</b>                                                                                                                  | <b>0</b>     |
| Decrease in fair value of fixed rate borrowings liabilities (no impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure) | 0            |

*Price Risk*

The Council has no investments in equity shares, and therefore has no exposure to losses arising from movements in the price of shares.

The Council holds investments in property funds, short dated bond funds and an enhanced cash fund and therefore has exposure to losses arising from movements in the price of the units of those funds. However, the corporate reserve for interest equalisation will be used to capture some of the income in the years when the values are rising, and will then be available to offset any losses should values fall, therefore not impacting the General Fund Balance.

*Foreign Exchange Risk*

The Council has very limited exposure to loss arising from movements in exchange rates.

## NOTES SUPPORTING THE CASH FLOW STATEMENT

### Note 38. Cash Flow Statement - Interest Paid and Received

The interest paid and received figures are included within the Net (Surplus) or Deficit on the Provision of Services line of the Cash Flow Statement. The amounts are as follows:

|                                                       | 2017/18<br>£000 | 2016/17<br>£000 |
|-------------------------------------------------------|-----------------|-----------------|
| Interest paid                                         | 11,108          | 10,896          |
| Interest received                                     | (202)           | (337)           |
| <b>Net Cash Flows from Interest Paid and Received</b> | <b>10,906</b>   | <b>10,559</b>   |

These figures differ from the Interest Payable and Similar Charges and Interest Receivable and Similar Income figures in Note 11, as they do not include accruals and other non-cash items.

### Note 39. Cash Flow Statement – Non-Cash Movements

The Cash flows for non-cash movements include the following items:

|                                                                                                                                                                                              | 2017/18<br>£000 | 2016/17<br>£000 |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------|-----------------|
| Depreciation of Non Current Assets                                                                                                                                                           | (19,348)        | (19,113)        |
| Downward Revaluation and Impairment Losses of Non Current Assets                                                                                                                             | 5,072           | (4,421)         |
| Amortisations                                                                                                                                                                                | (1,367)         | (892)           |
| (Increase)/Decrease in impairment for provision for bad debts                                                                                                                                | (235)           | 732             |
| (Increase)/Decrease in Creditors                                                                                                                                                             | (6,527)         | (210)           |
| Increase/(Decrease) in Debtors                                                                                                                                                               | 4,625           | 862             |
| Increase/(Decrease) in Inventories                                                                                                                                                           | (49)            | 144             |
| Net retirement benefits per IAS19                                                                                                                                                            | 5,593           | (4,209)         |
| Carrying amount of assets disposed/sold                                                                                                                                                      | (29,207)        | (49,694)        |
| Reverse out the movement on the provision debited or credited to the Comprehensive Income and Expenditure Statement and replace with the cash payments made in the year out of the provision | 1,293           | 818             |
| Movements in the value of investment properties                                                                                                                                              | 3,212           | 2,411           |
| Removal of Council Tax and Business Rates Agency Adjustments from Comprehensive Income and Expenditure Statement                                                                             | 5,325           | 1,413           |
| Other                                                                                                                                                                                        | (3)             | (3)             |
| <b>Net Cash Flows from Operating Activities</b>                                                                                                                                              | <b>(31,616)</b> | <b>(72,162)</b> |

**Note 40. Cash Flow Statement - Adjustments for items included in the Net Surplus or Deficit on the Provision of Services that are Investing and Financing Activities**

The Cash flows for adjustments for items included in the Net Surplus or Deficit on the Provision of Services that are Investing and Financing Activities include the following items:

|                                                                                                    | <b>2017/18</b> | <b>2016/17</b> |
|----------------------------------------------------------------------------------------------------|----------------|----------------|
|                                                                                                    | <b>£000</b>    | <b>£000</b>    |
| Capital Grants credited to Surplus or deficit on the provision of services                         | 14,849         | 19,890         |
| REFCUS                                                                                             | (12,715)       | (5,859)        |
| Proceeds from the sale of property, plant and equipment, investment property and intangible assets | 3,615          | 4,569          |
| Proceeds from short-term and long-term investments                                                 | 0              | 4              |
| <b>Net Cash Flow Adjustments</b>                                                                   | <b>5,749</b>   | <b>18,604</b>  |

**Note 41. Cash Flow Statement - Investing Activities**

|                                                                                                    | <b>2017/18</b> | <b>2016/17</b> |
|----------------------------------------------------------------------------------------------------|----------------|----------------|
|                                                                                                    | <b>£000</b>    | <b>£000</b>    |
| Purchase of property, plant and equipment, investment property and intangible assets               | 62,082         | 47,852         |
| Purchase of short-term and long-term investments                                                   | 6,879          | 23,430         |
| Proceeds from the sale of property, plant and equipment, investment property and intangible assets | (3,615)        | (4,569)        |
| Proceeds from short-term and long-term investments                                                 | (10,089)       | (27,934)       |
| Other receipts from investing activities                                                           | (14,849)       | (19,890)       |
| <b>Net Cash Flow from Investing Activities</b>                                                     | <b>40,408</b>  | <b>18,889</b>  |

**Note 42. Cash Flow Statement - Financing Activities**

|                                                                                           | <b>2017/18</b>  | <b>2016/17</b> |
|-------------------------------------------------------------------------------------------|-----------------|----------------|
|                                                                                           | <b>£000</b>     | <b>£000</b>    |
| Cash receipts of short and long-term borrowing                                            | (21,937)        | (9,725)        |
| Cash payments for the reduction of the outstanding liabilities relating to finance leases | 418             | 99             |
| Repayments of short and long-term borrowing                                               | 15,592          | 15,035         |
| Other payments for financing activities                                                   | (4,701)         | (763)          |
| <b>Net Cash Flow from Financing Activities</b>                                            | <b>(10,628)</b> | <b>4,646</b>   |

## OTHER NOTES

### Note 43. Related Parties

The Council is required to disclose material transactions with related parties – bodies or individuals that have the potential to control or influence the Council or to be controlled or influenced by the Council. Disclosure of these transactions allows readers to assess the extent to which the Council might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the Council.

#### Central UK Government

Central UK government has effective control over the general operations of the Council – it is responsible for providing the statutory framework within which the Council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties (e.g. Council tax bills, housing benefits). Grants received from government departments, and other areas of the public sector, used in 2017/18 and those received but not yet applied as at 31 March 2018 are set out in Note 18.

In addition the Council works in partnership with NHS Southend Clinical Commissioning Group through a pooled budget arrangement.

#### Members

Members of the Council have direct control over the Council's financial and operating policies. The total of Members' allowances paid in 2017/18 is shown in Note 14.

As part of their roles, Members are often appointed to be the Council's representatives on outside bodies, and occasionally hold similar roles in their own right. Separately the Council may commission services from these organisations, or potentially grant aid them under its voluntary sector grants programme. Contracts were entered into with full procurement rules compliance and awards made with proper consideration of declarations of interest. The relevant Members did not take part in any discussion or decision relating to the grants. Details of all these transactions are recorded in the Register of Members' Interest, open to public inspection at the Civic Offices during office hours.

It is considered that these transactions do not constitute related party transactions

#### Officers

Six officers act as Board members to five of the Council's wholly owned subsidiaries – Southend Trading Corporation Limited, Southend Independent Living Limited, Southend Business Services Limited, Southend Care Limited and Southend Housing Limited. Southend Trading Corporation Limited and Southend Independent Living Limited have ceased trading. Southend Business Services Limited and Southend Housing Limited had yet to trade as at the balance sheet date. The officers do not hold any pecuniary stake in the companies, nor take any director fee. The Council however is reimbursed for officer time spent on company business.

#### Entities Controlled or Significantly Influenced by the Council

Southend-on-Sea Borough Council has a dominant influence over South Essex Homes Limited, which manages the Council's housing stock. During the course of the financial year, five Members occupied the three reserved positions on the board of South Essex Homes Limited. All material transactions with the company are recorded in the notes to the consolidated group accounts.

Under IAS19 South Essex Homes Limited must account for the net surplus or deficit arising from its share of the pension assets and liabilities in respect of its employees who are members of the Essex County Council Pension Fund. As at 31 March 2018 there was a net deficit of £8.774M in respect of South Essex Homes Limited's pension liabilities. As at 31 March 2018 South Essex Homes Limited also had a retained surplus of £1.859M in respect of its Profit and Loss reserve. Southend-on-Sea Borough Council undertakes to provide continuing financial support to enable the financial statements of South Essex Homes Limited to be prepared on a going concern basis.

Southend-on-Sea Borough Council also has a dominant influence over Southend Care Ltd, which provides adult social care services to the Council. During the course of the financial year, one officer of the Council

acted as Director on the board of Southend Care Ltd. All material transactions with the company are recorded in the notes to the consolidated group accounts.

Under IAS19 Southend Care Ltd must account for the net surplus or deficit arising from its share of the pension assets and liabilities in respect of its employees who are members of the Essex County Council Pension Fund. As at 31 March 2018 there was a net deficit of £5.498M in respect of Southend Care Limited's pension liabilities. As at 31 March 2018 Southend Care Ltd also had a retained deficit of £0.284M in respect of its Profit and Loss reserve. Southend-on-Sea Borough Council undertakes to provide continuing financial support to enable the financial statements of Southend Care Ltd to be prepared on a going concern basis.

Given the nature of the two companies, and the fact that they substantially only work to provide services to the Council, in the event of failure of a company the Council would need to secure the continuance of service provision through other means. In such an eventuality, it would mean that any pension deficit would simply transfer from group to the single entity at that point.

#### **Note 44. Contingent Liabilities**

The Council has no contingent liabilities.



# **HOUSING REVENUE ACCOUNT**

## HRA INCOME AND EXPENDITURE STATEMENT

| 2016/17<br>£000 |                                                                                                                 | 2017/18<br>£000 |
|-----------------|-----------------------------------------------------------------------------------------------------------------|-----------------|
|                 | <b>Income</b>                                                                                                   |                 |
| (26,229)        | Dwelling Rents (Gross)                                                                                          | (25,962)        |
| (1,419)         | Non Dwelling Rents (Gross)                                                                                      | (1,419)         |
| (1,083)         | Charges for Services and Facilities                                                                             | (1,022)         |
| (1,779)         | Revaluation Gains                                                                                               | (1,089)         |
| <b>(30,510)</b> | <b>Total Income</b>                                                                                             | <b>(29,492)</b> |
|                 | <b>Expenditure</b>                                                                                              |                 |
| 4,320           | Repairs and Maintenance                                                                                         | 5,463           |
| 6,848           | Supervision and Management                                                                                      | 6,651           |
| 744             | Rents, Rates, Taxes and other Charges                                                                           | 766             |
| (60)            | Provision for Bad and Doubtful Debts                                                                            | 104             |
| 6,532           | Depreciation and impairment on Dwellings                                                                        | 5,859           |
| 243             | Depreciation and impairment on Other Assets                                                                     | 415             |
| 48              | Debt Management Expenses                                                                                        | 35              |
|                 | <i>(HRA Note 3)</i>                                                                                             |                 |
|                 | <i>(HRA Note 3)</i>                                                                                             |                 |
| <b>18,675</b>   | <b>Total Expenditure</b>                                                                                        | <b>19,293</b>   |
| <b>(11,835)</b> | <b>Net cost of HRA services as included in the whole authority Comprehensive Income and Expenditure Account</b> | <b>(10,199)</b> |
| 176             | HRA services share of Corporate and Democratic Core                                                             | 180             |
| <b>(11,659)</b> | <b>Net Cost of HRA Services</b>                                                                                 | <b>(10,019)</b> |
| (1,142)         | Loss/(Profit) on Sale of HRA Long Term Assets                                                                   | (1,217)         |
| 3,467           | Interest Payable and Similar Charges                                                                            | 3,427           |
| (116)           | General Grants                                                                                                  | (334)           |
| (195)           | Interest Receivable                                                                                             | (159)           |
| <b>(9,645)</b>  | <b>(Surplus) / Deficit for the year on HRA services</b>                                                         | <b>(8,302)</b>  |

## MOVEMENT ON THE HRA BALANCE

This Statement takes the outturn on the HRA Income and Expenditure Account and reconciles it to the surplus or deficit for the year on the HRA Balance, calculated in accordance with the requirements of the Local Government and Housing Act 1989.

| 2016/17<br>£000 |                                                                                          | 2017/18<br>£000 |
|-----------------|------------------------------------------------------------------------------------------|-----------------|
| (9,645)         | Surplus for the year on the Housing Revenue Account Income And Expenditure Account       | (8,302)         |
| 3,956           | Net additional amount required by statute to be credited to the HRA Balance for the year | 2,874           |
| 5,689           | Transfer to / (from) Earmarked Reserves                                                  | 5,428           |
| <b>0</b>        | <b>Decrease/(Increase) in the Housing Revenue Account Balance</b>                        | <b>0</b>        |
| (3,502)         | Housing Revenue Account - Balance Brought Forward                                        | (3,502)         |
| <b>(3,502)</b>  | <b>Housing Revenue Account - Balance Carried Forward</b>                                 | <b>(3,502)</b>  |

## CALCULATION OF MOVEMENT ON THE HRA BALANCE

| 2016/17<br>£000 |                                                                                                                                                                            | 2017/18<br>£000 |
|-----------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------|
|                 | <b>Amounts included in the HRA Income And Expenditure Account but required by statute to be excluded when determining the Movement on the HRA Balance for the year</b>     |                 |
| 1,142           | (Loss)/Profit on Sale of HRA Long Term Assets                                                                                                                              | 1,217           |
| 242             | General Grants / Service Grants                                                                                                                                            | 614             |
|                 | <b>Amounts not included in the HRA Income And Expenditure Account but required to be included by statute when determining the Movement on the HRA Balance for the year</b> |                 |
| 603             | Transfer to / (from) Capital Adjustment Account - Impairment                                                                                                               | 850             |
| 134             | Transfer to / (from) Capital Adjustment Account - REFCUS                                                                                                                   | (439)           |
| 1,835           | Revenue Contribution to Capital                                                                                                                                            | 632             |
| 5,689           | <b>Transfer to / (from) Earmarked Reserves</b>                                                                                                                             | <b>5,428</b>    |
| <b>9,645</b>    | <b>Net Additional Amount required to be credited to the Housing Revenue Account Balance for the year</b>                                                                   | <b>8,302</b>    |

## NOTES TO THE HRA

### HRA Note 1. Analysis of Housing Stock

|                                         | Number of<br>Properties<br>31 March 2018 | Number of<br>Properties<br>31 March 2017<br>Restated |
|-----------------------------------------|------------------------------------------|------------------------------------------------------|
| Houses And Bungalows                    | 2,089                                    | 2,104                                                |
| Flats                                   | 3,816                                    | 3,815                                                |
| <b>Total Houses and Flats</b>           | <b>5,905</b>                             | <b>5,919</b>                                         |
| Homelessness Hostel Bedsits - Room only | 115                                      | 115                                                  |
|                                         | <b>6,020</b>                             | <b>6,034</b>                                         |

### HRA Note 2. Major Repairs Reserve

The Reserve consists of depreciation charged to the HRA transferred to the account via the Capital Adjustment Account, against which is charged any allowable statutory mitigation. The balance on the reserve is available to fund future capital expenditure within the HRA.

|                                          | 2017/18<br>£000 | 2016/17<br>£000 |
|------------------------------------------|-----------------|-----------------|
| <b>Balance at 1 April</b>                | <b>5,493</b>    | <b>4,534</b>    |
| Transfers In                             | 6,036           | 5,600           |
| Used To Fund Capital (Council Dwellings) | (4,540)         | (4,641)         |
| <b>Balance at 31 March</b>               | <b>6,989</b>    | <b>5,493</b>    |

### HRA Note 3. Depreciation

Depreciation – a charge for depreciation has also been made covering dwellings. The useful economic life for Dwellings, other buildings and non-operational assets are in accordance with the componentisation policy and in line with those shown in note 21. The Major Repairs Allowance (MRA) is matched against the cost of depreciation. Land is not depreciated due to having an indefinite life.

|                                                            | 2017/18<br>£000 | 2016/17<br>£000 |
|------------------------------------------------------------|-----------------|-----------------|
| <b>Item 8 Debit</b>                                        |                 |                 |
| <u>Depreciation</u>                                        |                 |                 |
| Council Dwellings                                          | 5,820           | 5,387           |
| Non-Council Dwellings                                      | 216             | 213             |
| <u>Impairment</u>                                          |                 |                 |
| Council Dwellings                                          | 39              | 1,145           |
| Non-Council Dwellings                                      | 199             | 30              |
| <b>Total Depreciation and Impairment</b>                   | <b>6,274</b>    | <b>6,775</b>    |
| Debt Management Expenses                                   | 35              | 48              |
| Loan Interest Payable                                      | 3,427           | 3,467           |
| <b>Item 8 Credit</b>                                       |                 |                 |
| Interest Receivable                                        | (159)           | (195)           |
| <u>Revaluation Gains</u>                                   |                 |                 |
| Council Dwellings                                          | (1,089)         | (1,675)         |
| Non-Council Dwellings                                      | 0               | (104)           |
| Appropriation From Capital Adjustment Account - Impairment | 850             | 603             |
| Appropriation From Capital Adjustment Account - REFCUS     | (439)           | 134             |
| <b>Net Effect On HRA</b>                                   | <b>8,899</b>    | <b>9,053</b>    |

#### HRA Note 4. Property, Plant and Equipment

The Fixed Assets for the Housing Revenue Account are shown in the table below.

The assets are shown at existing use value to reflect the fact that they are used for social housing and are less than market value.

The Open Market Value (OMV) of Council dwellings at 1 April 2017 amounted to £764.8m. It should be noted that the difference between the vacant possession value, or the OMV above, and the balance sheet value of dwellings within the HRA show the economic cost to Government of providing Council housing at less than market value.

|                                                    | Council<br>Dwellings | Other<br>Land &<br>Buildings | Assets Under<br>Construction | Non-<br>Operational<br>Investment<br>Properties | Total          |
|----------------------------------------------------|----------------------|------------------------------|------------------------------|-------------------------------------------------|----------------|
|                                                    | £000                 | £000                         | £000                         | Restated<br>£000                                | £000           |
| <b>Gross Book Value as<br/>at 31 March 2017</b>    | <b>353,520</b>       | <b>10,432</b>                | <b>0</b>                     | <b>1,042</b>                                    | <b>364,994</b> |
| Accumulated<br>Depreciation as at 31<br>March 2017 | (10,182)             | (439)                        | 0                            | 0                                               | (10,621)       |
| <b>Net Book Value as at<br/>31 March 2017</b>      | <b>343,338</b>       | <b>9,993</b>                 | <b>0</b>                     | <b>1,042</b>                                    | <b>354,373</b> |
| Additions                                          | 5,356                | 66                           | 355                          | 0                                               | 5,777          |
| Disposals                                          | (1,588)              | (72)                         | 0                            | 0                                               | (1,660)        |
| Revaluations via<br>Revaluation Reserve            | 16,076               | (375)                        | 0                            | 0                                               | 15,701         |
| Revaluations recognised<br>in I&E                  | 1,048                | (211)                        | 0                            | 0                                               | 837            |
| <u>Depreciation</u>                                |                      |                              |                              |                                                 |                |
| For Current Year                                   | (5,820)              | (216)                        | 0                            | 0                                               | (6,036)        |
| On Disposals                                       | 66                   | 3                            | 0                            | 0                                               | 69             |
| Revaluations                                       | 32                   | 9                            | 0                            | 0                                               | 41             |
| Impairments                                        | 2                    | 12                           | 0                            | 0                                               | 14             |
| <b>Gross Book Value as<br/>at 31 March 2018</b>    | <b>374,412</b>       | <b>9,840</b>                 | <b>355</b>                   | <b>1,042</b>                                    | <b>385,649</b> |
| Accumulated<br>Depreciation as at 31<br>March 2018 | (15,902)             | (631)                        | 0                            | 0                                               | (16,533)       |
| <b>Net Book Value as at<br/>31 March 2018</b>      | <b>358,510</b>       | <b>9,209</b>                 | <b>355</b>                   | <b>1,042</b>                                    | <b>369,116</b> |

HRA Note 5. Capital Expenditure

|                                              | 31 March 2018<br>£000 | 31 March 2017<br>£000 |
|----------------------------------------------|-----------------------|-----------------------|
| Purchase or enhancement of Council Dwellings | 5,777                 | 7,152                 |
| REFCUS                                       | 439                   | 126                   |
| <b>Total HRA Capital Expenditure</b>         | <b>6,216</b>          | <b>7,278</b>          |
| <u>Financed by:-</u>                         |                       |                       |
| Usable Capital Receipts                      | 271                   | 561                   |
| <b>Total Financed By Capital Receipts</b>    | <b>271</b>            | <b>561</b>            |
| <u>Revenue contributions:-</u>               |                       |                       |
| General Reserves                             | 632                   | 1,835                 |
| Major Repairs Reserve                        | 4,540                 | 4,641                 |
| Third Party                                  | 773                   | 133                   |
| Capital Grant                                | 0                     | 108                   |
| <b>Total Revenue Contributions</b>           | <b>5,945</b>          | <b>6,717</b>          |
| <b>Total Capital Expenditure</b>             | <b>6,216</b>          | <b>7,278</b>          |





# **THE COLLECTION FUND**

## THE COLLECTION FUND

| 2016/17<br>£000                             | 2016/17<br>£000 | 2016/17<br>£000 |                                             | 2017/18<br>£000 | 2017/18<br>£000 | 2017/18<br>£000 | Collection<br>Fund<br>Note |
|---------------------------------------------|-----------------|-----------------|---------------------------------------------|-----------------|-----------------|-----------------|----------------------------|
| Council Tax                                 | NNDR            | Total           |                                             | Council Tax     | NNDR            | Total           |                            |
| <b>INCOME</b>                               |                 |                 |                                             |                 |                 |                 |                            |
| 83,000                                      | 0               | 83,000          | Income from Council Tax                     | 88,721          | 0               | 88,721          | 1                          |
| 0                                           | 48,123          | 48,123          | Income Collectable from Business Ratepayers | 0               | 40,528          | 40,528          | 2                          |
| <b>83,000</b>                               | <b>48,123</b>   | <b>131,123</b>  | <b>Total Income</b>                         | <b>88,721</b>   | <b>40,528</b>   | <b>129,249</b>  |                            |
| <b>EXPENDITURE</b>                          |                 |                 |                                             |                 |                 |                 |                            |
| <b>Precepts and Demands</b>                 |                 |                 |                                             |                 |                 |                 |                            |
| 67,557                                      | 0               | 67,557          | Southend-on-Sea Borough Council             | 72,455          | 0               | 72,455          |                            |
| 8,472                                       | 0               | 8,472           | Essex Police Authority                      | 8,939           | 0               | 8,939           |                            |
| 3,770                                       | 0               | 3,770           | Essex Fire Authority                        | 3,929           | 0               | 3,929           |                            |
| <b>Business Rates</b>                       |                 |                 |                                             |                 |                 |                 |                            |
| 0                                           | 23,852          | 23,852          | Payments to Government                      | 0               | 21,108          | 21,108          |                            |
| 0                                           | 477             | 477             | Payments to Fire Authority                  | 0               | 422             | 422             |                            |
| 0                                           | 23,375          | 23,375          | Payments to Southend-on-Sea Borough Council | 0               | 20,685          | 20,685          |                            |
| 0                                           | 238             | 238             | Costs of Collection                         | 0               | 234             | 234             |                            |
| <b>Doubtful Debt and Appeals Provisions</b> |                 |                 |                                             |                 |                 |                 |                            |
| 600                                         | 54              | 654             | Provisions                                  | 91              | 73              | 164             |                            |
| 242                                         | 554             | 796             | Write-offs                                  | 240             | 419             | 659             |                            |
| 0                                           | 1,508           | 1,508           | NNDR Provision for Appeals                  | 0               | 2,520           | 2,520           |                            |
| 0                                           | (749)           | (749)           | NNDR Settlement of Appeals                  | 0               | (4,037)         | (4,037)         |                            |
| <b>80,641</b>                               | <b>49,309</b>   | <b>129,950</b>  | <b>Total Expenditure</b>                    | <b>85,654</b>   | <b>41,424</b>   | <b>127,078</b>  |                            |
| <b>USE OF BALANCES</b>                      |                 |                 |                                             |                 |                 |                 |                            |
| <b>Council Tax</b>                          |                 |                 |                                             |                 |                 |                 |                            |
| 1,000                                       | 0               | 1,000           | Southend-on-Sea Borough Council             | 500             | 0               | 500             |                            |
|                                             |                 |                 | Government                                  | 0               | 0               |                 |                            |
| 127                                         | 0               | 127             | Council Tax - Essex Police Authority        | 63              | 0               | 63              |                            |
| 57                                          | 0               | 57              | Council Tax - Essex Fire Authority          | 28              | 0               | 28              |                            |
| <b>Business Rates</b>                       |                 |                 |                                             |                 |                 |                 |                            |
| 0                                           | 87              | 87              | Government                                  | 0               | (2,161)         | (2,161)         |                            |
| 0                                           | 85              | 85              | Southend-on-Sea Borough Council             | 0               | (2,117)         | (2,117)         |                            |
| 0                                           | 2               | 2               | Essex Fire Authority                        | 0               | (43)            | (43)            |                            |
| <b>1,175</b>                                | <b>(1,360)</b>  | <b>(185)</b>    | <b>(Deficit) / Surplus for the year</b>     | <b>2,476</b>    | <b>3,425</b>    | <b>5,901</b>    |                            |
| <b>COLLECTION FUND BALANCE</b>              |                 |                 |                                             |                 |                 |                 |                            |
| 6,230                                       | (3,740)         | 2,490           | Balance brought forward at 1 April          | 7,405           | (5,100)         | 2,305           |                            |
| 1,175                                       | (1,360)         | (185)           | (Deficit)/Surplus for the year (as above)   | 2,476           | 3,425           | 5,901           |                            |
| <b>7,405</b>                                | <b>(5,100)</b>  | <b>2,305</b>    | <b>Balance Carried Forward at 31 March</b>  | <b>9,881</b>    | <b>(1,675)</b>  | <b>8,206</b>    |                            |
| <b>ALLOCATED TO:</b>                        |                 |                 |                                             |                 |                 |                 |                            |
| 0                                           | (2,550)         | (2,550)         | Government                                  | 0               | (837)           | (837)           |                            |
| 775                                         | 0               | 775             | Police Authority                            | 1,057           | 0               | 1,057           |                            |
| 340                                         | (51)            | 289             | Fire Authority                              | 447             | (16)            | 431             |                            |
| 6,290                                       | (2,499)         | 3,791           | Southend-on-Sea Borough Council             | 8,377           | (822)           | 7,555           |                            |
| <b>7,405</b>                                | <b>(5,100)</b>  | <b>2,305</b>    | <b>Balance Carried Forward at 31 March</b>  | <b>9,881</b>    | <b>(1,675)</b>  | <b>8,206</b>    |                            |

## NOTES TO THE COLLECTION FUND

### Collection Fund Note 1 Income from Council Tax

Council Tax derives from charges raised according to the value of residential properties, which have been classified into 8 valuation bands using estimated 1 April 1991 values for this specific purpose. Individual charges are calculated by estimating the amount of income required to be taken from the Collection Fund by Essex Police Authority, Essex Fire Authority and Southend-on-Sea Borough Council for the forthcoming year and dividing this by the Council Tax Base. The basic amount for a Band D property (£1,538.01 for the Leigh-on-Sea Town Council area and £1,492.02 for all other parts of the Borough) is multiplied by the proportion specified for the particular band to give an individual amount due.

The amount per band is as follows:

| Valuation Band                            | Range of Values            | Council Tax 2017/18<br>Leigh-on-Sea<br>Town Council<br>Area | Council Tax 2017/18<br>All other parts<br>of the Borough | Ratio to<br>Band D |
|-------------------------------------------|----------------------------|-------------------------------------------------------------|----------------------------------------------------------|--------------------|
|                                           | £                          | £                                                           | £                                                        |                    |
| A                                         | Up to and including 40,000 | 1,025.34                                                    | 994.68                                                   | 6/9                |
| B                                         | 40,001 - 52,000            | 1,196.23                                                    | 1,160.46                                                 | 7/9                |
| C                                         | 52,001 - 68,000            | 1,367.12                                                    | 1,326.24                                                 | 8/9                |
| D                                         | 68,001 - 88,000            | 1,538.01                                                    | 1,492.02                                                 | 1                  |
| E                                         | 88,001 - 120,000           | 1,879.79                                                    | 1,823.58                                                 | 11/9               |
| F                                         | 120,001 - 160,000          | 2,221.57                                                    | 2,155.14                                                 | 13/9               |
| G                                         | 160,001 - 320,000          | 2,563.35                                                    | 2,486.70                                                 | 15/9               |
| H                                         | More than 320,000          | 3,076.02                                                    | 2,984.04                                                 | 18/9               |
| Band D                                    |                            | 2016/17<br>£                                                | 2017/18<br>£                                             | % increase         |
| Southend-on-Sea Borough Council           |                            | 1,205.82                                                    | 1,265.94                                                 | 4.99               |
| Essex Police Authority                    |                            | 152.10                                                      | 157.05                                                   | 3.25               |
| Essex Fire Authority                      |                            | 67.68                                                       | 69.03                                                    | 1.99               |
| Other than Leigh-on-Sea Town Council Area |                            | 1,425.60                                                    | 1,492.02                                                 | 4.66               |
| Leigh-on-Sea Town Council                 |                            | 45.27                                                       | 45.99                                                    | 1.59               |
| Leigh-on-Sea Town Council Area            |                            | 1,470.87                                                    | 1,538.01                                                 | 4.56               |

The number of chargeable dwellings for Council Tax in each Valuation Band (adjusted for dwellings where discounts apply) for the year was as follows:

|                                                                                                                                                                                                          | <b>Number<br/>of<br/>Dwellings</b> | <b>Ratio</b> | <b>Equivalent<br/>Number of<br/>Dwellings</b> |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------|--------------|-----------------------------------------------|
| Valuation Band - A*                                                                                                                                                                                      | 14.59                              | 5/9          | 8.10                                          |
| Valuation Band - A                                                                                                                                                                                       | 10,023.94                          | 6/9          | 6,682.63                                      |
| Valuation Band - B                                                                                                                                                                                       | 11,384.65                          | 7/9          | 8,854.73                                      |
| Valuation Band - C                                                                                                                                                                                       | 19,343.88                          | 8/9          | 17,194.56                                     |
| Valuation Band - D                                                                                                                                                                                       | 10,969.71                          | 9/9          | 10,969.71                                     |
| Valuation Band - E                                                                                                                                                                                       | 6,063.82                           | 11/9         | 7,411.33                                      |
| Valuation Band - F                                                                                                                                                                                       | 3,404.23                           | 13/9         | 4,917.22                                      |
| Valuation Band - G                                                                                                                                                                                       | 1,472.20                           | 15/9         | 2,453.67                                      |
| Valuation Band - H                                                                                                                                                                                       | 93.00                              | 18/9         | 186.00                                        |
|                                                                                                                                                                                                          | <b>62,770.02</b>                   |              | <b>58,677.95</b>                              |
| Less:                                                                                                                                                                                                    |                                    |              |                                               |
|                                                                                                                                                                                                          |                                    |              | 1,760.34                                      |
| Adjustment for Collection of Rates and anticipated changes during the year for successful Appeals against Valuation Banding, New Properties, Demolitions, Disabled Persons Relief and Exempt Properties. |                                    |              |                                               |
| * Reductions For Band A Disabled.                                                                                                                                                                        |                                    |              |                                               |
|                                                                                                                                                                                                          |                                    |              | <b>56,917.61</b>                              |
| <b>Council Tax Base</b>                                                                                                                                                                                  |                                    |              | <b>56,917.61</b>                              |

## Collection Fund Note 2 Non-Domestic Rates

Non Domestic Rates are organised on a national basis. The Government specified an amount of 47.9p in 2017/18 (49.7p in 2016/17) with a small business rate of 46.6p in 2017/18 (48.4p in 2016/17) and, subject to the effects of transitional arrangements, local businesses pay rates that are calculated by multiplying their rateable value by that amount. There was a national revaluation of business rateable values, for implementation from 1 April 2017. Nationally the revaluation resulted in a net increase of RV's, although some areas and some business types saw reductions. As the revaluation process was designed to be revenue neutral (apart from an inflationary increase), the rate in the £ was been reduced so as to raise (nationally) the same amount of money from businesses.

The Council is responsible for collecting rates due from the ratepayers in its area but pays 50% of the proceeds over to the Government for onward redistribution in line with need. The Council retains 49% of the proceeds, with the final 1% being passed over to Essex Fire Authority.

After relief and provisions, the Non Domestic Rates income collectable was £41,317,477 for 2017/18 (£46,516,666 for 2016/17). The year-end rateable value for the Council's area was £122,286,294 at 31 March 2018 (£120,438,606 at 31 March 2017).

### Collection Fund Note 3 Provisions for Non-collection and NNDR Appeals

Within the Collection Fund there are the following provisions;

- A provision of £2,912,000 as at 31 March 2018 for bad and doubtful debts for Council Tax (£2,821,000 as at 31 March 2017)
- A provision of £794,000 as at 31 March 2018 for bad and doubtful debts for NNDR (£721,000 as at 31 March 2017). Under business rate retention arrangements, 49% of this provision is attributable to the Council.
- A provision of £3,075,000 as at 31 March 2018 for the potential impact of successful appeals by businesses against their rateable values (£4,592,000 as at 31 March 2017). Under business rate retention arrangements, 49% of this provision is attributable to the Council.

### Collection Fund Note 4 Collection Fund Balance

The Community Charge Collection Fund was closed at 31 March 2007 and any income received after this date has been included in the Council Tax Collection Fund. The balance of £9.880M on the Council Tax Collection Fund is split between Essex Police Authority, Essex Fire Authority and this Council, in proportion to the value of the respective precept demands made by the three authorities on the Collection Fund and will be reflected in future year's Council Tax.

Under business rates retention, the deficit balance of £1.675M on the NNDR Collection Fund is split between Central Government, Essex Fire Authority and this Council, in the statutory proportions 50%, 1% and 49% respectively.

|                                               | 31 March 2018<br>£000 | 31 March 2017<br>£000 |
|-----------------------------------------------|-----------------------|-----------------------|
| Council Tax - Southend-on-Sea Borough Council | 8,377                 | 6,290                 |
| Council Tax - Essex Police Authority          | 1,057                 | 775                   |
| Council Tax - Essex Fire Authority            | 447                   | 340                   |
| NNDR - Southend-on-Sea Borough Council        | (822)                 | (2,499)               |
| NNDR - Government                             | (837)                 | (2,550)               |
| NNDR - Essex Fire Authority                   | (16)                  | (51)                  |
| <b>Total</b>                                  | <b>8,206</b>          | <b>2,305</b>          |

| Shown on Balance Sheet as:            | 31 March 2018<br>£000 | 31 March 2017<br>£000<br>Restated |
|---------------------------------------|-----------------------|-----------------------------------|
| Collection Fund Adjustment Account    | 7,555                 | 3,791                             |
| Creditors Falling Due Within One Year | 1,505                 | 1,115                             |
| Debtors                               | (854)                 | (2,601)                           |
| <b>Total</b>                          | <b>8,206</b>          | <b>2,305</b>                      |



# **THE GROUP ACCOUNTS**

## INTRODUCTION

Many local authorities now provide services through partner organisations which operate under the control of the Council.

The Code requires that, where a Council has material financial interests and a significant level of control over one or more entities, it should prepare Group Accounts.

Southend-on-Sea Borough Council has reviewed the relationships it has with its partner organisations to determine the scope of the Council Group.

### WHOLLY OWNED COMPANIES

As at 31 March 2018, the Council had six wholly owned companies that it considers to fall within the legal definitions of group accounts. These are:

- South Essex Homes Limited
- Southend Care Ltd
- Southend Trading Corporation Limited
- Southend Independent Living Limited
- Southend Housing Limited, and
- Southend Business Services Limited

Southend-on-Sea Borough Council established an Arm's Length Management Organisation registered as South Essex Homes Limited on 16 May 2005 and transferred responsibility for the management of its housing stock to the company on 24 October 2005. South Essex Homes Limited has no share capital, is limited by guarantee and is controlled by the Council. The Council is committed to meet all accumulated deficits or losses.

Southend Care Ltd is a company that has been established to deliver a range of adult social care services currently provided by the Council directly. The Council transferred a number of its provider services to the company as at 1 April 2017. The company did not trade prior to that date.

Southend Trading Corporation Limited is a company that was established to exploit the Council's telephony assets by selling surplus capacity to the public and private sectors. It has ceased trading as at 31 March 2015.

Southend Independent Living was primarily an internet trading company providing innovative and useful items that can assist in everyday life. It has ceased trading as at 31 March 2018.

Southend Housing Limited and Southend Business Services Limited have yet to trade.

Of the six companies, only South Essex Homes Limited and Southend Care Limited traded at a material level during the year, and therefore are the only companies subject to consolidation.

### JOINT VENTURES

The Council participates in three joint ventures, where it has a significant level of control. These are:

- PSP Asset LLP
- Southend-on-Sea Forum Management Limited
- Sustainable Motion CIC (trading as The Comfy Saddle)

PSP Asset LLP is a vehicle through which the Council is able to redevelop surplus assets. It is jointly controlled with a partner company BVSF on a 50:50 basis. Some assets have been formally transferred to the LLP, and it holds options on others.

Southend-on-Sea Forum Management Limited has been established as a vehicle through which The Forum Southend-on-Sea is managed. The Forum Southend-on-Sea is a partnership between Southend-on-Sea Borough Council, the University of Essex and South Essex College. The Forum Southend-on-Sea is also the home of the Focal Point Gallery. The Council has equal voting rights as the other two partners.

Sustainable Motion CIC is a not for profit charitable company established to promote sustainable transport options. It has been newly identified as being part of the Council's wider group given the control exercised.

For all three joint ventures, the Council's proportions of net assets are immaterial to the accounts and therefore have not been consolidated into the group accounts.



## **Trust Funds**

The Council is responsible for administering a number of trust funds. These funds are not Council assets, so they are not included in the Council's own balance sheet. The Council prepares the accounts for these trusts which are subject to audit or examination in accordance with the requirements of the Charity Commission.

At the 31 March 2018, the Council was sole trustee of eight trust funds. Although the Council would require the agreement of the Charity Commission to alter the aims and objectives of the Charities, or indeed to dispose of any charity assets, the Council does have significant control over the day to day operations.

The purpose of each trust fund is set out below:

### Beecroft Art Trust

The promotion of the study of art, music and literature and in particular, but without prejudice to the generality of the foregoing, the provision and maintenance of the Beecroft Art Gallery at Southend-on-Sea in the County of Essex as a public art gallery and library.

### Jones Memorial Recreation Ground Trust

The provision and maintenance of a recreation ground for the benefit of children and young persons who have not reached the age of 25 years and are resident in the borough of Southend-on-Sea, without distinction of political, religious or other opinions.

### The Palace Theatre Charity

The Palace Theatre was conveyed to the Council by Mrs GE Mouillot in a deed of gift as an expression of her interest and goodwill towards the then County Borough Council.

The Theatre is used for the general benefit of the inhabitants of Southend-on-Sea.

### Prittlewell Priory Museum Trust

To provide a museum for the general benefit of the inhabitants of Southend-on-Sea.

### Priory Park Trust

To be dedicated, held, used and enjoyed as and for the purposes of a public park for the benefit of the inhabitants of the Borough of Southend-on-Sea and the recreation of the public area.

### The Shrubbery Trust

For the enjoyment of the public as an open space under the Open Spaces Act 1906.

### Victory Sports Ground Trust

A public park to be known as the "Victory Sports Ground" for the benefit of the inhabitants of the Borough of Southend-on-Sea and the recreation of the public.

### Youth Commemoration Ground Trust

The provision and maintenance of a recreation ground for the benefit of children and young persons who have not reached the age of 25 years and are resident in the Borough of Southend-on-Sea.

The assets of these trusts were donated by individuals to provide facilities for the good of the local community.

## **GROUP ACCOUNTING POLICIES**

South Essex Homes Limited, Southend Care Limited and the Trust Fund accounting policies are consistent with the Group Accounting policies.

## GROUP COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

| 2016/17<br>Restated          |                         |                            | 2017/18                      |                         |                            |
|------------------------------|-------------------------|----------------------------|------------------------------|-------------------------|----------------------------|
| Gross<br>Expenditure<br>£000 | Gross<br>Income<br>£000 | Net<br>Expenditure<br>£000 | Gross<br>Expenditure<br>£000 | Gross<br>Income<br>£000 | Net<br>Expenditure<br>£000 |
| (6,853)                      | (331)                   | (7,184)                    | (433)                        | (39)                    | (472)                      |
| 107,902                      | (102,378)               | 5,524                      | 95,899                       | (93,308)                | 2,591                      |
| 20,562                       | (5,481)                 | 15,081                     | 20,766                       | (5,609)                 | 15,157                     |
| 41,232                       | (13,546)                | 27,686                     | 37,123                       | (10,515)                | 26,608                     |
| 7,839                        | (1,875)                 | 5,964                      | 7,852                        | (3,670)                 | 4,182                      |
| 123,026                      | (87,242)                | 35,784                     | 116,651                      | (82,074)                | 34,577                     |
| 73,252                       | (28,674)                | 44,578                     | 78,387                       | (33,605)                | 44,782                     |
| 748                          | (748)                   | 0                          | 948                          | (948)                   | 0                          |
| <b>367,708</b>               | <b>(240,275)</b>        | <b>127,433</b>             | <b>357,193</b>               | <b>(229,768)</b>        | <b>127,425</b>             |
|                              |                         |                            |                              |                         |                            |
| 21,304                       | (32,954)                | (11,650)                   | 23,010                       | (31,855)                | (8,845)                    |
| <b>21,304</b>                | <b>(32,954)</b>         | <b>(11,650)</b>            | <b>23,010</b>                | <b>(31,855)</b>         | <b>(8,845)</b>             |
| <b>389,012</b>               | <b>(273,229)</b>        | <b>115,783</b>             | <b>380,203</b>               | <b>(261,623)</b>        | <b>118,580</b>             |
|                              |                         |                            |                              |                         |                            |
|                              |                         | 46,628                     |                              |                         | 27,116                     |
|                              |                         | 12,376                     |                              |                         | 10,463                     |
|                              |                         | (141,704)                  |                              |                         | (139,048)                  |
|                              |                         | <b>33,083</b>              |                              |                         | <b>17,111</b>              |
|                              |                         |                            |                              |                         |                            |
|                              |                         | 0                          |                              |                         | (1)                        |
|                              |                         | <b>33,083</b>              |                              |                         | <b>17,110</b>              |
|                              |                         |                            |                              |                         |                            |
|                              |                         | (49,581)                   |                              |                         | (58,344)                   |
|                              |                         | 2                          |                              |                         | (4)                        |
|                              |                         | 61,231                     |                              |                         | (51,770)                   |
|                              |                         | <b>11,652</b>              |                              |                         | <b>(110,118)</b>           |
|                              |                         | <b>44,735</b>              |                              |                         | <b>(93,008)</b>            |

## GROUP MOVEMENT IN RESERVES

|                                                                          | Usable Reserves<br>£000 | Unusable Reserves<br>£000 | Total Group Reserves<br>£000 |
|--------------------------------------------------------------------------|-------------------------|---------------------------|------------------------------|
| <b>Balance at 31 March 2016 Restated</b>                                 | <b>125,718</b>          | <b>323,268</b>            | <b>448,986</b>               |
| <b>Movement in Reserves during 2016/17</b>                               |                         |                           |                              |
| Surplus (Deficit) on the Provision of Services                           | (33,083)                | 0                         | (33,083)                     |
| Other Comprehensive Income and Expenditure                               | 0                       | (11,652)                  | (11,652)                     |
| <b>Total Comprehensive Income and Expenditure</b>                        | <b>(33,083)</b>         | <b>(11,652)</b>           | <b>(44,735)</b>              |
| Adjustments between accounting basis and funding basis under regulations | 49,494                  | (49,494)                  | 0                            |
| <b>Net Increase / Decrease before Transfers to reserves</b>              | <b>16,411</b>           | <b>(61,146)</b>           | <b>(44,735)</b>              |
| Transfers to / from Earmarked Reserves                                   | 0                       | 0                         | 0                            |
| <b>Increase / Decrease in 2016/17</b>                                    | <b>16,411</b>           | <b>(61,146)</b>           | <b>(44,735)</b>              |
| <b>Balance at 31 March 2017 Restated</b>                                 | <b>142,129</b>          | <b>262,122</b>            | <b>404,251</b>               |
| <b>Movement in Reserves during 2017/18</b>                               |                         |                           |                              |
| Surplus (Deficit) on the Provision of Services                           | (17,110)                | 0                         | (17,110)                     |
| Other Comprehensive Income and Expenditure                               | 0                       | 110,118                   | 110,118                      |
| <b>Total Comprehensive Income and Expenditure</b>                        | <b>(17,110)</b>         | <b>110,118</b>            | <b>93,008</b>                |
| Adjustments between accounting basis and funding basis under regulations | 21,504                  | (21,504)                  | 0                            |
| <b>Net Increase / Decrease before Transfers to reserves</b>              | <b>4,394</b>            | <b>88,614</b>             | <b>93,008</b>                |
| Transfers to / from Earmarked Reserves                                   | 0                       | 0                         | 0                            |
| <b>Increase / Decrease in 2017/18</b>                                    | <b>4,394</b>            | <b>88,614</b>             | <b>93,008</b>                |
| <b>Balance at 31 March 2018</b>                                          | <b>146,523</b>          | <b>350,736</b>            | <b>497,259</b>               |

## GROUP BALANCE SHEET

| 1 April 2016<br>£000<br>Restated | 31 March 2017<br>£000<br>Restated |                                        | 31 March 2018<br>£000 |
|----------------------------------|-----------------------------------|----------------------------------------|-----------------------|
| 721,411                          | 737,572                           | Property, Plant & Equipment            | 789,722               |
| 40,991                           | 42,596                            | Heritage Assets                        | 42,085                |
| 23,412                           | 25,767                            | Investment Property                    | 41,611                |
| 4,052                            | 4,936                             | Intangible Assets                      | 6,439                 |
| 12,748                           | 15,893                            | Long Term Investments                  | 22,678                |
| 1,191                            | 2,367                             | Long Term Debtors                      | 4,641                 |
| <b>803,805</b>                   | <b>829,131</b>                    | <b>Long Term Assets</b>                | <b>907,176</b>        |
| 40,532                           | 32,237                            | Short term Investments                 | 22,741                |
| 54                               | 154                               | Assets Held for Sale                   | 0                     |
| 22                               | 166                               | Inventories                            | 117                   |
| 30,706                           | 29,026                            | Short Term Debtors                     | 29,588                |
| 45,962                           | 44,825                            | Cash and Cash Equivalents              | 32,041                |
| <b>117,276</b>                   | <b>106,408</b>                    | <b>Current Assets</b>                  | <b>84,487</b>         |
| (399)                            | 0                                 | Cash and Cash Equivalents              | 0                     |
| (16,298)                         | (6,356)                           | Short Term Borrowings                  | (11,830)              |
| (36,020)                         | (36,140)                          | Short Term Creditors                   | (42,855)              |
| (7,579)                          | (6,761)                           | Provisions                             | (5,468)               |
| <b>(60,296)</b>                  | <b>(49,257)</b>                   | <b>Current Liabilities</b>             | <b>(60,153)</b>       |
| (40)                             | (327)                             | Long Term Creditors                    | (2,698)               |
| (230,994)                        | (235,620)                         | Long Term Borrowing                    | (236,480)             |
| (167,620)                        | (233,587)                         | Other Long Term Liabilities - Pensions | (183,194)             |
| (13,145)                         | (12,497)                          | Other Long Term Liabilities - Other    | (11,879)              |
| <b>(411,799)</b>                 | <b>(482,031)</b>                  | <b>Long Term Liabilities</b>           | <b>(434,251)</b>      |
| <b>448,986</b>                   | <b>404,251</b>                    | <b>Net Assets</b>                      | <b>497,259</b>        |
| 125,718                          | 142,129                           | Usable Reserves                        | 146,523               |
| 323,268                          | 262,122                           | Unusable Reserves                      | 350,736               |
| <b>448,986</b>                   | <b>404,251</b>                    | <b>Total Reserves</b>                  | <b>497,259</b>        |

## GROUP CASH FLOW STATEMENT

| 2016/17<br>£000<br>Restated                                                                                                                     | 2017/18<br>£000 |
|-------------------------------------------------------------------------------------------------------------------------------------------------|-----------------|
| 33,083 Net (Surplus) or Deficit on the Provision of Services                                                                                    | 17,110          |
| Adjustments to Net Surplus or Deficit on the Provision of Services for<br>(73,965) non-cash Movements                                           | (40,376)        |
| Adjustments for items included in the Net Surplus or Deficit on the<br>18,579 Provision of Services that are Investing and Financing Activities | 5,767           |
| (22,303) Net cash flows from Operating Activities                                                                                               | (17,499)        |
| 18,395 Investing Activities                                                                                                                     | 40,911          |
| 4,646 Financing Activities                                                                                                                      | (10,628)        |
| 738 Net Increase or Decrease in Cash and Cash Equivalents                                                                                       | 12,784          |
| (45,563) Cash and Cash Equivalents at the beginning of the Reporting Period                                                                     | (44,825)        |
| <b>(44,825) Cash and Cash Equivalents at the end of the Reporting Period</b>                                                                    | <b>(32,041)</b> |

## NOTES TO THE GROUP ACCOUNTS

The notes have only been produced where they are materially different to the notes supplied with the Council's primary statements, or where it adds significant contextual information.

The group statements have been restated as a result of post audit changes to the 2016/17 accounts of South Essex Homes and the Trusts, and the recognition in the Trust accounts of a number of past additions to long term assets, funded by the Council. Victory Sports Ground Trust has also been consolidated for the first time.

### Group Note 1 Details of Subsidiary Company

South Essex Homes Limited – Company registration number 05453601

Southend Care Limited – Company registration number 10138562

### Group Note 2 Financial Performance

#### Subsidiary Companies

|                       | 2017/18                          |                              |                 | 2016/17                          |                              |                 |
|-----------------------|----------------------------------|------------------------------|-----------------|----------------------------------|------------------------------|-----------------|
|                       | South Essex<br>Homes Ltd<br>£000 | Southend<br>Care Ltd<br>£000 | Total<br>£000   | South Essex<br>Homes Ltd<br>£000 | Southend<br>Care Ltd<br>£000 | Total<br>£000   |
| Income                | (10,456)                         | (5,736)                      | <b>(16,192)</b> | (10,063)                         |                              | <b>(10,063)</b> |
| Expenditure           | 11,917                           | 11,865                       | <b>23,782</b>   | 10,278                           |                              | <b>10,278</b>   |
| Current Assets        | 8,190                            | 1,053                        | <b>9,243</b>    | 7,214                            |                              | <b>7,214</b>    |
| Current Liabilities   | (6,331)                          | (772)                        | <b>(7,103)</b>  | (5,020)                          |                              | <b>(5,020)</b>  |
| Long Term Liabilities | (8,774)                          | (6,063)                      | <b>(14,837)</b> | (10,970)                         |                              | <b>(10,970)</b> |
| <b>Net Assets</b>     | <b>(6,915)</b>                   | <b>(5,782)</b>               | <b>(12,697)</b> | <b>(8,776)</b>                   | <b>0</b>                     | <b>(8,776)</b>  |
| Usable Reserves       | 1,859                            | (284)                        | <b>1,575</b>    | 2,194                            |                              | <b>2,194</b>    |
| Unusable Reserves     | (8,774)                          | (5,498)                      | <b>(14,272)</b> | (10,970)                         |                              | <b>(10,970)</b> |
| <b>Total Reserves</b> | <b>(6,915)</b>                   | <b>(5,782)</b>               | <b>(12,697)</b> | <b>(8,776)</b>                   | <b>0</b>                     | <b>(8,776)</b>  |

The negative unusable reserves of both companies represent the deficits of their pension schemes. The Council provides a guarantee to both companies so that they can continue to be regarded as going concerns.

## Trust Funds

| 2017/18                     | Beecroft Art Gallery<br>£000 | Jones Memorial Trust<br>£000 | Palace Theatre Charity<br>£000 | Prittlevell Priory Museum Trust<br>£000 | Priory Park Trust<br>£000 | The Shrubbery Trust<br>£000 | Victory Sports Ground Trust<br>£000 | Youth Commemoration Ground Trust<br>£000 | Total Trusts<br>£000 |
|-----------------------------|------------------------------|------------------------------|--------------------------------|-----------------------------------------|---------------------------|-----------------------------|-------------------------------------|------------------------------------------|----------------------|
| Income                      | (140)                        | (59)                         | (272)                          | (136)                                   | (204)                     | (38)                        | (49)                                | (350)                                    | (1,248)              |
| Expenditure                 | 140                          | 59                           | 270                            | 285                                     | 218                       | 56                          | 49                                  | 250                                      | 1,327                |
| Property, Plant & Equipment | 375                          | 25                           | 3,836                          | 654                                     | 471                       | 0                           | 10                                  | 5,815                                    | 11,186               |
| Heritage Assets             | 1,969                        | 0                            | 0                              | 2,416                                   | 0                         | 0                           | 0                                   | 0                                        | 4,385                |
| Investment Property         | 0                            | 0                            | 0                              | 0                                       | 85                        | 482                         | 0                                   | 0                                        | 567                  |
| Other Current Assets        | 1                            | 129                          | 1                              | 8                                       | 0                         | 370                         | 0                                   | 3,034                                    | 3,543                |
| Other Liabilities           | (1)                          | (1)                          | (1)                            | (1)                                     | 0                         | (1)                         | 0                                   | 0                                        | (5)                  |
| <b>Net Assets</b>           | <b>2,344</b>                 | <b>153</b>                   | <b>3,836</b>                   | <b>3,077</b>                            | <b>556</b>                | <b>851</b>                  | <b>10</b>                           | <b>8,849</b>                             | <b>19,676</b>        |
| Usable Reserves             | 0                            | 128                          | 0                              | 661                                     | 0                         | 369                         | 0                                   | 3,034                                    | 4,192                |
| Unusable Reserves           | 2,344                        | 25                           | 3,836                          | 2,416                                   | 556                       | 482                         | 10                                  | 5,815                                    | 15,484               |
| <b>Total Reserves</b>       | <b>2,344</b>                 | <b>153</b>                   | <b>3,836</b>                   | <b>3,077</b>                            | <b>556</b>                | <b>851</b>                  | <b>10</b>                           | <b>8,849</b>                             | <b>19,676</b>        |

| 2016/17 Restated            | Beecroft Art Gallery<br>£000 | Jones Memorial Trust<br>£000 | Palace Theatre Charity<br>£000 | Prittlevell Priory Museum Trust<br>£000 | Priory Park Trust<br>£000 | The Shrubbery Trust<br>£000 | Victory Sports Ground Trust<br>£000 | Youth Commemoration Ground Trust<br>£000 | Total Trusts<br>£000 |
|-----------------------------|------------------------------|------------------------------|--------------------------------|-----------------------------------------|---------------------------|-----------------------------|-------------------------------------|------------------------------------------|----------------------|
| Income                      | (220)                        | (49)                         | (155)                          | (939)                                   | (183)                     | (111)                       | (40)                                | (590)                                    | (2,287)              |
| Expenditure                 | 220                          | 49                           | 283                            | 379                                     | 180                       | 51                          | 40                                  | 206                                      | 1,408                |
| Property, Plant & Equipment | 375                          | 26                           | 3,834                          | 681                                     | 486                       | 0                           | 10                                  | 5,832                                    | 11,244               |
| Heritage Assets             | 1,969                        | 0                            | 0                              | 2,537                                   | 0                         | 0                           | 0                                   | 0                                        | 4,506                |
| Investment Property         | 0                            | 0                            | 0                              | 0                                       | 112                       | 311                         | 0                                   | 0                                        | 423                  |
| Other Current Assets        | 6                            | 128                          | 1                              | 13                                      | 2                         | 389                         | 1                                   | 2,923                                    | 3,463                |
| Other Liabilities           | (6)                          | (1)                          | (1)                            | (5)                                     | (2)                       | (3)                         | (1)                                 | (6)                                      | (25)                 |
| <b>Net Assets</b>           | <b>2,344</b>                 | <b>153</b>                   | <b>3,834</b>                   | <b>3,226</b>                            | <b>598</b>                | <b>697</b>                  | <b>10</b>                           | <b>8,749</b>                             | <b>19,611</b>        |
| Usable Reserves             | 0                            | 127                          | 0                              | 689                                     | 0                         | 386                         | 0                                   | 2,916                                    | 4,118                |
| Unusable Reserves           | 2,344                        | 26                           | 3,834                          | 2,537                                   | 598                       | 311                         | 10                                  | 5,833                                    | 15,493               |
| <b>Total Reserves</b>       | <b>2,344</b>                 | <b>153</b>                   | <b>3,834</b>                   | <b>3,226</b>                            | <b>598</b>                | <b>697</b>                  | <b>10</b>                           | <b>8,749</b>                             | <b>19,611</b>        |

### **Group Note 3      Intercompany transactions**

#### **South Essex Homes**

The Council paid fees of £5.827M to South Essex Homes Limited for the management of its housing stock, together with £0.944M in respect of other services.

The Council provides several services for its subsidiary for which South Essex Homes Limited paid £1.119M. These transactions have been removed from the Group Comprehensive Income and Expenditure Statement.

#### **Southend Care**

The Council paid fees of £5.713M to Southend Care Limited for the provision of adult social care services.

The Council provides several services for its subsidiary for which Southend Care Limited paid £0.090M. These transactions have been removed from the Group Comprehensive Income and Expenditure Statement.

#### **Trust Accounts**

The Trusts generate little or no income in their own right. As such the Council provides either free services or a direct operating subsidy, by way of a grant. In addition the Council paid interest on cash balances held. In total the Council supported the operation of the Trusts by £1.035M in 2017/18 (*£1.173M in 2016/17 restated*). These transactions have been removed from the Group Comprehensive Income and Expenditure Statement

All intra company debtor and creditor balances in the individual entities primary statements have been removed from the Group Balance Sheet.



## Group Note 4 Property, Plant and Equipment

The Property, Plant and Equipment line of the Group Balance Sheet is materially different from the single entity's Balance Sheet on page 38. The categories of asset affected are as follows:

|                                                     | Other Land &<br>Buildings<br>£000 | Vehicles, Plant,<br>Furniture &<br>Equipment<br>£000 |
|-----------------------------------------------------|-----------------------------------|------------------------------------------------------|
| <b>Movements in 2017/18</b>                         |                                   |                                                      |
| <b>Cost or Valuation as at 1 April 2017</b>         | <b>303,078</b>                    | <b>16,819</b>                                        |
| Additions                                           | 14,892                            | 1,571                                                |
| Revaluations via Revaluation Reserve                | 35,362                            | 0                                                    |
| Revaluations recognised in the CIES                 | 4,963                             | (84)                                                 |
| Disposals                                           | (27,905)                          | (3,214)                                              |
| <b>Gross Book Value as at 31 March 2018</b>         | <b>330,390</b>                    | <b>15,092</b>                                        |
| <b>Accumulated Depreciation as at 1 April 2017</b>  | <b>(16,668)</b>                   | <b>(7,023)</b>                                       |
| Depreciation                                        | (5,577)                           | (1,382)                                              |
| Written out to Revaluation Reserve                  | 6,426                             | 0                                                    |
| Written out to the CIES                             | 284                               | 21                                                   |
| On Disposals                                        | 623                               | 2,965                                                |
| <b>Accumulated Depreciation as at 31 March 2018</b> | <b>(14,912)</b>                   | <b>(5,419)</b>                                       |
| <b>Net Book Value as at 31 March 2017</b>           | <b>286,410</b>                    | <b>9,796</b>                                         |
| <b>Net Book Value as at 31 March 2018</b>           | <b>315,478</b>                    | <b>9,673</b>                                         |

|                                                     | Other Land &<br>Buildings<br>£000 | Vehicles, Plant,<br>Furniture &<br>Equipment<br>£000 |
|-----------------------------------------------------|-----------------------------------|------------------------------------------------------|
| <b>Movements in 2016/17 Restated</b>                |                                   |                                                      |
| <b>Cost or Valuation as at 1 April 2016</b>         | <b>328,283</b>                    | <b>14,751</b>                                        |
| Additions                                           | 12,031                            | 4,298                                                |
| Revaluations via Revaluation Reserve                | 23,945                            | 0                                                    |
| Revaluations recognised in the CIES                 | (9,176)                           | (1,871)                                              |
| Disposals                                           | (51,853)                          | (359)                                                |
| Transfers                                           | (152)                             | 0                                                    |
| <b>Gross Book Value as at 31 March 2017</b>         | <b>303,078</b>                    | <b>16,819</b>                                        |
| <b>Accumulated Depreciation as at 1 April 2016</b>  | <b>(25,576)</b>                   | <b>(7,823)</b>                                       |
| Depreciation                                        | (6,482)                           | (1,066)                                              |
| Written out to Revaluation Reserve                  | 4,970                             | 0                                                    |
| Written out to the CIES                             | 5,932                             | 1,755                                                |
| On Disposals                                        | 4,478                             | 111                                                  |
| On Transfers                                        | 10                                | 0                                                    |
| <b>Accumulated Depreciation as at 31 March 2017</b> | <b>(16,668)</b>                   | <b>(7,023)</b>                                       |
| <b>Net Book Value as at 31 March 2016</b>           | <b>302,707</b>                    | <b>6,928</b>                                         |
| <b>Net Book Value as at 31 March 2017</b>           | <b>286,410</b>                    | <b>9,796</b>                                         |

## Group Note 5 Heritage Assets

The Heritage Assets line of the Group Balance Sheet is significantly different from the single entity's Balance Sheet on page 38. The categories of asset affected are as follows:

|                                                     | Historic Seaside<br>Assets<br>£000 | Heritage Land<br>& Buildings<br>£000 | Antiques &<br>Collectables<br>£000 | Museum<br>Collections<br>£000 | Total Heritage<br>Assets<br>£000 |
|-----------------------------------------------------|------------------------------------|--------------------------------------|------------------------------------|-------------------------------|----------------------------------|
| <b>Movements in 2017/18</b>                         |                                    |                                      |                                    |                               |                                  |
| <b>Cost or Valuation as at 1 April 2017</b>         | <b>35,727</b>                      | <b>5,577</b>                         | <b>2,634</b>                       | <b>1,557</b>                  | <b>45,495</b>                    |
| Additions                                           | 855                                | 4                                    | 0                                  | 0                             | 859                              |
| Revaluations via Revaluation Reserve                | (6)                                | 0                                    | 231                                | 0                             | 225                              |
| Revaluations recognised in the CIES                 | (846)                              | (4)                                  | 0                                  | 0                             | (850)                            |
| <b>Gross Book Value as at 31 March 2018</b>         | <b>35,730</b>                      | <b>5,577</b>                         | <b>2,865</b>                       | <b>1,557</b>                  | <b>45,729</b>                    |
| <b>Accumulated Depreciation as at 1 April 2017</b>  | <b>(1,779)</b>                     | <b>(1,120)</b>                       | <b>0</b>                           | <b>0</b>                      | <b>(2,899)</b>                   |
| Depreciation                                        | (599)                              | (163)                                | 0                                  | 0                             | (762)                            |
| Written out to Revaluation Reserve                  | 17                                 | 0                                    | 0                                  | 0                             | 17                               |
| <b>Accumulated Depreciation as at 31 March 2018</b> | <b>(2,361)</b>                     | <b>(1,283)</b>                       | <b>0</b>                           | <b>0</b>                      | <b>(3,644)</b>                   |
| <b>Net Book Value as at 31 March 2017</b>           | <b>33,948</b>                      | <b>4,457</b>                         | <b>2,634</b>                       | <b>1,557</b>                  | <b>42,596</b>                    |
| <b>Net Book Value as at 31 March 2018</b>           | <b>33,369</b>                      | <b>4,294</b>                         | <b>2,865</b>                       | <b>1,557</b>                  | <b>42,085</b>                    |

|                                                     | Historic Seaside<br>Assets<br>£000 | Heritage Land<br>& Buildings<br>£000 | Antiques &<br>Collectables<br>£000 | Museum<br>Collections<br>£000 | Total Heritage<br>Assets<br>£000 |
|-----------------------------------------------------|------------------------------------|--------------------------------------|------------------------------------|-------------------------------|----------------------------------|
| <b>Movements in 2016/17 Restated</b>                |                                    |                                      |                                    |                               |                                  |
| <b>Cost or Valuation as at 1 April 2016</b>         | <b>35,663</b>                      | <b>3,369</b>                         | <b>2,634</b>                       | <b>1,501</b>                  | <b>43,167</b>                    |
| Additions                                           | 561                                | 1,161                                | 0                                  | 56                            | 1,778                            |
| Revaluations via Revaluation Reserve                | 71                                 | 1,045                                | 0                                  | 0                             | 1,116                            |
| Revaluations recognised in the CIES                 | (568)                              | 2                                    | 0                                  | 0                             | (566)                            |
| <b>Gross Book Value as at 31 March 2017</b>         | <b>35,727</b>                      | <b>5,577</b>                         | <b>2,634</b>                       | <b>1,557</b>                  | <b>45,495</b>                    |
| <b>Accumulated Depreciation as at 1 April 2016</b>  | <b>(1,274)</b>                     | <b>(902)</b>                         | <b>0</b>                           | <b>0</b>                      | <b>(2,176)</b>                   |
| Depreciation                                        | (600)                              | (302)                                | 0                                  | 0                             | (902)                            |
| Written out to Revaluation Reserve                  | 22                                 | 84                                   | 0                                  | 0                             | 106                              |
| Written out to the CIES                             | 73                                 | 0                                    | 0                                  | 0                             | 73                               |
| <b>Accumulated Depreciation as at 31 March 2017</b> | <b>(1,779)</b>                     | <b>(1,120)</b>                       | <b>0</b>                           | <b>0</b>                      | <b>(2,899)</b>                   |
| <b>Net Book Value as at 31 March 2016</b>           | <b>34,389</b>                      | <b>2,467</b>                         | <b>2,634</b>                       | <b>1,501</b>                  | <b>40,991</b>                    |
| <b>Net Book Value as at 31 March 2017</b>           | <b>33,948</b>                      | <b>4,457</b>                         | <b>2,634</b>                       | <b>1,557</b>                  | <b>42,596</b>                    |

## Group Note 6 Defined Benefit Pension Schemes

Alongside the Council, South Essex Homes and Southend Care participates in the Local Government Pension Scheme (LGPS) administered by Essex County Council. The nature of the scheme is set out in full in note 36 to the single entity accounts, and this note should be read in conjunction with that. The tables below set out where the Group Accounts are materially different from the single entity balance sheet.

### Transactions relating to post-employment benefits

We recognise the cost of retirement benefits in the reported cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions. The following transactions have been made in the Group Comprehensive Income and Expenditure Statement and the Statement of Funds / General Fund Balance via the Movement in Reserves Statement during the year:

|                                                                                                                                               | 2017/18<br>£000 | 2016/17<br>£000 |
|-----------------------------------------------------------------------------------------------------------------------------------------------|-----------------|-----------------|
| <b>Comprehensive Income and Expenditure Statement</b>                                                                                         |                 |                 |
| <b>Cost of Services</b>                                                                                                                       |                 |                 |
| Current Service Cost                                                                                                                          | 20,680          | 13,229          |
| (Gain) / Loss from Settlement                                                                                                                 | (4,775)         | (5,815)         |
| Cost of Curtailments                                                                                                                          | 174             | 725             |
| Administration Expense                                                                                                                        | 181             | 164             |
| <b>Financing and Investment Income and Expenditure</b>                                                                                        |                 |                 |
| Net Interest Expense                                                                                                                          | 5,944           | 5,733           |
| <b>Total post-employment benefit charged to the surplus or deficit on the provision of services</b>                                           | <b>22,204</b>   | <b>14,036</b>   |
| <b>Other post-employment benefit charged to the comprehensive income and expenditure statement</b>                                            |                 |                 |
| Return on plan assets in excess of interest                                                                                                   | (20,874)        | (61,201)        |
| Other actuarial gains on assets                                                                                                               | 0               | (1,923)         |
| Change in financial assumptions                                                                                                               | (30,896)        | 134,504         |
| Change in demographic assumptions                                                                                                             | 0               | (10,419)        |
| Experience gain on defined benefit obligation                                                                                                 | 0               | 270             |
| <b>Remeasurements and Other Comprehensive Income</b>                                                                                          | <b>(51,770)</b> | <b>61,231</b>   |
| <b>Total post-employment benefit (credited) / charged to the Comprehensive Income and Expenditure Statement</b>                               | <b>(29,566)</b> | <b>75,267</b>   |
| <b>Movement in Reserves Statement</b>                                                                                                         |                 |                 |
| Reversal of net charges made to the surplus or deficit for the provision of services for post-employment benefits in accordance with the code | 29,566          | (75,267)        |
| <b>Actual amount charged against the General Fund Balance for Pensions in the year</b>                                                        |                 |                 |
| Employer's contributions payable to scheme                                                                                                    | 20,827          | 9,300           |

### Pension Assets and Liabilities recognised in the Balance Sheet

The amount included in the Balance Sheet arising from the group's obligation in respect of its defined benefit plan is as follows:

| <b>Actuarial Gains/(Losses)</b>                              | <b>2017/18<br/>£000</b> | <b>2016/17<br/>£000</b> |
|--------------------------------------------------------------|-------------------------|-------------------------|
| Present Value of the defined benefit obligation              | 674,909                 | 688,952                 |
| Fair Value of Plan Assets                                    | (491,715)               | (455,365)               |
| <b>Net Liability arising from defined benefit obligation</b> | <b>183,194</b>          | <b>233,587</b>          |

### Reconciliation of Present Value of the Scheme Liabilities (Defined Benefit Obligation)

|                                                                          | <b>2017/18<br/>£000</b> | <b>2016/17<br/>£000</b> |
|--------------------------------------------------------------------------|-------------------------|-------------------------|
| Opening Balance at 1 April                                               | 688,952                 | 556,595                 |
| Current Service Cost                                                     | 20,680                  | 13,229                  |
| Interest Cost                                                            | 18,270                  | 19,524                  |
| Contributions by Scheme Participants                                     | 3,546                   | 3,564                   |
| Remeasurement Gains and Losses                                           |                         |                         |
| Actuarial gains / losses arising from changes in demographic assumptions | 0                       | (10,419)                |
| Actuarial gains / losses arising from changes in financial assumptions   | (30,896)                | 134,504                 |
| Other                                                                    | 0                       | 270                     |
| Losses on Curtailments                                                   | 174                     | 725                     |
| Benefits Paid                                                            | (17,287)                | (17,681)                |
| Liabilities extinguished on Settlements                                  | (8,530)                 | (11,359)                |
| <b>Closing Balance at 31 March</b>                                       | <b>674,909</b>          | <b>688,952</b>          |

## Reconciliation of fair value of the scheme assets

### Local Government Pension Scheme assets

The estimated asset allocation as at 31 March is as follows:

|                                                                                      | 2017/18<br>£000 | 2016/17<br>£000 |
|--------------------------------------------------------------------------------------|-----------------|-----------------|
| Opening Balance at 1 April                                                           | 455,365         | 388,975         |
| Interest Income                                                                      | 12,326          | 13,791          |
| The return on plan assets, excluding the amount included in the net interest expense | 20,874          | 61,201          |
| Other Actuarial Gains                                                                | 0               | 1,923           |
| Employer Contributions                                                               | 20,827          | 9,300           |
| Contributions by Scheme Participants                                                 | 3,546           | 3,564           |
| Benefits Paid                                                                        | (17,287)        | (17,681)        |
| Payment of Bulk Transfer Value                                                       | (3,755)         | (5,544)         |
| Administrative Expense                                                               | (181)           | (164)           |
| <b>Closing Balance at 31 March</b>                                                   | <b>491,715</b>  | <b>455,365</b>  |

### Impact on the Council's Cash Flows

The Group anticipates paying a £8.948M contribution to the scheme in 2018/19.

## Group Note 7

### Accounts

The financial accounts of South Essex Homes Limited can be obtained from the Chair of the Board, South Essex Homes Limited, Floor 3, Civic Centre, Victoria Avenue, Southend-on-Sea, Essex, SS2 6ER.

The financial accounts of Southend Care Limited can be obtained from the Chair of the Board, Southend Care Limited, Civic Centre, Victoria Avenue, Southend-on-Sea, Essex, SS2 6ER.

The Financial accounts of the Trusts can be obtained from the Director of Finance and Resources, Southend-on-Sea Borough Council, PO Box 6, Civic Centre, Victoria Avenue, Southend-on-Sea, Essex, SS2 6ER.



# **ADDITIONAL FINANCIAL INFORMATION**

## MEMBERS' ALLOWANCES (UNAUDITED)

| Members' Allowances        |   | Basic<br>Allowances | Special<br>Allowances | Travel &<br>Subsistence | Total             |
|----------------------------|---|---------------------|-----------------------|-------------------------|-------------------|
|                            |   | £                   | £                     | £                       | £                 |
| <b>Elected Councillors</b> |   |                     |                       |                         |                   |
| Assenheim                  | M | 73.00               |                       |                         | 73.00             |
| Arscott                    | B | 8,847.36            |                       |                         | 8,847.36          |
| Aylen                      | S | 8,847.36            |                       |                         | 8,847.36          |
| Ayling                     | B | 8,847.36            | 6,635.53              |                         | 15,482.89         |
| Borton                     | M | 8,847.36            |                       |                         | 8,847.36          |
| Boyd                       | H | 8,847.36            |                       | 126.00                  | 8,973.36          |
| Bright                     | A | 8,847.36            |                       | 18.10                   | 8,865.46          |
| Buckley                    | S | 8,847.36            |                       |                         | 8,847.36          |
| Burzotta                   | D | 8,847.36            |                       |                         | 8,847.36          |
| Butler                     | M | 8,847.36            |                       |                         | 8,847.36          |
| Byford                     | T | 8,847.36            | 9,978.60              |                         | 18,825.96         |
| Callaghan                  | T | 8,847.36            |                       |                         | 8,847.36          |
| Courtenay                  | J | 8,847.36            | 9,978.60              | 868.07                  | 19,694.03         |
| Chalk                      | A | 7,539.28            |                       |                         | 7,539.28          |
| Cox                        | T | 8,847.36            | 9,978.60              |                         | 18,825.96         |
| Davidson                   | M | 8,847.36            | 2,211.85              | 27.10                   | 11,086.31         |
| Davies                     | L | 8,847.36            | 1,276.70              |                         | 7,570.66          |
| Endersby                   | C | 8,847.36            |                       |                         | 8,847.36          |
| Evans                      | M | 8,847.36            | 12,122.31             | 113.40                  | 21,083.07         |
| Flewitt                    | M | 8,847.36            | 9,978.60              |                         | 18,825.96         |
| Folkard                    | N | 8,847.36            | 552.96                | 16.35                   | 9,416.67          |
| Garston                    | D | 8,847.36            | 2,211.85              |                         | 11,059.21         |
| Garston                    | J | 8,847.36            |                       |                         | 8,847.36          |
| Gilbert                    | I | 8,847.36            | 3,042.23              |                         | 11,889.59         |
| Habermel                   | S | 8,847.36            | 552.96                |                         | 9,400.32          |
| Hadley                     | R | 8,847.36            | 5,251.38              |                         | 14,098.74         |
| Holland                    | A | 8,847.36            | 14,371.20             | 582.45                  | 23,801.01         |
| Jarvis                     | D | 8,847.36            | 2,946.76              |                         | 11,794.12         |
| Jones                      | A | 8,847.36            |                       |                         | 8,847.36          |
| Kenyon                     | D | 8,847.36            | 1,327.09              |                         | 10,174.45         |
| Lamb                       | J | 8,847.36            | 27,940.56             | 589.37                  | 37,377.29         |
| Moring                     | A | 8,847.36            | 9,978.60              | 188.90                  | 19,014.86         |
| Moyies                     | J | 8,847.36            | 856.20                |                         | 9,703.56          |
| Mulrone                    | C | 8,847.36            |                       |                         | 8,847.36          |
| McDonald                   | H | 8,847.36            |                       |                         | 8,847.36          |
| McGlone                    | D | 8,847.36            | 4,923.07              |                         | 13,770.43         |
| McMahon                    | J | 8,847.36            | 1,498.34              |                         | 10,345.70         |
| Nevin                      | C | 8,847.36            | 5,950.57              |                         | 14,797.93         |
| Norman MBE                 | D | 8,847.36            |                       |                         | 8,847.36          |
| Phillips                   | G | 8,847.36            | 2,211.85              |                         | 11,059.21         |
| Robinson                   | K | 8,847.36            | 6,635.53              |                         | 15,482.89         |
| Salter                     | L | 8,847.36            | 9,978.60              |                         | 18,825.96         |
| Stafford                   | M | 8,847.36            |                       |                         | 8,847.36          |
| Terry                      | M | 8,847.36            |                       |                         | 8,847.36          |
| Walker                     | C | 8,847.36            | 2,211.85              |                         | 11,059.21         |
| Ward                       | N | 8,847.36            |                       |                         | 8,847.36          |
| Ware-Lane                  | J | 8,847.36            |                       |                         | 8,847.36          |
| Waterworth                 | F | 8,847.36            | 8,847.36              |                         | 17,694.72         |
| Wexham                     | P | 8,847.36            | 1,327.09              |                         | 10,174.45         |
| Willis                     | C | 8,847.36            |                       |                         | 8,847.36          |
| Woodley                    | R | 8,847.36            | 7,992.96              | 183.60                  | 17,023.92         |
| Van Looy                   | P | 8,847.36            |                       |                         | 8,847.36          |
| <b>Co-opted Members</b>    |   |                     |                       |                         |                   |
| Crabb                      | L |                     | 202.46                |                         | 202.46            |
| Lusty                      | E |                     | 265.20                |                         | 265.20            |
| Morgan                     | J |                     | 1,105.80              |                         | 1,105.80          |
| Pandya                     | K |                     | 1,108.99              |                         | 1,108.99          |
| Rickett                    | M |                     | 265.20                |                         | 265.20            |
| Tetley                     | J |                     | 1,105.80              |                         | 1,105.80          |
| Watts                      | T |                     | 185.37                |                         | 185.37            |
| <b>Total</b>               |   | <b>449,980.28</b>   | <b>184,455.22</b>     | <b>2,713.34</b>         | <b>637,148.84</b> |



# **ABBREVIATIONS and GLOSSARY**

## ABBREVIATIONS

|        |                                                       |
|--------|-------------------------------------------------------|
| ALMO   | Arm's-Length Management Organisation                  |
| CIPFA  | Chartered Institute of Public Finance and Accountancy |
| DfE    | Department for Education                              |
| DSG    | Dedicated Schools Grant                               |
| EIR    | Effective Interest Rate                               |
| HRA    | Housing Revenue Account                               |
| IFRS   | International Financial Reporting Standard            |
| LGPS   | Local Government Pension Scheme                       |
| MRA    | Major Repairs Allowance                               |
| MRICS  | Member of the Royal Institute of Chartered Surveyors  |
| MRP    | Minimum Revenue Provision                             |
| MRR    | Major Repairs Reserve                                 |
| NNDR   | National Non-Domestic Rates (Business Rates)          |
| NPV    | Net Present Value                                     |
| OMV    | Open Market Value                                     |
| PWLB   | Public Works Loan Board                               |
| SEH    | South Essex Homes Limited                             |
| SOLACE | Society of Local Authority Chief Executives           |
| TPA    | Teachers' Pension Agency                              |
| UEL    | Useful Economic Life                                  |
| VAT    | Value Added Tax                                       |

## GLOSSARY

|                                      |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
|--------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Accounting Period</b>             | The period of time covered by the accounts, normally a period of twelve months, commencing on 1 April for local Council accounts. The end of the accounting period is the balance sheet date.                                                                                                                                                                                                                                                                                                                                                                                                                            |
| <b>Accounting Statements</b>         | The Council's Core Financial Statements, Notes and Supplementary Financial Statements.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
| <b>Accrual</b>                       | A sum included in the final accounts attributable to the accounting period but for which payment has yet to be made or income received.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| <b>Accumulating Absences Account</b> | Accumulating absences are those that are carried forward and can be used in future periods if the current period entitlement is not used in full. In local authorities, annual leave, flexitime and time in lieu would usually be accumulating. Accumulating absences are typically earned by employees as they provide services. The Government has issued regulations which mean that the Council is only required to fund holiday pay and similar benefits when they are used, rather than when employees earn the benefits. Amounts are transferred to the Accumulated Absences Account until the benefits are used. |
| <b>Actuary</b>                       | A suitably qualified independent consultant employed to advise the Council upon the financial position of the Pension Fund.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
| <b>Amortisation</b>                  | Amortisation is the writing down of costs to the Comprehensive Income and Expenditure Statement over a number of years.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| <b>Appropriations</b>                | Appropriations are the transfer of resources between, to and from the various reserves.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| <b>Asset</b>                         | An item having value measurable in monetary terms. Assets can either be defined as non-current or current. A non-current asset has use and value for more than one year whereas a current asset (e.g. inventory or short-term debtors) can readily be converted into cash.                                                                                                                                                                                                                                                                                                                                               |
| <b>Audit of Accounts</b>             | An independent examination of the Council's accounts to ensure that the relevant legal obligations, accounting standards and codes of practice have been followed.                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
| <b>Balance Sheet</b>                 | A financial statement that summarises the Council's assets, liabilities and other balances at the end of the accounting period.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
| <b>Billing Authority</b>             | A local authority such as Southend-on-Sea Borough Council charged by statute with responsibility for the collection of and accounting for Council Tax and non-domestic rates (NNDR; business rates).                                                                                                                                                                                                                                                                                                                                                                                                                     |
| <b>Budget</b>                        | A budget is a financial statement that expresses a Council's service delivery plans and capital programmes in monetary terms, covering the financial year.                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
| <b>Budget Requirement</b>            | The estimated revenue expenditure on general fund services that needs to be financed from the Council tax after deducting income from fees and charges, certain specific grants and any funding from reserves. It is referred to by the Minister for Local Government when deciding the criteria for capping Council revenue expenditure.                                                                                                                                                                                                                                                                                |
| <b>Capital Charges</b>               | A charge to service revenue accounts to reflect the cost of non-current assets used in the provision of services, such as depreciation.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |

|                                                       |                                                                                                                                                                                                                                                                                                                                                                                                                      |
|-------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Capital Expenditure</b>                            | (or capital spending) – Section 40 of the Local Government and Housing Act 1989 defines ‘expenditure for capital purposes’. This includes spending on the acquisition of assets either directly by the Council or indirectly in the form of grants to other persons or bodies. Expenditure that does not fall within this definition must be charged to a revenue account.                                           |
| <b>Capital Financing</b>                              | The raising of money to pay for capital expenditure. There are various methods of financing capital expenditure including borrowing, direct revenue financing, usable capital receipts, capital grants, capital contributions and revenue reserves.                                                                                                                                                                  |
| <b>Capital Programme</b>                              | The capital schemes the Council intends to carry out over a specified time period.                                                                                                                                                                                                                                                                                                                                   |
| <b>Capital Receipt</b>                                | The proceeds from the disposal of land and other assets, so long as the amount is £10,000 or more. Proportions of capital receipts can be used to finance new capital expenditure, within rules set down by the government. They cannot be used for revenue purposes without Secretary of State approval.                                                                                                            |
| <b>CIPFA</b>                                          | Chartered Institute of Public Finance and Accountancy. The principal accountancy body dealing with local government finance.                                                                                                                                                                                                                                                                                         |
| <b>Collection Fund</b>                                | A separate fund maintained by a billing authority that records the expenditure and income relating to Council Tax and non-domestic rates, along with payments to precepting authorities, the national pool of non-domestic rates and its own general fund.                                                                                                                                                           |
| <b>Community Assets</b>                               | Assets that the Council intends to hold in perpetuity, that have no determinable useful life, and that may have restrictions in their disposal. Examples of community assets are parks and historical buildings.                                                                                                                                                                                                     |
| <b>Comprehensive Income and Expenditure Statement</b> | An account which summarises resources generated and consumed in the provision of services.                                                                                                                                                                                                                                                                                                                           |
| <b>Consistency</b>                                    | The concept that the accounting treatment of like items within an accounting period and from one period to the next is the same.                                                                                                                                                                                                                                                                                     |
| <b>Contingent Liability</b>                           | A possible obligation arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the Council’s control. Alternatively, a present obligation arising from past events where it is not probable that a transfer of economic benefits will be required or the amount of that obligation cannot be measured with sufficient reliability. |
| <b>Council Tax</b>                                    | The main source of local taxation to local authorities. Council Tax is levied on households within its area by the billing Council and the proceeds are paid into its Collection Fund for distribution to precepting authorities and for use by its own General Fund.                                                                                                                                                |
| <b>Council Tax Benefit</b>                            | Assistance provided by billing authorities to adults on low incomes to help them pay their Council Tax bill. The cost to authorities of Council Tax benefit is largely met by government grant.                                                                                                                                                                                                                      |
| <b>Creditor</b>                                       | Amounts owed by the Council for works done, goods received or services rendered before the end of the accounting period but for which payments have not been made by the end of that accounting period.                                                                                                                                                                                                              |
| <b>Debtor</b>                                         | Amounts due to the Council for works done, goods received or services rendered before the end of the accounting period but for which payments have not been received by the end of that accounting period.                                                                                                                                                                                                           |

|                                            |                                                                                                                                                                                                                                                                                                                                                                         |
|--------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Depreciation</b>                        | The measure of the cost of the benefits of a non-current asset which have been consumed during the period. Consumption includes the wearing out, using up or other reduction in the useful life of the asset whether arising from use, passage of time or obsolescence through either changes in technology or demand for the goods and services produced by the asset. |
| <b>Dedicated Schools Grant (DSG)</b>       | Grant funding system for schools through specific grant.                                                                                                                                                                                                                                                                                                                |
| <b>Events after the Balance Sheet Date</b> | Events after the balance sheet date are those events, favourable and unfavourable, that occur between the balance sheet date and the date when the Statement of Accounts is authorised for issue. Also referred to as Post Balance Sheet Events.                                                                                                                        |
| <b>Exceptional Items</b>                   | Material items which derive from events or transactions that fall within the ordinary activities of the Council and which need to be disclosed separately by virtue of their size or incidence so that the financial statements give a true and fair view.                                                                                                              |
| <b>External Audit</b>                      | The independent examination of the activities and accounts of local authorities to ensure the accounts have been prepared in accordance with legislative requirements and proper practices and to ensure the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.                                              |
| <b>Finance Lease</b>                       | A lease which transfers substantially all of the risks and rewards of ownership of a non-current asset to the lessee, which is treated in the Government's capital control system as a credit arrangement as if it were similar to borrowing. The value of the asset is held on the Council's Balance Sheet                                                             |
| <b>Financial Instruments</b>               | A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another.                                                                                                                                                                                                                    |
| <b>Financial Regulations</b>               | A written code of procedures approved by the Council, intended to provide a framework for proper financial management. Financial regulations usually set out rules on accounting, audit, administrative procedures and budgeting systems.                                                                                                                               |
| <b>General Fund</b>                        | The main revenue fund of a billing Council. Day-to-day spending on services is met from the fund. Spending on the provision of Council Dwellings, however, must be charged to a separate Housing Revenue Account.                                                                                                                                                       |
| <b>Gross Expenditure</b>                   | The total cost of providing the Council's services before taking into account income from government grants and fees and charges for services.                                                                                                                                                                                                                          |
| <b>Housing Benefits</b>                    | A system of financial assistance to individuals towards certain housing costs administered by local authorities and subsidised by central Government.                                                                                                                                                                                                                   |
| <b>Housing Revenue Account (HRA)</b>       | A separate, statutory account inside the General Fund which includes the expenditure and income arising from the provision of housing accommodation by the Council acting as landlord.                                                                                                                                                                                  |
| <b>Infrastructure Assets</b>               | Non-current assets belonging to the Council which do not necessarily have a resale value (e.g. highways).                                                                                                                                                                                                                                                               |
| <b>Internal Audit</b>                      | An independent appraisal function established by the management of an organisation for the review of the internal control system as a service to the organisation. It objectively examines, evaluates and reports on the adequacy of internal control as a contribution to the proper, economic, efficient and effective use of resources.                              |

|                                                          |                                                                                                                                                                                                                                                                                                                                                                                                      |
|----------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>International Financial Reporting Standard (IFRS)</b> | International Financial Reporting Standards cover particular aspects of accounting practice, and set out the correct accounting treatment, for example, of depreciation. Compliance with these standards is mandatory and any departure from them must be disclosed and explained. The standards originated in the commercial sector and some are not directly relevant to local authority accounts. |
| <b>Inventory</b>                                         | These comprise one or more of the following categories: goods or other assets purchased for resale; consumable stores; raw materials and components purchased for incorporation into products for sale; products and services in intermediate stages of completion; long term contract balances and finished goods.                                                                                  |
| <b>Minimum Revenue Provision (MRP)</b>                   | This is the amount to be set aside for the repayment of debt. Each local Council has a general duty to make an MRP charge to its revenue account each year, which it considers to be prudent.                                                                                                                                                                                                        |
| <b>National Non-Domestic Rate (NDR)</b>                  | A standard rate in the pound set by the Government payable on the assessed rateable value of properties used for business purposes. Also known as Non-Domestic or Business rates.                                                                                                                                                                                                                    |
| <b>Net Expenditure</b>                                   | Gross expenditure less specific service income.                                                                                                                                                                                                                                                                                                                                                      |
| <b>Non-Operational Assets</b>                            | Fixed assets held by the Council but not directly occupied, used or consumed in the delivery of services. Examples are investment properties or assets surplus to requirements, pending sale or redevelopment.                                                                                                                                                                                       |
| <b>Operating Lease</b>                                   | A type of lease, usually of computer equipment, office equipment, furniture, etc which is similar to renting and therefore represents a revenue cost. Ownership of the asset remains with the lessor.                                                                                                                                                                                                |
| <b>Operational Assets</b>                                | Non-current assets held and occupied, used or consumed by the Council in the direct delivery of those services for which it has a statutory or discretionary responsibility.                                                                                                                                                                                                                         |
| <b>Outturn</b>                                           | Actual income and expenditure in a financial year.                                                                                                                                                                                                                                                                                                                                                   |
| <b>Pension Fund</b>                                      | An employees' pension fund maintained by a Council, or group of authorities, in order to make pension payments on retirement of participants. It is financed from contributions from the employing Council, the employee and investment income.                                                                                                                                                      |
| <b>Precept</b>                                           | The levy made by Precepting authorities on billing authorities, e.g. Southend-on-Sea Borough Council. The major precepting authorities are Essex Police Authority and Essex Fire Authority. The Leigh-on-Sea Town Council also raise money by means of a precept on the billing authority.                                                                                                           |
| <b>Public Works Loan Board (PWLB)</b>                    | A central government agency which provides long- and medium-term loans to local authorities at interest rates only slightly higher than those at which the Government itself can borrow. Local authorities are able to borrow a proportion of their requirements to finance capital spending from this source, subject to them being able to afford the interest and principle repayments.           |
| <b>Provision</b>                                         | An amount set aside for liabilities or losses that are certain to arise but owing to their inherent nature cannot be quantified with absolute certainty.                                                                                                                                                                                                                                             |
| <b>Prudential Code</b>                                   | The Prudential Code, introduced in April 2004, sets out the arrangements for capital finance in local authorities. It constitutes 'proper accounting practice' and is recognised as such by statute.                                                                                                                                                                                                 |
| <b>Rateable Value</b>                                    | The annual assumed rental value of a property that is used for business purposes.                                                                                                                                                                                                                                                                                                                    |

|                                                                         |                                                                                                                                                                                                                                                            |
|-------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Revenue Expenditure Financed from Capital under Statute (REFCUS)</b> | Capital expenditure which may be properly treated as such, but which does not result in, or remain matched with, tangible fixed assets. An example of REFCUS would be capital expenditure on improvement grants.                                           |
| <b>Reserves</b>                                                         | The accumulation of surpluses and deficits over past years. Reserves of a revenue nature are available and can be spent or earmarked at the discretion of the Council.                                                                                     |
| <b>Revenue Support Grant</b>                                            | A grant paid by the Government to Councils, contributing towards the costs of their services, as opposed to specific grants, which may only be used for a specific purpose.                                                                                |
| <b>Section 31 Grants</b>                                                | A grant issued by a Minister of State under Section 31 of the Local Government Act 2003.                                                                                                                                                                   |
| <b>Specific Grants</b>                                                  | The term used to describe all government grants – including supplementary and special grants – to local authorities that are to be used for a particular purpose, as opposed to non service specific grants such as revenue support grant.                 |
| <b>Subjective Analysis</b>                                              | This is an analysis of income or expenditure according to type. Such expenditure headings are wages and salaries, capital charges, building maintenance, consumable materials. On the income side, the examples are government grant, fees and charges.    |
| <b>Supplementary Financial Statements</b>                               | Additional financial statements comprising the Housing Revenue Account and Collection Fund. Together with the Core Financial Statements comprise the Council's Accounting Statements.                                                                      |
| <b>Temporary Investment</b>                                             | Money invested for a period of less than one year.                                                                                                                                                                                                         |
| <b>Trust Funds</b>                                                      | Funds administered by the Council for such purposes as charities and specific projects usually as a result of individual legacies and donations.                                                                                                           |
| <b>Value for Money (VFM)</b>                                            | A term that describes a service or product that demonstrates a good balance between its cost, quality and usefulness to the customer. A VFM audit takes into account the economy, efficiency and effectiveness of a Council service, function or activity. |

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# audit committees

Practical Guidance for  
Local Authorities and Police  
2018 Edition



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Practical Guidance for  
Local Authorities and Police  
2018 Edition

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**Diana Melville**

Governance Advisor, CIPFA



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# CHAPTER 1

## Introduction

This publication sets out CIPFA's guidance on the function and operation of audit committees in local authorities and police bodies, and represents best practice for audit committees in local authorities throughout the UK and for police audit committees in England and Wales.

This publication incorporates *CIPFA's Position Statement: Audit Committees in Local Authorities and Police (2018)* ('the Position Statement'), which sets out CIPFA's view of the role and functions of an audit committee and replaces the previous 2013 Position Statement. Throughout the Position Statement the terms 'authority' and 'authorities' are used to include police and crime commissioners (PCCs) and chief constables as well as local authorities and fire and rescue authorities.

The Position Statement emphasises the importance of audit committees being in place in all principal local authorities and police bodies. It also recognises that audit committees are a key component of governance.

The purpose of an audit committee is to provide to those charged with governance independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and annual governance processes. In police bodies 'those charged with governance' are the PCC and the chief constable.

Audit committees are an important source of assurance about an organisation's arrangements for managing risk, maintaining an effective control environment and reporting on financial and other performance. The way in which an audit committee is organised will vary depending on the specific political and management arrangements in place in any organisation. This guidance therefore explores how audit committees relate to organisations' different arrangements for managing and governing themselves.

Audit committees in local authorities and police bodies are necessary to satisfy the wider requirements for sound financial management and internal control. For example in England, the [Accounts and Audit \(England\) Regulations 2015](#) state that a local authority is responsible "for a sound system of internal control which facilitates the effective exercise of its functions and the achievement of its aims and objectives; ensures that the financial and operational management of the authority is effective and includes effective arrangements for the management of risk". In addition, in England, Section 151 of the [Local Government Act 1972](#) requires every local authority to "make arrangements for the proper administration of its financial affairs".

Regardless of the specific legislative or regulatory framework, the chief financial officer (CFO) has overarching responsibility for discharging the requirement for sound financial management. To be truly effective, the CFO requires an effective audit committee to provide support and challenge. An essential role for the audit committee is to oversee internal audit,

helping to ensure that it is adequate and effective. Both these elements are now enshrined in the [Public Sector Internal Audit Standards \(PSIAS\)](#) and the supporting [Local Government Application Note for the United Kingdom Public Sector Internal Audit Standards \(LGAN\)](#).

There have been a number of significant developments in governance and audit practice since 2013 which have emphasised the importance of the audit committee. Key developments include:

- the new [Delivering Good Governance in Local Government: Framework](#) (CIPFA/Solace, 2016)
- updates to the PSIAS in 2016 and 2017
- the [Code of Practice on Managing the Risk of Fraud and Corruption](#) (CIPFA, 2014).

Legislation has also had an impact, in particular the [Local Audit and Accountability Act 2014](#), which introduced changes to the appointment of external auditors. The new combined authorities must also establish an audit committee in accordance with statutory regulations. For police bodies, the operation of joint audit committees supporting both the PCC and the chief constable have now completed a full term and further changes are on the horizon.

The [Policing and Crime Act 2017](#) enables a PCC (following local consultation and approval from the secretary of state) to take on the governance of its local fire and rescue service(s) to become the fire and rescue authority, known as a police and crime commissioner fire and rescue authority (PCC FRA). This would be a separate legal entity from the PCC.

The PCC FRA would be a corporation sole and a fire and rescue authority. There would therefore be the need for appropriate audit committee arrangements. Guidance on this is expected to be included in the [Financial Management Code of Practice for the Police Forces of England and Wales](#) (Home Office, 2013 – due to be updated in 2018). The aim of this publication is to support fire and rescue authority and police audit committees in performing effectively.

Best practice dictates that governance, risk management and strong financial controls be embedded in the daily and regular business of an organisation. The existence of an audit committee does not remove responsibility from senior managers, members and leaders, but provides an opportunity and resource to focus on these issues. For police audit committees, there is a requirement to have independent members on the audit committee and Welsh authorities and English combined authorities must also include at least one independent member. CIPFA considers that this is in line with good practice. In establishing their audit committees, other authorities should recognise the need to demonstrate good governance principles and independence from the executive and other political allegiances.

This guidance is applicable to all principal local authorities and fire and rescue authorities in the UK, and to the independent audit committees established to support PCCs and chief constables. Where there is specific legislation or guidance relevant for one sector or devolved government, this has been highlighted in the publication.

# CIPFA's Position Statement: Audit Committees in Local Authorities and Police

The scope of this Position Statement includes all principal local authorities in the UK, the audit committees for PCCs and chief constables in England and Wales, and the audit committees of fire and rescue authorities.

- 1** Audit committees are a key component of an authority's governance framework. Their function is to provide an independent and high-level resource to support good governance and strong public financial management.
- 2** The purpose of an audit committee is to provide to those charged with governance independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and governance processes. By overseeing both internal and external audit it makes an important contribution to ensuring that effective assurance arrangements are in place.
- 3** Authorities and police audit committees should adopt a model that establishes the committee as independent and effective. The committee should:
  - act as the principal non-executive, advisory function supporting those charged with governance
  - in local authorities, be independent of both the executive and the scrutiny functions and include an independent member where not already required to do so by legislation
  - in police bodies, be independent of the executive or operational responsibilities of the PCC or chief constable
  - have clear rights of access to other committees/functions, for example, scrutiny and service committees, corporate risk management boards and other strategic groups
  - be directly accountable to the authority's governing body or the PCC and chief constable.
- 4** The core functions of an audit committee are to:
  - be satisfied that the authority's assurance statements, including the annual governance statement, properly reflect the risk environment and any actions required to improve it, and demonstrate how governance supports the achievement of the authority's objectives
  - in relation to the authority's internal audit functions:
    - oversee its independence, objectivity, performance and professionalism
    - support the effectiveness of the internal audit process

- promote the effective use of internal audit within the assurance framework
  - consider the effectiveness of the authority’s risk management arrangements and the control environment, reviewing the risk profile of the organisation and assurances that action is being taken on risk-related issues, including partnerships and collaborations with other organisations
  - monitor the effectiveness of the control environment, including arrangements for ensuring value for money, supporting standards and ethics and for managing the authority’s exposure to the risks of fraud and corruption
  - consider the reports and recommendations of external audit and inspection agencies and their implications for governance, risk management or control
  - support effective relationships between external audit and internal audit, inspection agencies and other relevant bodies, and encourage the active promotion of the value of the audit process.
  - review the financial statements, external auditor’s opinion and reports to members, and monitor management action in response to the issues raised by external audit.
- 5 An audit committee can also support its authority by undertaking a wider role in other areas including:
- considering governance, risk or control matters at the request of other committees or statutory officers
  - working with local standards and ethics committees to support ethical values
  - reviewing and monitoring treasury management arrangements in accordance with [Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes](#) (CIPFA, 2017)
  - providing oversight of other public reports, such as the annual report.
- 6 Good audit committees are characterised by:
- a membership that is balanced, objective, independent of mind, knowledgeable and properly trained to fulfil their role. The political balance of a formal committee of a council will reflect the political balance of the council, however, it is important to achieve the right mix of apolitical expertise
  - a membership that is supportive of good governance principles and their practical application towards the achievement of organisational objectives
  - a strong independently minded chair – displaying a depth of knowledge, skills and interest. There are many personal qualities needed to be an effective chair, but key to these are:
    - promoting apolitical open discussion
    - managing meetings to cover all business and encouraging a candid approach from all participants
    - an interest in and knowledge of financial and risk management, audit, accounting concepts and standards, and the regulatory regime
  - unbiased attitudes – treating auditors, the executive and management fairly
  - the ability to challenge the executive and senior managers when required.

- 7 To discharge its responsibilities effectively the committee should:
- meet regularly – at least four times a year, and have a clear policy on those items to be considered in private and those to be considered in public
  - be able to meet privately and separately with the external auditor and with the head of internal audit
  - include, as regular attendees, the CFO(s), the chief executive, the head of internal audit and the appointed external auditor. Other attendees may include the monitoring officer (for standards issues) and the head of resources (where such a post exists). These officers should also be able to access the committee, or the chair, as required
  - have the right to call any other officers or agencies of the authority as required, while recognising the independence of the chief constable in relation to operational policing matters
  - report regularly on its work to those charged with governance, and at least annually report an assessment of their performance. An annual public report should demonstrate how the committee has discharged its responsibilities.



# The purpose of audit committees

### Extract from the Position Statement

- 1 Audit committees are a key component of an authority's governance framework. Their function is to provide an independent and high level resource to support good governance and strong public financial management.
- 2 The purpose of an audit committee is to provide to those charged with governance independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and governance processes. By overseeing internal and external audit it makes an important contribution to ensuring that effective assurance arrangements are in place.

The overall aim of good governance is to ensure that:

- resources are directed in accordance with agreed policy and according to priorities
- there is sound and inclusive decision making
- there is clear accountability for the use of those resources in order to achieve desired outcomes for service users and communities.

Governance is defined in [Delivering Good Governance in Local Government: Framework](#) (CIPFA/Solace, 2016) as follows:

- *Governance comprises the arrangements put in place to ensure that the intended outcomes for stakeholders are defined and achieved.*
- *To deliver good governance in the public sector, both governing bodies and individuals working for public sector entities must try to achieve their entity's objectives while acting in the public interest at all times.*

Good governance is ultimately the responsibility of the governing body, as well as those with leadership roles and statutory responsibilities in the organisation, including the chief executive, the CFO and the monitoring officer. In local government, the governing body is the full council or authority and both the PCC and chief constable are responsible as a corporation sole.

The audit committee should play a key role in supporting the discharge of those responsibilities by providing a high-level focus on audit, assurance and reporting. In local government, this committee may be delegated some governance responsibilities by the council; the police audit committee must remain an advisory body to the PCC and the chief constable. New policing arrangements were established by the [Police Reform and Social Responsibility Act 2011](#). Guidance for police audit committees is contained in the [Financial](#)

Management Code of Practice for the Police Forces of England and Wales (Home Office, 2013 – due to be updated in 2018).

As a key component of an organisation’s governance arrangements, the audit committee has the potential to be a valuable resource to the whole authority. Where it operates effectively, an audit committee adds value to its authority by supporting improvement across a range of objectives. To achieve wide-ranging influence, an audit committee will need commitment and energy from the membership together with support and openness from the authority.

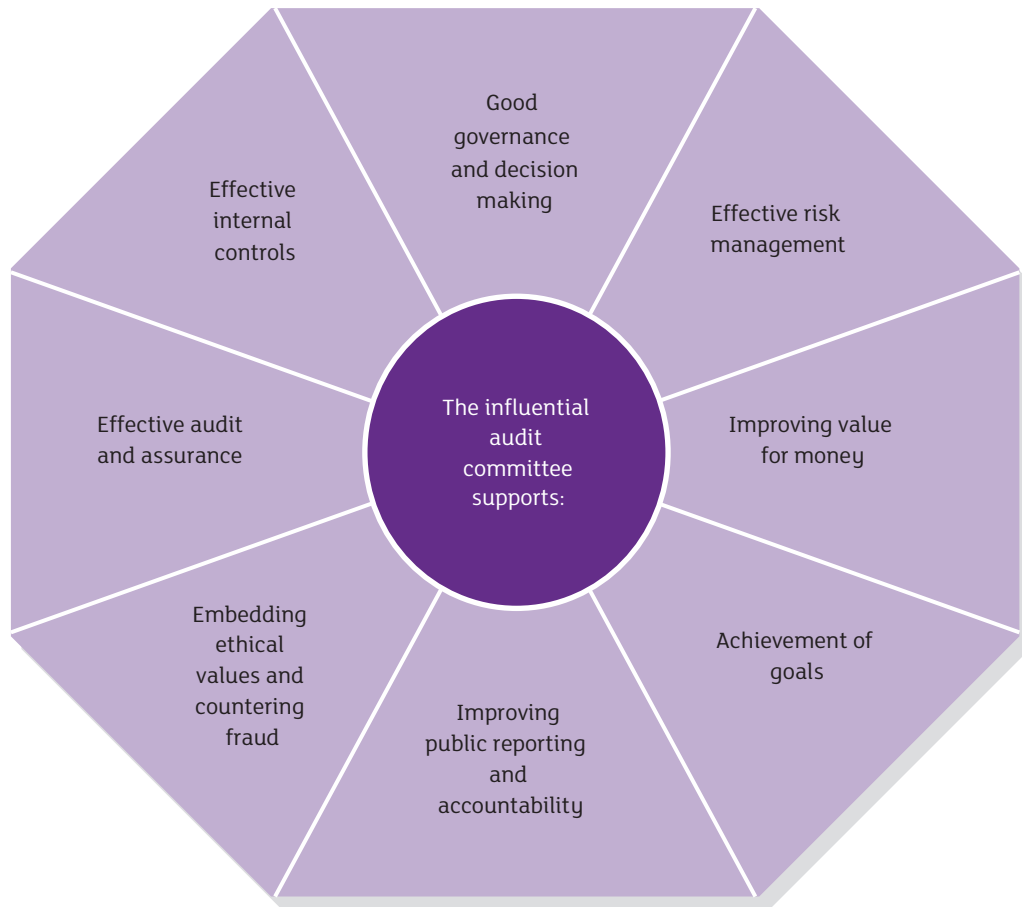
The principal areas where the committee can influence and add value are:

- promoting the principles of good governance and their application to decision making
- raising awareness of the need for sound internal control and contributing to the development of an effective control environment
- supporting arrangements for the governance of risk and for effective arrangements to manage risks
- advising on the adequacy of the assurance framework and considering whether assurance is deployed efficiently and effectively
- reinforcing the objectivity, importance and independence of internal audit and external audit and therefore the effectiveness of the audit functions
- aiding the achievement of the authority’s goals and objectives through helping ensure appropriate governance, risk, control and assurance arrangements
- supporting the development of robust arrangements for ensuring value for money
- helping the authority to implement the values of ethical governance, including effective arrangements for countering risks of fraud and corruption
- promoting measures to improve transparency and accountability and effective public reporting to the authority’s stakeholders and the local community.



The influence that an effective audit committee is able to have in these areas is set out in Figure 3.1 below.

**Figure 3.1: The influential audit committee**



*Source: Audit Committees: Practical Guidance for Local Authorities and Police (CIPFA, 2013)*

CIPFA's view is that audit committee functions can be most effectively delivered by a dedicated audit committee. Such a committee provides a key resource to support the implementation of good governance standards. It is possible for the functions of an audit committee to be undertaken by other bodies, but a dedicated resource is likely to be more knowledgeable and effective, having more time to focus on these important issues.



# The core functions of an audit committee

## Extract from the Position Statement

- 4 The core functions of an audit committee are to:
- be satisfied that the authority's assurance statements, including the annual governance statement, properly reflect the risk environment and any actions required to improve it, and demonstrate how governance supports the achievement of the authority's objectives
  - in relation to the authority's internal audit functions:
    - oversee its independence, objectivity, performance and professionalism
    - support the effectiveness of the internal audit process
    - promote the effective use of internal audit within the assurance framework
  - consider the effectiveness of the authority's risk management arrangements and the control environment, reviewing the risk profile of the organisation and assurances that action is being taken on risk-related issues, including partnerships and collaborations with other organisations
  - monitor the effectiveness of the control environment, including arrangements for ensuring value for money, supporting standards and ethics and for managing the authority's exposure to the risks of fraud and corruption
  - consider the reports and recommendations of external audit and inspection agencies and their implications for governance, risk management or control
  - support effective relationships between external audit and internal audit, inspection agencies and other relevant bodies, and encourage the active promotion of the value of the audit process
  - review the financial statements, external auditor's opinion and reports to members, and monitor management action in response to the issues raised by external audit.

## INTRODUCTION

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The core functions that audit committees should undertake reflect both standard practice for audit committees across all sectors and specific legislative and professional standards requirements for the local authority and the police sectors. Reconciling these sometimes different requirements leads to audit committees in local authorities and police bodies having the distinctive features outlined in this guidance.

Principal regulations affecting the functions of the audit committee are outlined in Appendix A, and a suggested terms of reference for the committee is included in Appendix B. The remainder of this chapter provides further background and explanation for the audit committee's core functions.

## GOOD GOVERNANCE AND THE ANNUAL GOVERNANCE STATEMENT

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Audit committees provide essential support for the approval of the annual governance statement (AGS) and for ensuring that good governance is embedded throughout the authority's day-to-day activities rather than being limited to a once-a-year reporting process. The audit committee is able to support this approach by addressing governance principles in the course of its regular business.

[Delivering Good Governance in Local Government: Framework](#) (CIPFA/Solace, 2016) ('the Framework') sets the standard for governance in UK local government bodies. The Framework is supported by guidance notes for each sector as follows:

- [Delivering Good Governance in Local Government: Guidance Notes for English Authorities](#) (CIPFA/Solace, 2016)
- [Delivering Good Governance in Local Government: Guidance Notes for Scottish Authorities](#) (CIPFA/Solace, 2016)
- [Delivering Good Governance in Local Government: Guidance Notes for Welsh Authorities](#) (CIPFA/Solace, 2016).
- [Delivering Good Governance: Guidance Notes for Policing Bodies in England and Wales](#) (CIPFA, 2016).

The Framework is principles based and informs the approach to good governance adopted by PCCs and chief constables as well as local authorities and fire and rescue authorities. CIPFA recommends that each authority develops a local code of governance setting out how it applies the principles.

Legislation requires local authorities, fire and rescue authorities and police bodies to prepare an AGS and to report publicly on the effectiveness of governance and control (see Appendix A for details of the legislative requirements). The AGS should be reviewed and then approved by a body of the authority prior to being signed by the leading member and the chief executive of an authority and by the PCC and chief constable. Typically, audit committees undertake the role of reviewing the AGS prior to approval. Police audit committees should review the AGS of both the PCC and the chief constable.

Statutory and professional guidelines will determine when the AGS goes before the audit committee for review. For example, English local authorities under the [Accounts and Audit Regulations 2015](#) must approve and publish the AGS by 31 July at the latest for the financial year starting 2017 and thereafter. CIPFA recommends that the AGS is first reviewed by members of the audit committee at an earlier stage to allow comments and contributions to be made. The AGS must be current at the time it is published, so the audit committee should review it before final approval.

To provide a meaningful review of the AGS, the audit committee should be in a position to draw on knowledge of the governance arrangements as they are established and on

assurances of how they have operated in practice during the course of the year. The audit committee should undertake the following activities to discharge their responsibilities:

- review the local code of governance and any changes to the arrangements in the year (note it is not the responsibility of the audit committee to establish any local code, but it should be consulted)
- ensure that the AGS is underpinned by a framework of assurance (see later section for more details on assurance planning)
- over the course of the year, receive reports and assurances over the application of the governance arrangements in practice
- monitor implementation of action plans or recommendations to improve governance arrangements
- consider how the organisation applies governance principles in practice during the committee's review of other agenda items.

Given its role in overseeing the local code of governance and the AGS, the audit committee has an opportunity to promote the implementation of the principles of good governance across the authority: to make things better in the future, not just reviewing what happened in the past. For example, the committee may make recommendations for action to senior management or refer matters to other committees. The limits to the decision-making powers of audit committees are considered in more depth in Chapter 6.

## INTERNAL AUDIT

The audit committee has a clear role in relation to oversight of the authority's internal audit function. From 1 April 2013, internal auditors throughout local and central government and health have had to follow the PSIAS and the LGAN. All principal local authorities and other relevant bodies subject to the [Accounts and Audit Regulations 2015](#), the [Accounts and Audit \(Wales\) Regulations 2014](#), the [Local Authority Accounts \(Scotland\) Regulations 2014](#) and the [Local Government \(Accounts and Audit\) Regulations \(Northern Ireland\) 2015](#) must make provision for internal audit in accordance with the PSIAS and LGAN.

The PSIAS include the Mission of Internal Audit, Code of Ethics, Definition of Internal Auditing and the Core Principles for the Professional Practice of Internal Auditing, and together these highlight the importance of effective internal audit to those in the organisation who are responsible for governance.

In its adoption of the PSIAS and LGAN, each authority or police body should consider which committee or individual is the most appropriate to fulfil the role of the board in relation to internal audit. In determining the functional reporting arrangements of internal audit, the authority will need to bear in mind the need to preserve the independence and objectivity of internal audit as required by the PSIAS. It is for these reasons that in the LGAN, CIPFA expressed an expectation that the audit committee would fulfil the role of the board in the majority of instances. Since police audit committees must remain advisory bodies, their role will be to support and review the functional reporting arrangements.

It is a requirement of the PSIAS that the terms of reference of the audit committee should reflect the functional reporting arrangements of internal audit to the audit committee as set

out in the internal audit charter, which is the formal document that defines internal audit's purpose, authority and responsibility.

The role of the audit committee in relation to internal audit is to:

1. oversee its independence, objectivity, performance and professionalism
2. support the effectiveness of the internal audit process
3. promote the effective use of internal audit within the assurance framework.

Within police bodies this is an advisory role for the audit committee.

The specific activities that these three objectives lead to are considered below.

### **Oversee independence, objectivity, performance and professionalism**

The following activities are the functional reporting arrangements set out in the PSIAS to ensure the organisational independence of internal audit. According to the specific internal audit charter of the authority, the audit committee could have a role to:

- review or approve the following:
  - the internal audit charter
  - the risk-based internal audit plan
  - the internal audit budget and resource plan
- receive confirmation of the organisational independence of the internal audit activity
- consider the appointment and removal of the head of internal audit or the award of a contract for internal audit services
- make appropriate enquiries of both management and the head of internal audit to determine if there are any inappropriate scope or resource limitations
- approve and periodically review any safeguards put in place to limit impairments to independence and objectivity where the head of internal audit has been asked to undertake any additional roles/responsibilities outside of internal auditing
- receive the annual report, which includes:
  - the annual opinion on the overall adequacy and effectiveness of governance, risk management and control
  - a summary of the work on which internal audit has based the opinion
  - a statement on conformance with the PSIAS and the LGAN
  - the results of the quality assurance and improvement programme, including specific detail as required in the PSIAS
- discuss with the head of internal audit the form of the external assessment of internal audit and the qualifications and independence of the assessor.

The head of internal audit or chief internal auditor (referred to in the PSIAS and the LGAN as 'chief audit executive') must have free and unfettered access to the chair of the audit committee. In addition, the chair of the audit committee may serve as sponsor for the external assessment, which forms part of the quality assurance and improvement programme (QAIP) at least once every five years.

## Support the effectiveness of the internal audit process

The audit committee has an important role to play in supporting the process of internal audit and outputs from audit work. The following activities form a core part of this:

- receiving updates on the work of internal audit including key findings, issues of concern and action in hand as a result of internal audit work
- receiving communications from the head of internal audit on the internal audit activity's performance relative to its plan and other matters
- giving approval to internal audit for any significant additional consulting services not already included in the audit plan, prior to internal audit accepting an engagement
- receiving reports on instances where the internal audit function does not conform to the PSIAS or LGAN and considering whether the non-conformance is sufficiently significant that it must be included in the AGS
- overseeing the relationship of internal audit with other assurance providers and with external audit and any inspectorates
- receiving regular reports on the results of the QAIP, including the external assessment.

## Promote the effective use of internal audit within the assurance framework

The audit committee should make best use of the internal audit resource within the assurance framework. In particular, the audit committee should seek confirmation from internal audit that the audit plan takes into account the requirement to produce an annual internal audit opinion that can be used to inform the AGS. Specific activities will include:

- approving (but not directing) the risk-based plan, considering the use made of other sources of assurance
- receiving reports outlining the action taken where the head of internal audit has concluded that management has accepted a level of risk that may be unacceptable to the authority
- when considering the AGS, taking into account internal audit's opinion on the overall adequacy and effectiveness of the authority's framework of governance, risk management and control.

Those audit committees that operate under the Local Authority Accounts (Scotland) Regulations 2014 and the Accounts and Audit (Wales) Regulations 2014 must conduct a review of the effectiveness of their internal audit annually (Appendix A includes details of the relevant regulations). The audit committee should take into account internal audit's QAIP when conducting such a review.

The [CIPFA Statement on the Role of the Head of Internal Audit in Public Service Organisations](#) (CIPFA, 2010 – due to be updated in 2018) states that engagement between the head of internal audit and the audit committee is a crucial component of delivering an effective internal audit service.

Audit committee members should keep up to date with changes affecting the professional practices and expectations of internal auditors so that they can provide the necessary support.

## RISK MANAGEMENT

In determining the audit committee's responsibilities towards risk management, authorities should have regard to the responsibilities of other committees such as scrutiny committees and the specific responsibilities of those charged with governance in relation to risk management. Where a local authority establishes a separate risk committee, then its roles and responsibilities need to be taken into account in determining the role of the audit committee. Police audit committees are directed in the [Financial Management Code of Practice for the Police Forces of England and Wales](#) (Home Office, 2013 – due to be updated in 2018) to advise the PCC and the chief constable on the adoption of appropriate risk management arrangements. Welsh local authority and English combined authority audit committees are required to review and assess risk management arrangements.

Assurance over risk management will be a key element underpinning the AGS. The audit committee also needs a good understanding of the level of assurance risk management provides when it reviews the risk-based internal audit plan or reviews other assurances on areas of risk.

The role of the audit committee in relation to risk management covers three major areas:

- First, assurance over the governance of risk, including leadership, integration of risk management into wider governance arrangements and the top level ownership and accountability for risks. The specific actions this requires include:
  - overseeing the authority's risk management policy and strategy and their implementation in practice
  - overseeing the integration of risk management into the governance and decision-making processes of the organisation
  - ensuring that the AGS is an adequate reflection of the risk environment.
- Second, keeping up to date with the risk profile and the effectiveness of risk management actions by:
  - reviewing arrangements to co-ordinate and lead risk management. An example of such an arrangement is the existence of a group to examine, challenge and support the risk assessment process to ensure consistency
  - reviewing the risk profile and keeping up to date with significant areas of strategic risks and major operational or major project risks and seeking assurance that these risks are managed effectively and owned appropriately
  - seeking assurance that strategies and policies are supported by adequate risk assessments and that risks are being actively managed and monitored
  - following up risks identified by auditors and inspectors to ensure they are integrated into the risk management process.
- Third, monitoring the effectiveness of risk management arrangements and supporting the development and embedding of good practice in risk management by:
  - overseeing any evaluation or assessment such as a risk maturity assessment or risk benchmarking
  - reviewing evaluation or assurance reports on risk management and monitoring progress on improvement plans



- monitoring action plans and development work in the field of risk management practice.

Flexibility in the audit committee agenda to adapt to new or heightened risks will ensure that the committee is responsive and focused on priority issues.

## ASSURANCE FRAMEWORKS AND ASSURANCE PLANNING

Authorities may have developed a description or diagram explaining what assurances exist and who is responsible for them. Such descriptions may be described as an assurance framework or assurance map. Typically, they outline key areas of the assurances required by the audit committee, such as on governance, risks and controls, and they identify the assurance providers. These may include internal audit, risk management advisors and management. The audit committee should support initiatives to identify and evaluate assurance in this way.

Whether or not there is a formally set-down assurance framework, the audit committee has a responsibility to understand what assurance is available to support the AGS and to enable the committee to meet its terms of reference. The committee should be seeking to ensure that assurance is planned and delivered with the following objectives in mind:

- clarity of what assurance is required
- clear allocation of responsibility for providing assurance
- avoiding duplication, bearing in mind the differing objectives of assurance activities
- improving the efficiency and cost effectiveness of assurance
- obtaining assurance of appropriate rigour and independence across a range of assurance providers.

Having a clear assurance framework in place will assist the committee in a number of areas. It supports the annual review of effectiveness for the AGS. It also supports the approval of the internal audit risk-based plan as it enables the committee to identify the extent to which it will rely on internal audit for its assurance requirements. In reviewing assurance arrangements, the committee should bear in mind that the assurance process has a cost to the organisation and it should therefore be proportional to the risk.

## VALUE FOR MONEY AND BEST VALUE

Making best use of resources is a key objective for all local authorities and it is part of the Framework. One of the behaviours and actions that underpin Principle C of the Framework is “delivering defined outcomes on a sustainable basis within the resources that will be available”.

Under Sections 2, 3 and 35 of the [Police Reform and Social Responsibility Act 2011](#), the chief constable has statutory responsibility to secure value for money (VfM) and the PCC to hold the chief constable to account for this duty. The audit committee’s role is to support both the PCC and chief constable to fulfil their responsibilities through the assurance process.

Assurance should focus on both the arrangements to ensure and the progress in achieving VfM. An authority should have in place arrangements to obtain assurance over its performance

against VfM objectives and strategies. The role of the audit committee will need to be determined in the context of what other committees may be doing. For example, a scrutiny committee may oversee service reviews that consider performance against VfM objectives.

The role of the audit committee is most likely to focus on whether the authority's overall approach to VfM is in line with governance objectives and to receive assurances on this to underpin the AGS. The Framework emphasises that the AGS should be focused on outcomes and VfM.

One specific area of activity for the committee will be consideration of the external auditor's wider work as set out in the codes of audit practice and other guidance adopted by national audit bodies as follows:

- **England** – statutory value for money conclusion as defined by the National Audit Office
- **Scotland** – periodic reviews of best value
- **Wales** – Wales Audit Office annual improvement reports
- **Northern Ireland** – review of arrangements for the use of resources.

Where the external auditor has issued a qualified conclusion on VfM, the audit committee should ensure there is a robust action plan to address the issues raised. In addition, the audit committee should consider what other assurances are available in relation to identified VfM risks and highlight areas for improvement.

## COUNTERING FRAUD AND CORRUPTION

Local authorities have responsibilities for the effective stewardship of public money and for safeguarding against losses due to fraud and corruption. Effective counter fraud arrangements also link to the ethical standards for members and officers that the public expects.

The audit committee should have oversight of the authority's counter fraud strategy, assessing whether it meets recommended practice and governance standards and complies with legislation such as the [Bribery Act 2010](#).

The [Code of Practice on Managing the Risk of Fraud and Corruption](#) (CIPFA, 2014) ('the Code') sets out the counter fraud standards for public sector organisations; sector-specific strategies such as [Fighting Fraud and Corruption Locally](#) should also be considered, along with the [CIPFA Fraud and Corruption Tracker](#) (CFaCT) and [Integrity Matters](#) (HMIC, 2015). The committee should understand the level of fraud risk to which the authority is exposed and the implications for the wider control environment.

Oversight of counter fraud plans, resources and their effectiveness are key areas for obtaining assurance. Specific actions should include:

- reviewing the counter fraud strategy and considering whether it meets recommended practices
- championing good counter fraud and anti-corruption practice to the wider organisation
- reviewing the fraud risk profile and estimate of fraud losses or potential harm to the organisation and its local community

- reviewing the annual counter fraud plan of activity and resources, seeking assurance that it is in line with the strategy and fraud risk profile
- monitoring the performance of the counter fraud function
- overseeing any major areas of fraud identified and monitoring action plans to address control weaknesses.

The CIPFA guidance on the AGS included in the Framework recommends that the adequacy of counter fraud arrangements are evaluated and reported on in the AGS with reference to the Code. The audit committee should have sight of the assurances underpinning this assessment and can play an important role in supporting the development of effective counter fraud and corruption practice. The audit committee may also refer to the Internal Audit Standards Advisory Board's guidance [Internal Audit's Role in Counter Fraud](#) (2017), which sets out internal audit's responsibility to provide assurance to the organisation on how it manages fraud risk.

## EXTERNAL AUDIT

### Appointment of auditors

Audit committees have a role to play in relation to the appointment of external auditors. This role varies between England, Scotland, Wales and Northern Ireland, primarily due to the change in appointment procedures for English authorities with the closure of the Audit Commission and the introduction of new local audit arrangements under the [Local Audit and Accountability Act 2014](#).

In Scotland, Wales and Northern Ireland, national audit agencies are responsible for the audits of local bodies. In England, authorities have the option to appoint auditors themselves via means of an auditor panel (individually or jointly with other bodies) or through Public Sector Audit Appointments (PSAA), which has been established by the Local Government Association (LGA) and specified as an 'appointing person' under the 2014 Act. For further information on auditor panels and the role of the audit committee, see [Guide to Auditor Panels](#) (CIPFA, 2015).

The audit committee's role in appointment is generally to express an opinion on the selection and rotation of the external auditor through whichever method is applicable for the organisation. The audit committee's objective is to support auditor independence and effective arrangements and relationships with the auditors.

In England, for all opted-in bodies, PSAA appoints the auditor following consultation with the body. Otherwise, the audit committee will work alongside the auditor panel which will oversee the local appointment process. Where the audit committee members meet the requirements of an auditor panel, as defined in regulations supporting the 2014 Act, then the committee is able to operate as an auditor panel itself and make recommendations on the appointment of the local auditor. Regard must be had for the 2014 Act and regulations if the committee is nominated as an auditor panel.

## Monitoring the external audit process

The audit committee's role in relation to the external audit process has three principal aspects:

1. providing assurance that the external auditor team maintains independence following its appointment
2. receiving and considering the work of external audit
3. supporting the quality and effectiveness of the external audit process.

## Supporting independence

The independence of auditors is critical for confidence in the audit opinion and audit process. For this reason, there is extensive [guidance](#) from the Financial Reporting Council (FRC) to external auditors on the need to safeguard independence and objectivity. These rules apply to all auditors across all sectors. In addition, the national audit bodies issue guidance to auditors on safeguarding integrity, objectivity and independence. It is an important role for an audit committee to help guard against threats to independence and to satisfy itself that the external auditor's independence is safeguarded. The critical issue of independence will be considered when the external auditor is appointed but the audit committee's role will be to monitor on an annual basis or more often when required.

Each year the external auditor will disclose to the committee an assessment of whether it is independent. This disclosure should include any significant facts that could impact, or be seen to impact, on independence and objectivity, together with any safeguards put in place. Usually this disclosure is included in the audit plan. The audit committee should use this opportunity to discuss with the external auditor their assessment of threats to independence and any safeguards.

## Understanding the potential threats to external independence

### Self-interest threat

Where there are or perceived to be financial or other interests that could impact on the actions of the external auditor. The potential fees from provision of non-audit or additional services to the audited body could fall within this category.

### Self-review threat

Where the audit could include review of work performed, services or advice provided by the same firm or team.

### Management threat

Where the auditor has become involved in or associated with decision making of the audited body.

### Advocacy threat

Where the auditor has taken on an advocacy role for the audited body or supports the management in an adversarial or promotional context.

### Familiarity (or trust) threat

Where familiarity or close personal relationships mean that the external auditor is insufficiently questioning or accepting in forming audit judgements.

### Intimidation threat

When the conduct of the external auditor is influenced by fear or threats by individuals in the audited body.

Full details of the threats are set out in the [Revised Ethical Standard 2016](#) (FRC, 2016).

The audit committee should seek information from the external auditor on its policies and processes for maintaining independence and monitoring compliance. It should also satisfy itself that no issues with compliance with the ethical standard have been raised by the contract monitoring undertaken by PSAA or the auditor panel (in England) or from audit quality reviews by the FRC. With regard to non-audit services, audit committees should monitor the approval of non-audit work and, in England, take into account the oversight of either PSAA or the auditor panel as appropriate.

## Receiving and considering the work of external audit

The committee should receive the planned work programme to support the opinion and receive reports following the completion of external audit work. Where external audit make recommendations, the audit committee should discuss the action to be taken with the appropriate managers and monitor the agreed action plan. The committee should contribute to the authority's response to the annual audit letter.

## Supporting the quality and effectiveness of the external audit process

The audit committee should support the quality and effectiveness of the external audit process through:

- understanding and commenting on external audit plans, assessment of risks and proposed areas of focus, and deployment of audit effort in response to identified risks
- considering the effectiveness of the external audit process, including:
  - whether the external auditor has a good understanding of the authority
  - how the external auditor has responded to areas of audit risk
  - actions taken to safeguard independence and objectivity
  - feedback from key people such as the responsible financial officer and the head of internal audit
- reporting to the full council, or the PCC, or the chief constable or other body as appropriate on the results of its considerations.

In monitoring the quality of the external audit provision, the audit committee should be briefed on any relevant issues around quality that emerge from the regulation of external audit, for example, the quality reports from PSAA and the FRC.

There should be an opportunity for the audit committee to meet privately and separately with the external auditor, independent of the presence of those officers with whom the auditor must retain a working relationship.

### Inspection reports

Reports from inspection agencies can be a useful source of assurance about the authority's financial management and governance. The audit committee should have access to inspection reports as a source of assurance and compare the findings with any relevant internal audit and external audit reports. Inspection reports will need to be actioned by the corporate or appropriate departmental management team, but the audit committee has a role in monitoring such action to ensure that a consistent approach is adopted and that the various agencies have one recognisable point of entry into the authority.

## FINANCIAL REPORTING

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Local authority financial statements should follow the professional practices set down in the *Code of Practice on Local Authority Accounting in the United Kingdom* (CIPFA/LASAAC). The responsible financial officer must sign the statements to confirm that they have been properly prepared and are ready for audit prior to the commencement of the period for the exercise of public rights. For English authorities and policing bodies, the latest date by which the statements must be signed off is likely to be 31 May, as the 30 working day period for the exercise of public rights must include the first ten days in June.

Under the current regulations, Scottish, Welsh and Northern Irish authorities must all ensure that the financial statements are signed off by the CFO by 30 June. The [Accounts and Audit \(Wales\) \(Amendment\) Regulations 2018](#) require preparation and publication to be completed to an earlier timetable with effect from years ending 31 March 2019 onwards. Authorities will formally approve the financial statements after the completion of the external audit.

The date by which the statements must be published is set down by government regulations. For 2017/18 onwards, the latest date for publication is 31 July for English authorities. Scottish and Welsh authorities must publish by 30 September and Northern Irish authorities must

publish by 31 October. CIPFA recommends that it is good practice for the accounts and the AGS to be reviewed by the audit committee prior to the commencement of the external audit.

Audit committees may undertake a review of the statements and satisfy themselves that appropriate steps have been taken to meet statutory and recommended professional practices. Their work could include:

- reviewing the narrative report to ensure consistency with the statements and the financial challenges and risks facing the authority in the future
- reviewing whether the narrative report is readable and understandable by a lay person
- identifying the key messages from each of the financial statements and evaluating what that means for the authority in future years
- monitoring trends and reviewing for consistency with what is known about financial performance over the course of the year
- reviewing the suitability of accounting policies and treatments
- seeking explanations for changes in accounting policies and treatments
- reviewing major judgemental areas, eg provisions or reserves
- seeking assurances that preparations are in place to facilitate the external audit.

[Understanding Local Authority Financial Statements](#) (CIPFA/LASAAC, 2016) includes a checklist of questions to ask about a local authority's statements that audit committee members may find particularly helpful. In keeping with its role as an advisory body, the audit committee should review the financial statements prior to approval.

Other committees in the governance structure might also scrutinise the authority's financial performance. Care should be taken to avoid duplication and maintain the focus of the audit committee on financial reporting and financial governance rather than on wider issues of performance and spending priorities.

## PARTNERSHIP GOVERNANCE AND COLLABORATION AGREEMENTS

Authorities commonly have a wide range of partnership and collaborative arrangements, including strategic relationships with other public sector organisations, shared service arrangements, commercial relationships with private sector partners and a range of service delivery arrangements with community groups or social enterprises.

Authorities may also be the accountable body for local enterprise partnerships (LEPs). PCCs may be considering options for collaboration with other relevant emergency services under the [Policing and Crime Act 2017](#). Ensuring the adequacy of governance and risk management over such arrangements can be complicated, but it is very important as accountability for performance and stewardship of the public funds involved remains with the authority. For these reasons, the role of the audit committee in relation to these arrangements should be clearly defined.

The audit committee's role should be to consider the assurance available on whether the partnership or collaboration arrangements are satisfactorily established and are operating effectively. The committee should satisfy itself that the principles of good governance underpin the partnership arrangements. For example, the audit committee should seek

assurance that the authority has appropriate arrangements to identify and manage risks, ensure good governance and obtain assurance on compliance. The committee may also want to know what arrangements have been put in place to maintain accountability to stakeholders and ensure transparency of decision making and standards of probity are maintained.

Where an authority is developing new partnership or collaboration arrangements, the audit committee may wish to receive assurance over governance matters at the project stage and seek clarity over its own responsibilities in relation to the governance arrangements of the new service delivery organisation.

The audit committee should consider the coverage of assurances that underpin the AGS to make sure that partnerships are adequately covered. Where an organisation of which the authority is a partner does not have its own audit committee, then the audit committee could be nominated to undertake this role. This is most likely for the audit committee of the accountable body in order to support the CFO.

In addition to reviewing assurances over partnerships, the committee may choose to develop its own partnership arrangements with the audit committees of partner organisations. This could involve planning and co-ordinating agendas, or developing forums to share ideas or briefings. More established partnerships could lead to the development of a shared audit committee between partner authorities or a joint committee. Chapter 6 considers the implications of partnerships for audit committee independence and accountability.

## GOVERNANCE AND ETHICAL VALUES

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Public sector entities are accountable not only for how much they spend but also for the ways they use the resources with which they have been entrusted. This is at the heart of Principle A of the Framework:

*Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law.*

With its core role in supporting good governance, support for the ethical framework of the authority is also important for the audit committee. In addition, public sector organisations have an overarching mission to serve the public interest in adhering to the requirements of legislation and government policies. This makes it essential that the entire entity can demonstrate the integrity of all its actions and has mechanisms in place that encourage and enforce a strong commitment to ethical values and legal compliance at all levels. As part of its review of governance arrangements, the audit committee should be satisfied that there are adequate arrangements to achieve this.

All authorities should have regard to the Seven Principles of Public Life, known as the Nolan Principles. To promote high standards of conduct, the Committee on Standards in Public Life has recommended that:



*Ethical standards issues should be included as regular items on board agendas or formally delegated to audit and risk committees for referral to the board as appropriate. Risks associated with poor standards should be included in risk assessments, and, where appropriate, risk registers. Mitigating strategies should be developed and monitored.*

*Source: Standards Matter: A Review of Best Practice in Promoting Good Behaviour in Public Life (Committee on Standards in Public Life, 2013)*

As part of the annual governance review, the audit committee should consider how effectively the Seven Principles of Public Life are supported.

Whistleblowing arrangements support the development of ethical conduct and greater transparency, and also help authorities ensure compliance with the [Public Interest Disclosure Act 1998](#). As part of the audit committee's oversight of the governance framework and assurances underpinning the AGS, the audit committee may wish to review the effectiveness of the whistleblowing arrangements.



# Possible wider functions of an audit committee

## Extract from the Position Statement

- 5 An audit committee can also support its authority by undertaking a wider role in other areas including:
- considering governance, risk or control matters at the request of other committees or statutory officers
  - working with local standards and ethics committees to support ethical values
  - reviewing and monitoring treasury management arrangements in accordance with [Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes](#) (CIPFA, 2017)
  - providing oversight of other public reports, such as the annual report.

## CONSIDERING MATTERS AT THE REQUEST OF STATUTORY OFFICERS OR OTHER COMMITTEES

Occasionally the audit committee may be requested to consider a review of a service, a proposed policy or other similar matters. Such requests could come from another committee of the organisation or from one of the statutory officers. In scoping the terms of reference for a review, the committee should avoid taking on a scrutiny or policy role and ensure the matter relates to governance, risk or control. Examples where it may be helpful for the audit committee to assist could include:

- reviewing whether adequate governance, risk management or audit processes are in place in relation to a specific service or new policy area
- providing advice to the executive on possible risks or implications for good governance arising from a proposed course of action or decision.

In each case, the aim of the committee should be to make recommendations in line with its role set out in the Position Statement – advocating the principles of good governance and helping to ensure that there are appropriate governance, risk, control and assurance arrangements in place. Audit committee recommendations may support the advice or recommendations of the statutory officers but cannot override that advice.

## ETHICS COMMITTEE AND STANDARDS COMMITTEE ROLES

The audit committee's primary role in relation to standards and ethical conduct is to satisfy itself that there are appropriate arrangements in place, particularly in support of the AGS. Under the [Localism Act 2011](#), English local authorities have a statutory duty to promote and maintain high standards of conduct and the audit committee should consider assurances on the discharge of this responsibility and be satisfied that there are arrangements in place. Occasionally the committee takes on a wider role, in the place of other committees. Specifically, there should be regard for the role and responsibilities of a standards committee, where there is one.

Where the local authority does have a standards committee, the lead on promoting high standards of conduct may be taken by that committee, and the most appropriate role for the audit committee would be to consider the effectiveness of the standards committee as part of the annual governance review. Where the audit committee takes on the responsibilities of the standards committee, there should be a clear distinction between the two roles and responsibilities in the terms of reference and meeting agendas.

Ethics in policing has received a lot of attention in the last few years with a number of reviews and new standards, including:

- the [Code of Ethics](#) (College of Policing, 2014)
- [Tone from the Top: Leadership, Ethics and Accountability in Policing](#) (Committee on Standards in Public Life, 2015)
- [Integrity Matters](#) (HMIC, 2016).

The establishment of an ethics committee to take the lead on this important area and to review and monitor practice is now regarded as best practice. In some policing areas these are separate committees, but in some areas the audit committees have taken on this responsibility.

There is no specific guidance on the operation of the ethics committee, but it is important to distinguish between the roles of the two committees. For the audit committee's governance responsibilities, it is appropriate for the committee to have an understanding of any current ethical risks and any initiatives to improve ethical behaviour within the force or PCC's office.

The audit committee should be satisfied that there are appropriate arrangements in place to support the committee's overview of governance and the AGS. The ethics committee's role will be to help establish and monitor those arrangements in practice, ensuring that the PCC and chief constable fulfill their statutory obligations. Where the audit committee is taking on wider ethics committee roles, then it should be clear within its terms of reference and meeting agendas how it separates the two roles.

## TREASURY MANAGEMENT

[Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes](#) (CIPFA, 2017) requires all local authorities to make arrangements for the scrutiny of treasury management. CIPFA does not require the audit committee to undertake that role and a local authority may nominate another committee instead. CIPFA is aware, however,

that many authorities have nominated the audit committee to do this, and it is therefore appropriate to consider this activity as part of this guidance. The following clause from the Code should have been adopted by all local authorities and the appropriate body responsible for providing scrutiny nominated:

*This organisation nominates (name of responsible body/committee) to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.*

Where the audit committee has been nominated, then it should be aware that it needs to undertake a scrutiny role in accordance with the Code, in addition to any oversight of governance, risks and assurance matters relating to treasury management it would consider as an audit committee. It is not appropriate for the audit committee to undertake any of the other roles outlined in the Code clauses as these are executive and decision-making roles rather than a scrutiny role.

Where the committee is undertaking scrutiny then this is likely to involve the following actions:

- developing greater awareness and understanding of treasury matters among the committee members
- reviewing the treasury management policy and procedures to be satisfied that controls are satisfactory
- receiving regular reports on activities, issues and trends to support the committee's understanding of treasury management activities. Note that the committee is not responsible for the regular monitoring of activity under clause 3 of the Code so the purpose of receiving regular reports should be clear
- reviewing the treasury risk profile and adequacy of treasury risk management processes
- reviewing assurances on treasury management (for example, an internal audit report, external audit or other review).

Treasury management is a specialist area so it is likely that committee members will require training, guidance and support when undertaking scrutiny. Specific areas of knowledge and skills are identified in Appendix C.



# Independence and accountability

## Extract from the Position Statement

- 3** Authorities and police audit committees should adopt a model that establishes the committee as independent and effective. The committee should:
- act as the principal non-executive, advisory function supporting those charged with governance
  - in local authorities, be independent of both the executive and the scrutiny functions and include an independent member where not already required to do so by legislation
  - in police bodies, be independent of the executive or operational responsibilities of the PCC or chief constable
  - have clear rights of access to other committees/functions, for example, scrutiny and service committees, corporate risk management boards and other strategic groups
  - be directly accountable to the authority's governing body or the PCC and chief constable.
- 7** To discharge its responsibilities effectively the committee should:
- meet regularly – at least four times a year, and have a clear policy on those items to be considered in private and those to be considered in public
  - include, as regular attendees, the CFO(s), the chief executive, the head of internal audit and the appointed external auditor. Other attendees may include the monitoring officer (for standards issues) and the head of resources (where such a post exists). These officers should also be able to access the committee, or the chair, as required
  - have the right to call any other officers or agencies of the authority as required, while recognising the independence of the chief constable in relation to operational policing matters
  - report regularly on its work to those charged with governance, and at least annually report an assessment of their performance. An annual public report should demonstrate how the committee has discharged its responsibilities.

## INTRODUCTION

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CIPFA is keen that each local authority or police body adopts an audit committee model that achieves its purpose and functions successfully. CIPFA's recommended best practice is intended to support the development of effective arrangements and should not be regarded merely as a compliance checklist.

For a local authority, in CIPFA's view, it is best practice for the audit committee to report directly to council rather than to another committee, as the council itself most closely matches the body of 'those charged with governance'. In the police sector, both the PCC and chief constable are separate corporations sole and so each will fulfil the role of 'those charged with governance'.

In establishing the audit committee within the governance structure of the authority, three key elements should be considered:

1. any statutory guidance applicable to the sector
2. independence from the executive and political allegiances
3. a practical assessment of 'what works' in the local context.

Each of these elements is considered in more detail in the following sections.

## SECTOR AND DEVOLVED GOVERNMENT GUIDANCE

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The local authority and police sectors are subject to differing regulations according to both sector and devolved national governments. Those affecting audit committees are set out in Appendix A. While there is broad similarity in the guidance across the UK, there are differences as a result of specific statutory guidance and regulations including:

- statutory requirements for audit committees in Wales
- statutory requirements for combined authorities to establish an audit committee
- statutory guidance underpinning the operation of police audit committees in England and Wales.

Local authorities in Wales have a clear statutory role established by the [Local Government \(Wales\) Measure 2011](#). The Welsh Government has provided [statutory guidance](#) on the implementation of the measure's requirements, and local authorities in Wales must have regard to this guidance. The [Cities and Local Government Devolution Act 2016](#) requires combined authorities to establish an audit committee of which at least one member must be appointed as an independent member. The Home Office's [Financial Management Code of Practice for the Police Forces of England and Wales](#) (2013 – due to be updated in 2018) (the 'FMCP') requires PCCs and chief constables to establish an independent audit committee. This is an advisory committee to both the PCC and the chief constable, both of whom are established as a corporation sole.

The [Policing and Crime Act 2017](#) enables a PCC in England (following local consultation and approval from the secretary of state) to take on the governance of their local fire and rescue service(s) to become a PCC FRA. The 2018 edition of the FMCP is likely to include guidance concerning audit committees in this event.



Other regulations include the appropriate accounts and audit regulations for England, Scotland, Wales and Northern Ireland, which regulate functions such as internal audit, the review of the AGS and the accounts. These functions can be undertaken by the audit committee and where it does so, the committee should have regard to the regulations.

### Impact of other legislation

The standards committee's role has been affected by the [Localism Act 2011](#) in England, and some authorities have chosen to transfer responsibility for looking at ethical governance matters to the audit committee, while retaining a standards panel to oversee investigations.

### Other relevant recommendations

The [Exercise by Local Government Auditors of Their Functions in the Year to 31 March 2015](#), a report produced by the Chief Local Government Auditor of the Northern Ireland Audit Office, commented that in a small number of councils the audit committee was not operating as a full committee. The Chief Local Government Auditor has recommended that audit committees should be a full committee reporting directly to council.

## STRUCTURE AND INDEPENDENCE

### Local authorities

For local authorities, stand-alone audit committees reporting to full council are the most common arrangement in the UK. The [CIPFA Survey on Audit Committees in Local Authorities and Police 2016](#) found that, across the UK, 85% of councils had audit committees that reported to full council, leaving only 15% that reported via cabinet or other committee. The survey also showed that the number of stand-alone audit committees had declined from 58% to 47% alongside a rise in the number of joint committees. Some joint committees' responsibilities were audit and risk or audit and governance, however, others included responsibilities such as procurement or health and safety. There had also been a small rise in the number of joint audit and standards committees. Another arrangement, more common in Scotland, was the integration of audit committee functions into a policy committee.

Reporting to the executive may appear to be advantageous if it increases the prospect of audit committee recommendations being addressed. However, there are two disadvantages from a wider governance perspective: first, by not reporting to full council ('those charged with governance'), the audit committee may not be supporting that body in discharging its governance responsibilities; and, second, members and citizens may see the audit committee as not being independent of the executive.

Combining audit with other committees may appear to be an attractive arrangement, but there is always a danger either that audit committee functions become diluted by the pressure of other business or that the proper functions of these bodies become less clear. Having a group of members bearing the name 'audit committee' will add weight when considering audit and related issues. Extending the remit of the audit committee to other matters could create confusion about the role of the audit committee and ultimately undermine its effectiveness.

Financial scrutiny is a different role from that fulfilled by the audit committee. Financial scrutiny committees are likely to undertake reviews of the council's budget proposals and financial performance. The audit committee should not seek to replicate scrutiny undertaken but should focus on the oversight of governance, risk and control and the audit process.

However the audit committee is constituted, all members should be aware that the work of the audit committee is non-political. Chapter 7 includes a section on the composition of the audit committee.

### **Combined authorities**

The [Cities and Local Government Devolution Act 2016](#) requires combined authorities to have an audit committee, but there are no requirements about where the committee fits into the overall governance structure of the authority. If the combined authority brings together the functions of the PCC with the local authority functions, and in time those of the fire authority as well, then it might be expected that there would be a single audit committee.

### **Police**

Police audit committees are recommended by the FMCP to be joint committees, reporting both to the PCC and the chief constable. To date, all police audit committees operate in this way.

## **SHARED AUDIT COMMITTEES**

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Where authorities or policing bodies have entered into significant levels of partnership, a shared audit committee may be a practical way forward. This will be particularly appropriate where there is a shared management team and single functions for finance, audit and risk. In establishing the committee, consideration will need to be given to achieving a balance of representation between the partners and how the chair is to be selected.

## **AUDIT COMMITTEES IN PARTNERSHIP**

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Where an authority has major areas of governance and risk shared with other public bodies in a partnership, it may be appropriate to set up formal arrangements between the respective audit committees. This could involve one audit committee being nominated to take the lead on matters relating to the partnership. Alternatively, the audit committees could nominate representatives to a shared audit committee to oversee the partnership.

## **DECISION-MAKING POWERS AND DELEGATIONS**

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All audit committees are non-executive bodies whose role is to make recommendations rather than to decide policies directly. The impact of the committee is through influence and persuasion rather than direct decision making. The committee's effectiveness does not depend on the delegation of powers.

The constitution of a local authority may include direct delegations to its audit committee, for example to approve the AGS or financial statements on behalf of the authority, as well as undertaking the review. In establishing whether the audit committee is to have any delegated

decision-making powers, the local authority should take into account the number and role of independent members on the committee. In doing this, it will need to take into account the issue of voting rights outlined in Chapter 7. CIPFA recommends that delegation of decision-making powers on matters not directly related to the work of the audit committee should be avoided.

Police audit committees in England and Wales can never be delegated decision-making or approval powers by the PCC or the chief constable.

## ADMINISTRATIVE AND OPERATIONAL ARRANGEMENTS

### Agenda management and frequency of meetings

The frequency and timing of meetings is a matter for each authority to determine, based on its corporate governance arrangements, together with consideration of how the committee can operate effectively and fulfil its purpose. To fit with planning, monitoring and annual reporting arrangements, most organisations will find they will require at least four meetings a year. Aspects of the audit committee agenda will be determined by statutory requirements related to the accounts and matters related to the financial year. Outside these agenda items, the audit committee should aim to manage its agenda according to its assurance needs to fulfil its terms of reference.

Where an audit committee is addressing the full range of governance, risk, control and audit functions, care should be taken to balance the frequency of meetings against the need to give the business of the committee sufficient focused attention without lengthy and unproductive meetings. Equally, the audit committee should review whether the inclusion of each item on its agenda results in added value and whether some time-consuming aspects of audit committee business could be more effectively addressed elsewhere. In making these judgements, the audit committee should operate at a resolutely strategic level. Care should be taken to avoid straying into matters of operational detail that should be resolved by service managers. The skilful chairing of meetings with well-planned agendas should provide the final mechanism for avoiding this danger.

### Supporting the audit committee and key relationships

Effective administrative support for the audit committee will clearly be important as for any committee of the authority. If the committee is to take an active part in the authority's business, it should be administered as effectively as any other committee meeting. The regular attendance of key senior management figures is important – both to maintain the credibility of the committee and to ensure that members are adequately supported by appropriate professionals.

[The Role of the Chief Financial Officer in Local Government](#) (CIPFA, 2016) and the [CIPFA Statement on the Role of Chief Financial Officers in Policing](#) (2018) emphasise the importance of having an effective audit committee to support the CFO. Police audit committees will need to work with the CFO of both the PCC and the chief constable. The CFO in a local authority must lead the promotion and delivery by the whole authority of good financial management so that public money is safeguarded at all times and used appropriately, economically, efficiently and effectively.

The CFO should therefore be a key point of contact for audit committee members and it is essential that the CFO has direct access to the committee. It is also a responsibility of the CFO to support the authority's internal audit arrangements and ensure that the audit committee receives any necessary advice and information, so that both functions can operate effectively. The audit committee should then be in a position to provide effective support to the CFO.

The head of internal audit should also have a good relationship with the committee and be a key point of contact. Internal audit reports or updates will be a regular feature of audit committee agendas, so the head of internal audit should be expected to attend all meetings.

A public sector requirement within the PSIAS states:

*The chief audit executive must also establish effective communication with, and have free and unfettered access to, the chief executive (or equivalent) and the chair of the audit committee.*

The head of internal audit's relationship with the audit committee, especially the chair, is crucial. They should be mutually supportive in their aim to be objective and to provide challenge and support across the organisation and improve governance, risk management and internal control. The head of internal audit must work closely with the audit committee chair so that they are clear about their respective roles and make best use of the available resources.

To be effective, an audit committee will need to engage with a wider range of officers than representatives of finance and internal audit, essential though they are. While it is for each audit committee to determine who attends its meetings, the following examples demonstrate the wide range of officers who can attend and add value to audit committee meetings:

- chief executive or equivalent – for the AGS and other governance-related issues
- monitoring officer – for the AGS and ethical governance issues
- risk management officer – for discussions around the risk registers and risk reports
- head of counter fraud – for agenda items on fraud risks and counter fraud activity
- service senior managers – for audit, risk, or governance discussions on their service areas (while recognising the operational independence of the chief constable on operational policing matters)
- scrutiny, ethics or standards committee representatives – it may be helpful to invite representatives along to explain their work programme or recent reports.

Consideration should also be given to supporting the audit committee outside formal meetings. There may be a need to keep committee members briefed on issues that are on the agenda, and other matters may be too detailed for inclusion on the agenda. For example, internal audit reports may be provided in full to committee members but may be included on the meeting agenda only where there are significant risks to be discussed. This issue may be of particular importance for police audit committees where the members are not routinely involved in other meetings and do not have the same rights of access to information as do local authority councillors. Arrangements to provide the members with an appropriate level of information and updates and a protocol for managing information requests should be discussed and agreed.

Private meetings with external auditors and with internal auditors are a common feature of audit committees in the private sector and in other parts of the public sector. The aim of this

is to ensure that there are opportunities to raise any concerns. In local authorities this has proved difficult to replicate because of the requirements for committee meetings to be held in public. Some authorities have approached this by specifying that such meetings are informal. Authorities should aim to provide full opportunities for auditors, external and internal, to have access to the chair of the audit committee.

## ACCOUNTABILITY

Given its role in the governance structure and in promoting the principles of good governance, the audit committee should be clear how it supports one of the key principles: accountability. It is also important that the audit committee is, in its turn, held to account on the extent to which it has fulfilled its purpose. For an audit committee, accountability has to be considered under three aspects, each of which is considered below:

1. supporting the authority's accountability to the public and stakeholders
2. supporting accountability within the authority
3. holding the audit committee to account.

### Supporting the authority's accountability to the public and stakeholders

The committee has a key role in reviewing the public reports of the authority and in helping the authority to discharge its responsibilities in this area. Committee meetings will normally be held in public, with the exception of exempt items, so this also contributes to the accountability of the authority to the public and stakeholders.

The Home Office publishes an [Accountability System Statement for Policing and Crime Reduction](#) which identifies the formal accountability relationships of policing bodies. The statement does not identify a formal accountability role for the police audit committee, which reflects its role as an advisory body supporting the PCC and chief constable. For police audit committees, therefore, the committee provides support for accountability to the public and other stakeholders but does not directly discharge that responsibility itself.

A wider group of stakeholders, such as partner organisations or the police and crime panel, may have an interest in the work of the committee, although there is no direct accountability relationship between the panel and the audit committee. Holding open meetings and publishing agendas and minutes will support wider communication and transparency.

### Supporting accountability within the authority

Through review of internal and external audit reports, monitoring of risk registers and other key strategies, the audit committee will hold to account those responsible for the implementation of recommendations and action plans. In addition, by overseeing the process of evaluating and improving governance, risk management and control, the audit committee helps those responsible for governance to ensure that accountability throughout the authority is working well.

The audit committee is most effective in supporting internal accountability when it discusses governance, risk or control issues with the responsible managers directly. In the most recent

CIPFA survey, this was an area that heads of internal audit identified for improvement in their audit committees.

### **Holding the audit committee to account**

The audit committee should be held to account on a regular basis by the group to which it is accountable. For a local authority audit committee, this will be the council. For a police audit committee, it will be both the PCC and the chief constable. The aspects that should be specifically considered include:

- whether the committee has fulfilled its agreed terms of reference
- whether the committee has adopted recommended practice
- whether the development needs of committee members have been assessed and whether committee members are accessing briefing and training opportunities
- whether the committee has assessed its own effectiveness or been the subject of a review and the conclusions and actions from that review
- what impact the committee has on the improvement of governance, risk and control within the authority.

The preparation of an annual report by the committee can be a helpful way to address the key areas where the committee should be held to account. The annual report should be presented to those charged with governance: council or PCC and chief constable as appropriate. In addition, publication of the report will assist other stakeholders to understand the work of the committee.

It can be difficult to ensure that those not directly involved in the work of the committee achieve an understanding of its role. Where there is a lack of understanding about the work of the committee, then the process of holding the committee to account may not operate effectively. This is considered further in Chapter 7.

# Membership and effectiveness

## Extract from the Position Statement

- 6** Good audit committees are characterised by:
- a membership that is balanced, objective, independent of mind, knowledgeable and properly trained to fulfil their role. The political balance of a formal committee of an authority will reflect the political balance of the council, however, it is important to achieve the right mix of apolitical expertise
  - a membership that is supportive of good governance principles and their practical application towards the achievement of organisational objectives
  - a strong independently minded chair – displaying a depth of knowledge, skills and interest. There are many personal qualities needed to be an effective chair, but key to these are:
    - promoting apolitical open discussion
    - managing meetings to cover all business and encouraging a candid approach from all participants
    - an interest in and knowledge of financial and risk management, audit, accounting concepts and standards, and the regulatory regime
  - unbiased attitudes – treating auditors, the executive and management fairly
  - the ability to challenge the executive and senior managers when required.

## COMPOSITION AND OPERATION OF THE COMMITTEE

The composition of the committee will be a key factor in achieving the characteristics of a good audit committee.

Audit committees in Welsh local authorities and combined authorities in England and in police audit committees in England and Wales are subject to specific rules on the composition of the audit committee as follows:

- The composition of the audit committee for Welsh local authorities is subject to the [Local Government \(Wales\) Measure 2011](#), which requires local authority audit committees to have at least one lay member. Up to one-third of the committee membership may be lay members. Only one of the committee's members may be from the council's executive and this must not be the leader or the elected mayor.
- Police audit committees should comprise between three and five members who are independent of the PCC and the force as required by the [Financial Management Code of Practice for the Police Forces of England and Wales](#) (Home Office, 2013 – due to be updated in 2018).

- Combined authorities in England are required to establish an audit committee by the [Cities and Local Government Devolution Act 2016](#). The Act and the subsequent [Combined Authorities \(Overview and Scrutiny Committees, Access to Information and Audit Committees\) Order 2017](#) require combined authority audit committees to include at least one independent member. The definition of independent is set out in the statutory guidance.

In other parts of the local authority sector there are no statutory requirements that determine the composition of the audit committee. In Northern Ireland, the Chief Local Government Auditor has recommended that suitable independent members are appointed to all local authority audit committees. In the most recent [report](#), ten out of eleven local authority committees had appointed at least one independent member to the committee.

CIPFA endorses the approach of mandating the inclusion of a lay or independent member and recommends that those authorities, for whom it is not a requirement, actively explore the appointment of an independent member to the committee.

In other sectors, the audit committee can be small – fewer than six members. [Guidance on Audit Committees](#) (FRC, 2016) says that an audit committee should have at least three non-executive directors. The [Audit and Risk Assurance Committee Handbook](#) (HM Treasury, 2016) states that a committee should have at least three members of which there should be two non-executive board members, one of whom will chair the committee; executive members are explicitly excluded.

In the local authority sector where membership of the committee is drawn from elected representatives, the depth of knowledge and experience that is desirable may be harder to achieve with a small number, however, there is a risk that creating a large committee will mean that it is harder to create the necessary focus. There is no consistency in the local government sector on the size of the committee. [CIPFA's 2016 survey](#) of audit committees found that size of the committee ranged from five to fifteen or more, although 47% had between six and eight members, with 2% having fewer and 50% having more. The survey showed that the average size of the committee had increased since CIPFA's 2011 survey.

Elected members of local authorities are members of the council and thus are part of the body charged with governance. Elected members bring knowledge of the organisation, its objectives and policies to the audit committee. Members who are also involved in scrutiny or standards offer additional knowledge of activity, risks and challenges affecting those areas.

Having executive members on the committee is discouraged as it could deter the committee from being able to challenge or hold to account the executive on governance, risk and control matters. This approach is consistent with audit committee practice in other parts of the public sector and in the private sector. Inviting an executive member onto the committee should be avoided unless the committee has other compensating arrangements to ensure independence, for example, a majority of independent members or an independent chair. The executive member should not chair the committee. The leader of the cabinet, administration or the elected mayor should not be a member of the audit committee. However, the audit committee can invite members of the executive to attend to discuss issues within its remit and to brief the committee on the actions they are taking.



Any audit committee that is a properly constituted committee of the council will need to abide by the rules concerning political balance, as outlined in Section 15 of the [Local Government and Housing Act 1989](#). Under the statutory guidance, combined authorities are required to reflect the political balance of the constituent authorities as far as is practicable. One factor that is important for the success of the committee is ensuring a non-political approach to meetings and discussions. When establishing a joint audit committee, the political balance of both authorities will need to be considered.

Good practice shows that co-option of independent members is beneficial to the audit committee. It is a requirement for police audit committees, English combined authorities and for local authorities in Wales, and it is usual practice for non-executives to be committee members in health and central government audit committees. The injection of an external view can often bring a new approach to committee discussions. Authorities that have chosen to recruit independent members have done so for a number of reasons:

- to bring additional knowledge and expertise to the committee
- to reinforce the political neutrality and independence of the committee
- to maintain continuity of committee membership where membership is affected by the electoral cycle.

There are some potential pitfalls to the use of independent members which should also be borne in mind:

- over-reliance on the independent members by other committee members can lead to a lack of engagement across the full committee
- lack of organisational knowledge or ‘context’ among the independent members when considering risk registers or audit reports
- effort is required from both independent members and officers/staff to establish an effective working relationship and establish appropriate protocols for briefings and access to information.

These factors should be taken into account when developing the committee structure and plans put in place to provide an appropriate level of support to the audit committee member.

### **Voting rights of independent members**

Local authorities should have regard to Section 13 of the [Local Government and Housing Act 1989](#) which relates to the voting rights of non-elected committee members. Where the audit committee is operating as an advisory committee under the [Local Government Act 1972](#), making recommendations rather than policy, then all members of the committee should be able to vote on that recommendation. If the council wishes to delegate decisions to the committee, for example the adoption of the financial statements, then the independent member will not be able to vote on those matters for decision. The minutes of the meeting should make clear in what capacity the committee is voting.

### **Recruitment process**

The job description of the independent member should be drawn up and agreed before commencing recruitment. The requirement for relevant knowledge or expertise should be

clearly determined. Vacancies should be publicly advertised, as is good practice for any public appointment. Candidates should be able to demonstrate their political independence and their suitability should be checked. Only the independent members for combined authorities have to satisfy specific definitions of their independence. Appropriate enquiries will need to be made as part of the recruitment process to ensure that any applicants satisfy the requirements, and continuation of compliance should be monitored during the term of appointment.

Independent members' appointments should be for a fixed term and be formally approved by the local authority's council or the PCC and the chief constable. Provision should be made for early termination and extension to avoid lack of clarity in the future. While operating as a member of the audit committee, the independent member should follow the same code of conduct as elected members and a register of interests should be maintained.

The primary considerations when considering audit committee membership should be maximising the committee's knowledge base and skills, being able to demonstrate objectivity and independence, and having a membership that will work together.

## KNOWLEDGE AND EXPERIENCE

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There is a range of knowledge and experience that audit committee members can bring to the committee and which will enable it to perform effectively. No one committee member would be expected to be expert in all areas, but there are some core areas of knowledge that committee members will need to acquire. There will also be a need for regular briefings or training to help committee members keep up to date or extend their knowledge.

Appendix C sets out a knowledge and skills framework for audit committee members and the committee chair. This can be used to guide members on their training needs and to evaluate the overall knowledge and skills of the committee. It can also be used when recruiting independent members. A distinction is made between core areas of knowledge that all audit committee members should seek to acquire and a range of specialisms that can add value to the committee.

The audit committee should review risks, controls and assurances that cover the whole operation of the authority so knowledge of specific service areas will be helpful. Other areas of specialist knowledge and experience, for example in accountancy, audit, governance and risk management, will add value to the committee.

### Skills and competencies

A number of skills are beneficial for the audit committee member to have. There are also specific skills that the audit committee chair will need. Many of these skills are not unique to the role of audit committee member and experience in other member or non-executive roles will have helped to build these skills. Many authorities have training and development plans for elected members, which may include similar skill or competency training opportunities. Evidence of appropriate skills and knowledge should also be sought where independent members are being recruited to the committee.

## Self-assessment and training

Audit committee members should be willing to review their knowledge and skills, for example, as part of a self-assessment process or training needs analysis. Regardless of the knowledge and skills a member has when joining the committee, there needs to be a commitment to participate in training and development to ensure that knowledge is kept up to date. The authority should establish a programme of support that involves induction training, regular briefings and updates as well as formal training programmes. This may require the allocation of a budget to provide appropriate support.

## Role of the chair

Police audit committees and some authority audit committees may advertise specifically for an independent chair. Following appointment, it would be expected that the person would remain as chair for their appointed period. Where the chair is an elected councilor, the appointment is likely to be made during the annual council and may only be for that committee cycle. Whether undertaken during recruitment or the annual committee cycle, ideally the selection of the chair will take into account the characteristics required of an effective chair. These include:

- an ability to plan the work of the committee over the year and beyond
- skills of managing meetings
- an ability to bring an objective, apolitical attitude
- a core knowledge and skills required of audit committee members
- a clear focus on the role of the committee and ambition to lead the committee in line with good governance principles
- a focus on improvement and securing agreement on actions.

The tenure of the audit committee chair remains a matter for the authority. In making this decision, it should be recognised that a period of continuity can be helpful, particularly for the development of greater knowledge and expertise, while rotation also helps to deliver a new perspective.

## DEVELOPING AUDIT COMMITTEE EFFECTIVENESS

An audit committee's effectiveness should be judged by the contribution it makes to, and the beneficial impact it has on, the authority's business. Since it is primarily an advisory body, it can be more difficult to identify how the audit committee has made a difference. Evidence of effectiveness will usually be characterised as 'influence', 'persuasion' and 'support'. A good standard of performance against recommended practice, together with a knowledgeable and experienced membership, are essential requirements for delivering effectiveness.

Using the recommended practice in this publication should help the authority to achieve a good standard of performance. The evaluation at Appendix D will support an assessment against recommended practice to inform and support the audit committee. Authorities are encouraged not to regard meeting recommended practice as a tick-box activity, and they should recognise that achieving recommended practice does not mean necessarily that the committee is effective.

The selection of audit committee members, their knowledge, skills and experience are an essential component of an effective committee. Regular briefings and training are essential to keep members up to date in their role. Members will become more effective with experience so it is helpful to have some continuity of membership on the committee.

The approach and priorities of the audit committee will need to adapt to the risks and challenges facing the authority and reflect the maturity of its governance, risk and control arrangements. For example, in a new authority or one that has gone through significant structural change, there may be little continuity of governance and control arrangements. As a result, the audit committee will focus on the establishment of appropriate arrangements.

Where an authority has been found to have significant weaknesses in its governance or control arrangements, perhaps identified through an inspection or audit, then the audit committee will support the implementation of recommendations or action plans. Where there are barriers to that improvement, the committee may need to adopt a more questioning or challenging role to help break down those barriers. In those authorities where governance, risk and control are satisfactory overall, the audit committee may give greater focus to new risks and developments, but will also want to seek assurance that satisfactory performance does not lead to complacency and lack of innovation.

## COMMON AREAS OF DIFFICULTY FOR AUDIT COMMITTEES

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It is not uncommon for audit committees to face difficulties or barriers to fulfilling their potential effectiveness. CIPFA's survey of audit committees in 2016 identified the principal barriers faced by both local authority and police audit committees. For local authorities, the top three were:

1. limited knowledge and experience of the members
2. the committee not being seen as a priority by other members
3. the intrusion of political interests.

For police audit committees, the top three barriers were:

1. the committee was not considered a priority by the PCC and chief constable
2. the committee was not considered a priority by senior management
3. poor relationships between committee members and staff.

The barriers reflect the different make-up of local authority and police committees.

Some of these may be common issues that audit committees in any sector may face; others may be unique to the local authority or police setting. The following assessment may be of value in helping audit committee members or those supporting the committee to recognise and address the challenges.

| Areas of difficulty                                                                                           | Possible causes                                                                                                                                                                                                                 | Possible improvement options                                                                                                                                                                                                                                                                                                                                                   |
|---------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Lack of experience and continuity of knowledge among audit committee members                                  | <ul style="list-style-type: none"> <li>■ Where turnover of membership is very frequent, it will be difficult for the committee to build up experience</li> </ul>                                                                | <ul style="list-style-type: none"> <li>■ Enhanced level of support and training to members will be required</li> <li>■ To enhance continuity the authority could consider recruitment of independent members</li> </ul>                                                                                                                                                        |
| Audit committee members do not feel confident in their knowledge of particular areas                          | <ul style="list-style-type: none"> <li>■ Lack of training and support</li> </ul>                                                                                                                                                | <ul style="list-style-type: none"> <li>■ Enhanced level of support and training to members</li> </ul>                                                                                                                                                                                                                                                                          |
| Independent members lack knowledge of the organisation and lack connections with key managers                 | <ul style="list-style-type: none"> <li>■ Poor induction</li> <li>■ Limited opportunities to engage with the organisation outside formal meetings</li> </ul>                                                                     | <ul style="list-style-type: none"> <li>■ Improve induction</li> <li>■ Identify appropriate meetings, briefings or other opportunities that independent members could attend to help develop better understanding</li> </ul>                                                                                                                                                    |
| Poor management of audit committee meetings means that work is unfocused or fails to reach a clear conclusion | <ul style="list-style-type: none"> <li>■ Lack of experience or skill in managing meetings by the chair</li> <li>■ Committee members are unsure about their role</li> <li>■ Poor support from the committee secretary</li> </ul> | <ul style="list-style-type: none"> <li>■ Training and support</li> <li>■ Develop a mentoring/ coaching programme</li> <li>■ Chair seeks feedback from meeting participants</li> <li>■ Consider skills and experience in the selection of the chair</li> <li>■ Provide training and guidance to committee members on their role</li> <li>■ Improve committee support</li> </ul> |
| The audit committee spends too much time on minor areas rather than strategic or wide-ranging issues          | <ul style="list-style-type: none"> <li>■ Agenda management fails to prioritise key areas</li> <li>■ The chair does not intervene to keep focus at an appropriate level</li> </ul>                                               | <ul style="list-style-type: none"> <li>■ Review the process of agenda development</li> <li>■ Review the terms of reference and provide training</li> <li>■ The chair seeks feedback from meeting participants</li> <li>■ Provide the chair with committee management training</li> </ul>                                                                                       |
| The audit committee is little known or understood in many parts of the authority                              | <ul style="list-style-type: none"> <li>■ The audit committee fails to engage with many parts of the authority</li> <li>■ Attendance is often limited to the CFO and the head of internal audit</li> </ul>                       | <ul style="list-style-type: none"> <li>■ Expand attendance at audit committee meetings. For example, invite heads of service when major risks or control issues are being discussed</li> </ul>                                                                                                                                                                                 |

| Areas of difficulty                                                                               | Possible causes                                                                                                                                                                                                                                                                                                    | Possible improvement options                                                                                                                                                                                                                                                                                   |
|---------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| The audit committee is little known or understood by those not on the committee                   | <ul style="list-style-type: none"> <li>■ Lack of feedback or reporting arrangements</li> </ul>                                                                                                                                                                                                                     | <ul style="list-style-type: none"> <li>■ Invite newly elected members to attend audit committee meetings</li> <li>■ Review reporting arrangements</li> <li>■ Consider an annual report that sets out how the committee has fulfilled its responsibilities</li> </ul>                                           |
| Recommendations made by the audit committee are not actioned                                      | <ul style="list-style-type: none"> <li>■ Poor relationship between the committee and the executive or senior officers</li> <li>■ The audit committee's recommendations are not adequately aligned to organisational objectives</li> </ul>                                                                          | <ul style="list-style-type: none"> <li>■ A senior officer provides internal facilitation to support improved relationships</li> <li>■ Improve knowledge and skills among audit committee members</li> <li>■ Ensure better engagement with appropriate managers or the executive at an earlier stage</li> </ul> |
| The audit committee fails to make recommendations or follow up on issues of concern               | <ul style="list-style-type: none"> <li>■ A weak or inexperienced chair</li> <li>■ Members are inexperienced or do not fully understand their role</li> <li>■ Poor briefing arrangements prior to meetings</li> <li>■ Committee reports fail to adequately identify the action required by the committee</li> </ul> | <ul style="list-style-type: none"> <li>■ Provide guidance and support</li> <li>■ Improve briefing to the chair prior to the meeting</li> <li>■ Ensure reports contain clear recommendations</li> </ul>                                                                                                         |
| The audit committee strays beyond its terms of reference, for example undertaking a scrutiny role | <ul style="list-style-type: none"> <li>■ The terms of reference do not adequately scope the work of the committee</li> <li>■ Misunderstanding about the role of the committee</li> <li>■ Inadequate guidance from committee secretary to the chair on its role</li> </ul>                                          | <ul style="list-style-type: none"> <li>■ Review the terms of reference and provide training and guidance</li> </ul>                                                                                                                                                                                            |

| Areas of difficulty                                                                                                           | Possible causes                                                                                                                                                                                         | Possible improvement options                                                                                                                                                                                                                                                                                                                                 |
|-------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Political points of view interfere with the work of the audit committee                                                       | <ul style="list-style-type: none"> <li>■ Lack of understanding about the role of the committee</li> </ul>                                                                                               | <ul style="list-style-type: none"> <li>■ Seek feedback from those interacting with the committee or external assessment</li> <li>■ Provide support for or training for the chair</li> <li>■ Consider the inclusion or role of independent members</li> </ul>                                                                                                 |
| A breakdown in the relationship between committee members and the executive, PCC or chief constable or with senior management | <ul style="list-style-type: none"> <li>■ Lack of understanding about the role of the committee</li> <li>■ Differing perceptions on the value of the committee</li> <li>■ Personality clashes</li> </ul> | <ul style="list-style-type: none"> <li>■ Review the terms of reference and provide training and guidance</li> <li>■ A senior officer provides internal facilitation to support improved relationships</li> <li>■ Seek an external assessment or facilitation</li> <li>■ Change the chair or membership, if the constitution or opportunity arises</li> </ul> |

## APPROACHES TO IMPROVEMENT AND EVALUATING EFFECTIVENESS

The areas included on audit committee agendas are regularly impacted by new legislation, professional guidance and research, so even knowledgeable and experienced audit committee members need access to briefings or training to remain effective. Where areas for development have been identified in the operation of the committee, then a more comprehensive action plan may be required.

Seeking feedback on the operation of the committee may be helpful to supplement a self-assessment. Those interacting regularly with the committee or relying on its output would be the principal sources of feedback. Where the committee is struggling, an external assessment may be an appropriate way to evaluate the committee and to develop an action plan for improvement.

Appendix E contains an assessment tool to help audit committee members to consider where it is most effective and where there may be scope to do more. To be considered effective, the audit committee should be able to identify evidence of its impact or influence linked to specific improvements.





APPENDIX A

# Sector and devolved government guidance

## PART 1 – COMPARISON OF SECTOR AND DEVOLVED GOVERNMENT REGULATIONS AND GUIDANCE ON KEY AREAS RELATED TO AUDIT COMMITTEES

| Guidance area                      | England<br>Combined authorities                                                                                                                                                                                                                                                                                                                                  | Wales<br>Local authorities                                                                                                                                                                                                                                                                   | England and Wales<br>Police                                                                                                                                                              | England, Northern Ireland and Scotland<br>Local authorities   |
|------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------|
| Establishment of audit committee   | <ul style="list-style-type: none"> <li>Required</li> </ul>                                                                                                                                                                                                                                                                                                       | <ul style="list-style-type: none"> <li>Required</li> </ul>                                                                                                                                                                                                                                   | <ul style="list-style-type: none"> <li>Required</li> <li>It is recommended that this should be a combined body for both PCC and chief constable</li> </ul>                               | <ul style="list-style-type: none"> <li>No guidance</li> </ul> |
| Composition of the audit committee | <ul style="list-style-type: none"> <li>Committees must have at least one independent person as defined by guidance</li> <li>The committee should reflect the political balance of the constituent authorities, as far as is reasonably practical</li> <li>The committee may not include an officer of the combined authority or a constituent council</li> </ul> | <ul style="list-style-type: none"> <li>Committees must have at least one lay member. Up to one-third of the committee membership may be lay members. Only one of the committee's members may be from the council's executive and this must not be the leader or the elected mayor</li> </ul> | <ul style="list-style-type: none"> <li>Police audit committees should comprise between three and five members who are independent of the PCC and the force (where applicable)</li> </ul> | <ul style="list-style-type: none"> <li>No guidance</li> </ul> |

| Guidance area                                                         | England<br>Combined authorities                                                                                                                                                                                                                                                                                                                                                                               | Wales<br>Local authorities                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                | England and Wales<br>Police                                                                                                                                                                                                                                                  | England, Northern<br>Ireland and<br>Scotland<br>Local authorities |
|-----------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------|
| Specified functions of the audit committee                            | <p>a) Review and scrutinise the authority's financial affairs</p> <p>b) Review and assess the authority's risk management, internal control and corporate governance arrangements</p> <p>c) Review and assess the economy, efficiency and effectiveness with which resources have been used in discharging the authority's functions</p> <p>d) Make reports and recommendations to the combined authority</p> | <p>a) Review and scrutinise the authority's financial affairs</p> <p>b) Make reports and recommendations in relation to the authority's financial affairs</p> <p>c) Review and assess the risk management, internal control and corporate governance arrangements of the authority</p> <p>d) Make reports and recommendations to the authority on the adequacy and effectiveness of those arrangements</p> <p>e) Oversee the authority's internal and external audit arrangements</p> <p>f) Review the financial statements prepared by the authority</p> | <p>Consider the internal and external audit reports of both the PCC and the chief constable</p> <p>Advise the PCC and the chief constable according to good governance principles and adopt appropriate risk management arrangements in accordance with proper practices</p> | No guidance                                                       |
| Responsibilities of the audit committee in relation to external audit | <p>■ No guidance</p>                                                                                                                                                                                                                                                                                                                                                                                          | <p>■ Oversee external audit arrangements</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | <p>■ Review external audit reports</p>                                                                                                                                                                                                                                       | No guidance                                                       |

| Guidance area        | England<br>Combined authorities                                                                                                                                                                                               | Wales<br>Local<br>authorities                                                                                                                       | England and Wales<br>Police                                                                                                      | England, Northern<br>Ireland and<br>Scotland<br>Local authorities |
|----------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------|
| Specific<br>guidance | <ul style="list-style-type: none"> <li>■ Cities and Local Government Devolution Act 2016</li> <li>■ Combined Authorities (Overview and Scrutiny Committees, Access to Information and Audit Committees) Order 2016</li> </ul> | <ul style="list-style-type: none"> <li>■ Local Government (Wales) Measure 2011 Statutory Guidance from the Local Government Measure 2011</li> </ul> | Financial Management Code of Practice for the Police Forces of England and Wales (Home Office, 2013 – due to be updated in 2018) | N/A                                                               |

## PART 2 – GOVERNMENT GUIDANCE BY SECTOR AND DEVOLVED GOVERNMENT ON MATTERS THAT MAY BE INCLUDED IN AUDIT COMMITTEE TERMS OF REFERENCE

Accounts and Audit Regulations are statutory instruments issued by the UK or the devolved governments. The various regulations impose requirements on ‘relevant bodies’, eg a local authority, a fire and rescue authority or police body, in relation to governance, internal control, financial reporting and internal audit.

The Accounts and Audit Regulations do not specify that these requirements must be met by an audit committee. However, where it is the audit committee of a relevant body that undertakes or reviews the specified task, the audit committee must meet the requirements of the regulations and take them into account in agreeing their terms of reference.

The following is a summary for each sector and/or region of the sets of regulations affecting them, highlighting key regulations. The regulations are subject to periodic update by the appropriate government body and audit committee members should be made aware of any changes by their organisation.

### Local authorities in England (including combined authorities and fire and rescue authorities)

|                                                               |                                                                                                                                                                                                                                                                                                                                                                                                                                 |
|---------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Relevant government guidance</b>                           | Accounts and Audit (England) Regulations 2015                                                                                                                                                                                                                                                                                                                                                                                   |
| <b>Governance and risk management arrangements</b>            | Regulation 3 requires that:<br><i>A relevant authority must ensure that it has a sound system of internal control which –</i><br><i>(a) facilitates the effective exercise of its functions and the achievement of its aims and objectives;</i><br><i>(b) ensures that the financial and operational management of the authority is effective; and</i><br><i>(c) includes effective arrangements for the management of risk</i> |
| <b>Authority’s financial affairs and financial statements</b> | Regulation 4 relates to accounting records and control systems<br>Regulations 7, 8, 9 and 10 relate to the statement of accounts                                                                                                                                                                                                                                                                                                |
| <b>Review of effectiveness of system of internal control</b>  | Regulation 6 requires members of the body to consider the findings of the review of the effectiveness of the body’s system of internal control                                                                                                                                                                                                                                                                                  |
| <b>Approval of annual governance statements</b>               | Regulation 6 relates to the approval of an AGS prepared in accordance with proper practices in relation to accounts                                                                                                                                                                                                                                                                                                             |
| <b>Internal audit</b>                                         | Regulation 5 requires a relevant body to undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance                                                                                                                                                                                |

## Local authorities in Wales

|                                                              |                                                                                                                                                                                                                                                                                                                                               |
|--------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Relevant government guidance</b>                          | Accounts and Audit Regulations (Wales) 2014 and the Accounts and Audit (Wales) (Amendment) Regulations 2018                                                                                                                                                                                                                                   |
| <b>Governance and risk management arrangements</b>           | Regulation 5 requires the following:<br><i>5.—(1) The relevant body must ensure that there is a sound system of internal control which facilitates the effective exercise of that body's functions and which includes—</i><br><i>a) arrangements for the management of risk, and</i><br><i>b) adequate and effective financial management</i> |
| <b>Financial affairs and financial statements</b>            | Regulation 6 relates to accounting records and control systems<br>Regulations 8 and 10 relate to the statement of accounts                                                                                                                                                                                                                    |
| <b>Review of effectiveness of system of internal control</b> | Regulation 5 requires the body to conduct a review at least once in a year of the effectiveness of its system of internal control and consider the findings of the review                                                                                                                                                                     |
| <b>Approval of annual governance statements</b>              | Regulation 5 requires the body to approve a statement on internal control prepared in accordance with proper practices                                                                                                                                                                                                                        |
| <b>Internal audit</b>                                        | Regulation 7 requires a local government body to maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control                                                                                                                                                                  |
| <b>Review of effectiveness of internal audit</b>             | Regulation 7 requires that a larger relevant body must, at least once in each year, conduct a review of the effectiveness of its internal audit<br><br>In addition, the <a href="#">Local Government Measure (Wales) 2011</a> has an explicit requirement for the audit committee to oversee the authority's internal audit arrangements      |

## Local authorities in Scotland

|                                                              |                                                                                                                                                                                                                                                                                                                  |
|--------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Relevant government guidance</b>                          | Local Authority Accounts (Scotland) Regulations 2014                                                                                                                                                                                                                                                             |
| <b>Governance and risk management arrangements</b>           | Regulation 5 requires the following:<br><i>A local authority is responsible for ensuring that the authority has a sound system of internal control which –</i><br><i>(a) facilitates the effective exercise of the authority's functions; and</i><br><i>(b) includes arrangements for the management of risk</i> |
| <b>Financial affairs and financial statements</b>            | Regulation 5 requires the following:<br><i>A local authority is responsible for ensuring that the financial management of the authority is adequate and effective</i><br>Regulation 6 relates to accounting records and control systems<br>Regulations 8, 10 and 11 relate to the statement of accounts          |
| <b>Review of effectiveness of system of internal control</b> | Regulation 5 requires the authority to:<br><i>conduct a review at least once in each financial year of the effectiveness of its system of internal control.</i>                                                                                                                                                  |

|                                                  |                                                                                                                                                                                                  |
|--------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Approval of annual governance statements</b>  | Regulation 5 relates to the approval of an AGS prepared in accordance with proper practices in relation to internal control                                                                      |
| <b>Internal audit</b>                            | Regulation 7 requires a local authority to operate a professional and objective internal auditing service in accordance with recognised standards and practices in relation to internal auditing |
| <b>Review of effectiveness of internal audit</b> | Regulation 7 requires a local authority to assess the efficiency and effectiveness of its internal auditing in accordance with the recognised standards and practices                            |

## Local authorities in Northern Ireland

|                                                               |                                                                                                                                                                                                                                                                                                                                                                                                                      |
|---------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Relevant government guidance</b>                           | Local Government (Accounts and Audit) Regulations (Northern Ireland) 2015                                                                                                                                                                                                                                                                                                                                            |
| <b>Governance and risk management arrangements</b>            | Regulation 4 requires a local government body to ensure that the financial management of the local government body is adequate and effective and that it has a sound system of internal control which facilitates the effective exercise of its functions and which includes arrangements for the management of risk                                                                                                 |
| <b>Authority's financial affairs and financial statements</b> | Regulation 5 relates to accounting records and control systems<br>Regulations 7 and 8 relate to the statement of accounts                                                                                                                                                                                                                                                                                            |
| <b>Review of effectiveness of system of internal control</b>  | Regulation 4 requires a review of the effectiveness of the body's system of internal control and to approve a statement on internal control, prepared in accordance with proper practices in relation to internal control                                                                                                                                                                                            |
| <b>Approval of annual governance statements</b>               | Regulation 4 requires the body to approve a statement on internal control, prepared in accordance with proper practices in relation to internal control<br><br>The accompanying guidance from the Department of the Environment identifies the CIPFA/Solace 2007 Framework and 2012 Addendum as proper practices – these have now been replaced by the <a href="#">2016 Framework</a>                                |
| <b>Internal audit</b>                                         | Regulation 6 requires the local government body to undertake an adequate and effective internal audit of its accounting records and of its system of risk management, internal control and governance processes using internal auditing standards in force from time to time<br><br>The accompanying guidance from the Department of the Environment identifies the PSIAS as the appropriate internal audit standard |

## Police in England

|                                                               |                                                                                                                                                                                                                                                                                                                                                                                                                                           |
|---------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Relevant government guidance</b>                           | Accounts and Audit (England) Regulations 2015 – see also the statutory guidance <a href="#">Financial Management Code of Practice for the Police Forces of England and Wales (FMCP)</a> (Home Office, 2013 – due to be updated in 2018)                                                                                                                                                                                                   |
| <b>Governance and risk management arrangements</b>            | Regulation 3 requires the following:<br><i>A relevant authority must ensure that it has a sound system of internal control which –</i><br><i>(a) facilitates the effective exercise of its functions and the achievement of its aims and objectives;</i><br><i>(b) ensures that the financial and operational management of the authority is effective; and</i><br><i>(c) includes effective arrangements for the management of risk.</i> |
| <b>Authority’s financial affairs and financial statements</b> | Regulation 4 relates to accounting records and control systems<br>Regulations 7, 8, 9 and 10 relate to the statement of accounts                                                                                                                                                                                                                                                                                                          |
| <b>Review of effectiveness of system of internal control</b>  | Regulation 6 requires members of the body to consider the findings of the review of the effectiveness of the body’s system of internal control                                                                                                                                                                                                                                                                                            |
| <b>Approval of annual governance statements</b>               | Regulation 6 relates to the approval of an AGS prepared in accordance with proper practices in relation to accounts                                                                                                                                                                                                                                                                                                                       |
| <b>Internal audit</b>                                         | Regulation 5 requires a relevant body to undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance                                                                                                                                                                                          |

## Police in Wales

|                                                              |                                                                                                                                                                                                                                                                                                                   |
|--------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Relevant government guidance</b>                          | Accounts and Audit Regulations (Wales) 2014 and the <a href="#">Accounts and Audit (Wales) (Amendment) Regulations 2018</a> – see also the FMCP                                                                                                                                                                   |
| <b>Governance and risk management arrangements</b>           | Regulation 5 requires the following:<br><i>A local authority is responsible for ensuring that the authority has a sound system of internal control which –</i><br><i>(a) facilitates the effective exercise of the authority’s functions; and</i><br><i>(b) includes arrangements for the management of risk.</i> |
| <b>Financial affairs and financial statements</b>            | Regulation 6 relates to accounting records and control systems<br>Regulations 8 and 10 relate to the statement of accounts                                                                                                                                                                                        |
| <b>Review of effectiveness of system of internal control</b> | Regulation 5 requires that the body to conduct a review at least once in a year of the effectiveness of its system of internal control and consider the findings of the review                                                                                                                                    |
| <b>Approval of annual governance statements</b>              | Regulation 5 requires the body to approve a statement on internal control prepared in accordance with proper practices                                                                                                                                                                                            |



|                                                  |                                                                                                                                                                                                                                                                                                                      |
|--------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Internal audit</b>                            | Regulation 7 requires a local government body to maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control                                                                                                                                         |
| <b>Review of effectiveness of internal audit</b> | Regulation 7 requires that a larger relevant body must, at least once in each year, conduct a review of the effectiveness of its internal audit<br>In addition, the Local Government (Wales) Measure 2011 has an explicit requirement for the audit committee to oversee the authority's internal audit arrangements |



# Suggested terms of reference – local authorities and police

## INTRODUCTION

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This appendix contains two sets of suggested terms of reference, one for local authorities and one for police. The principal difference between them is that the police audit committee must ensure that its terms of reference are in accordance with the [Financial Management Code of Practice for the Police Forces of England and Wales](#) (Home Office, 2013 – due to be updated in 2018) and remain an advisory body.

In developing the terms of reference for an organisation, care should be taken to ensure that the specific regulations appropriate for the authority are taken into account. Appendix A sets out these requirements. In addition, where the terms of reference refer to internal audit, regard should be had for how the internal audit charter has allocated responsibilities to the committee. Some of the internal audit responsibilities identified in the terms of reference may not be carried out by the audit committee but by others.

## SUGGESTED TERMS OF REFERENCE – LOCAL AUTHORITIES

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### Governance

The terms of reference should set out the committee's position in the governance structure of the authority.

### Statement of purpose

- 1 Our audit committee is a key component of [name of authority]'s corporate governance. It provides an independent and high-level focus on the audit, assurance and reporting arrangements that underpin good governance and financial standards.
- 2 The purpose of our audit committee is to provide independent assurance to the members [or identify others charged with governance in your authority] of the adequacy of the risk management framework and the internal control environment. It provides independent review of [name of authority]'s governance, risk management and control frameworks and oversees the financial reporting and annual governance processes. It oversees internal audit and external audit, helping to ensure efficient and effective assurance arrangements are in place.

## Governance, risk and control

- 3 To review the council's corporate governance arrangements against the good governance framework, including the ethical framework and consider the local code of governance.
- 4 To review the AGS prior to approval and consider whether it properly reflects the risk environment and supporting assurances, taking into account internal audit's opinion on the overall adequacy and effectiveness of the council's framework of governance, risk management and control.
- 5 To consider the council's arrangements to secure value for money and review assurances and assessments on the effectiveness of these arrangements.
- 6 To consider the council's framework of assurance and ensure that it adequately addresses the risks and priorities of the council.
- 7 To monitor the effective development and operation of risk management in the council.
- 8 To monitor progress in addressing risk-related issues reported to the committee.
- 9 To consider reports on the effectiveness of internal controls and monitor the implementation of agreed actions.
- 10 To review the assessment of fraud risks and potential harm to the council from fraud and corruption.
- 11 To monitor the counter-fraud strategy, actions and resources.
- 12 To review the governance and assurance arrangements for significant partnerships or collaborations.

To fulfil the requirements of the Local Authority Measure within their terms of reference, local authorities in Wales should identify those aspects which are specified in the Measure. See Appendix A for details. CIPFA considers that the requirement to review and make recommendations on the authority's financial affairs will be fulfilled by reference to items 5, 9 and 10 in these suggested terms of reference as well as those under financial reporting.

## Internal audit

- 13 To approve the internal audit charter.
- 14 To review proposals made in relation to the appointment of external providers of internal audit services and to make recommendations.
- 15 To approve the risk-based internal audit plan, including internal audit's resource requirements, the approach to using other sources of assurance and any work required to place reliance upon those other sources.
- 16 To approve significant interim changes to the risk-based internal audit plan and resource requirements.
- 17 To make appropriate enquiries of both management and the head of internal audit to determine if there are any inappropriate scope or resource limitations.
- 18 To consider any impairments to independence or objectivity arising from additional roles or responsibilities outside of internal auditing of the head of internal audit. To approve and periodically review safeguards to limit such impairments.

- 19 To consider reports from the head of internal audit on internal audit's performance during the year, including the performance of external providers of internal audit services. These will include:
  - a) updates on the work of internal audit including key findings, issues of concern and action in hand as a result of internal audit work
  - b) regular reports on the results of the QAIP
  - c) reports on instances where the internal audit function does not conform to the PSIAS and LGAN, considering whether the non-conformance is significant enough that it must be included in the AGS.
- 20 To consider the head of internal audit's annual report:
  - a) The statement of the level of conformance with the PSIAS and LGAN and the results of the QAIP that support the statement – these will indicate the reliability of the conclusions of internal audit.
  - b) The opinion on the overall adequacy and effectiveness of the council's framework of governance, risk management and control together with the summary of the work supporting the opinion – these will assist the committee in reviewing the AGS.
- 21 To consider summaries of specific internal audit reports as requested.
- 22 To receive reports outlining the action taken where the head of internal audit has concluded that management has accepted a level of risk that may be unacceptable to the authority or there are concerns about progress with the implementation of agreed actions.
- 23 To contribute to the QAIP and in particular, to the external quality assessment of internal audit that takes place at least once every five years.
- 24 To consider a report on the effectiveness of internal audit to support the AGS, where required to do so by the Accounts and Audit Regulations (see Appendix A).
- 25 To provide free and unfettered access to the audit committee chair for the head of internal audit, including the opportunity for a private meeting with the committee.

### **External audit**

- 26 To support the independence of external audit through consideration of the external auditor's annual assessment of its independence and review of any issues raised by PSAA or the authority's auditor panel as appropriate.
- 27 To consider the external auditor's annual letter, relevant reports and the report to those charged with governance.
- 28 To consider specific reports as agreed with the external auditor.
- 29 To comment on the scope and depth of external audit work and to ensure it gives value for money.
- 30 To commission work from internal and external audit.
- 31 To advise and recommend on the effectiveness of relationships between external and internal audit and other inspection agencies or relevant bodies.

## Financial reporting

- 32 To review the annual statement of accounts. Specifically, to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the council.
- 33 To consider the external auditor's report to those charged with governance on issues arising from the audit of the accounts.

## Accountability arrangements

- 34 To report to those charged with governance on the committee's findings, conclusions and recommendations concerning the adequacy and effectiveness of their governance, risk management and internal control frameworks, financial reporting arrangements, and internal and external audit functions.
- 35 To report to full council on a regular basis on the committee's performance in relation to the terms of reference and the effectiveness of the committee in meeting its purpose.
- 36 To publish an annual report on the work of the committee.

## SUGGESTED TERMS OF REFERENCE – POLICE

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There is no formal requirement as to how the audit committee relates to the governance structures of the PCC and the chief constable, but it is recommended that this is clearly set out in the terms of reference.

### Statement of purpose

- 1 Our [audit] [joint audit] committee is a key component of [name of body]'s corporate governance. It provides an independent and high-level focus on the audit, assurance and reporting arrangements that underpin good governance and financial standards.
- 2 The purpose of our [audit] [joint audit] committee is to provide independent advice and recommendation to [select from 'the police and crime commissioner' (or name), 'the chief constable' (or name)] on the adequacy of the governance and risk management frameworks, the internal control environment, and financial reporting, thereby helping to ensure efficient and effective assurance arrangements are in place. To this end the committee is enabled and required to have oversight of, and to provide independent review of, the effectiveness of [name of body]'s governance, risk management and control frameworks, its financial reporting and annual governance processes, and internal audit and external audit.
- 3 These terms of reference will summarise the core functions of the committee in relation to the office of the police and crime commissioner (OPCC) and to the constabulary and describe the protocols in place to enable it to operate independently, robustly and effectively.

## Governance, risk and control

The committee will provide advice and recommendations to the PCC or chief constable in relation to the following areas:

- 4 Review the corporate governance arrangements against the good governance framework, including the ethical framework and consider the local code of governance.
- 5 Review the annual governance statement[s] prior to approval and consider whether [it] [they] properly [reflects] [reflect] the governance, risk and control environment and supporting assurances and identify any actions required for improvement.
- 6 Consider the arrangements to secure value for money and review assurances and assessments on the effectiveness of these arrangements.
- 7 Consider the framework of assurance and ensure that it adequately addresses the risks and priorities of the OPCC/the constabulary.
- 8 Monitor the effective development and operation of risk management, review the risk profile, and monitor progress of the PCC/the chief constable in addressing risk-related issues reported to them.
- 9 Consider reports on the effectiveness of internal controls and monitor the implementation of agreed actions.
- 10 Review arrangements for the assessment of fraud risks and potential harm from fraud and corruption and monitor the effectiveness of the counter fraud strategy, actions and resources.
- 11 To review the governance and assurance arrangements for significant partnerships or collaborations.

## Internal audit

The committee will provide advice and recommendations to the PCC or chief constable in relation to the following areas:

- 12 Annually review the internal audit charter and resources.
- 13 Review the internal audit plan and any proposed revisions to the internal audit plan.
- 14 Oversee the appointment and consider the adequacy of the performance of the internal audit service and its independence.
- 15 Consider the head of internal audit's annual report and opinion, and a regular summary of the progress of internal audit activity against the audit plan, and the level of assurance it can give over corporate governance arrangements.
- 16 To consider the head of internal audit's statement of the level of conformance with the PSIAS and LGAN and the results of the QAIP that support the statement – these will indicate the reliability of the conclusions of internal audit.
- 17 Consider summaries of internal audit reports and such detailed reports as the committee may request from the PCC/the chief constable, including issues raised or recommendations made by the internal audit service, management response and progress with agreed actions.
- 18 Consider a report on the effectiveness of internal audit to support the AGS, where required to do so by the [Accounts and Audit Regulations \(Wales\) 2014](#) (see Appendix A).

- 19 To consider any impairments to independence or objectivity arising from additional roles or responsibilities outside of internal auditing of the head of internal audit. To make recommendations on safeguards to limit such impairments and periodically review their operation.

### **External audit**

The committee will provide advice and recommendations to the PCC or chief constable in relation to the following areas:

- 20 Support the independence of external audit through consideration of the external auditor's annual assessment of its independence and review of any issues raised by either PSAA or the auditor panel as appropriate.
- 21 Comment on the scope and depth of external audit work, its independence and whether it gives satisfactory value for money.
- 22 Consider the external auditor's annual management letter, relevant reports and the report to those charged with governance.
- 23 Consider specific reports as agreed with the external auditor.
- 24 Advise and recommend on the effectiveness of relationships between external and internal audit and other inspection agencies or relevant bodies.

### **Financial reporting**

The committee will provide advice and recommendations to the PCC or chief constable in relation to the following areas:

- 25 Review the annual statement of accounts. Specifically, to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit of the financial statements that need to be brought to the attention of the PCC and/or the chief constable.
- 26 Consider the external auditor's report to those charged with governance on issues arising from the audit of the financial statements.

### **Accountability arrangements**

The committee will do the following:

- 27 On a timely basis report to the PCC and the chief constable with its advice and recommendations in relation to any matters that it considers relevant to governance, risk management and financial management.
- 28 Report to the PCC and the chief constable on its findings, conclusions and recommendations concerning the adequacy and effectiveness of their governance, risk management and internal control frameworks, financial reporting arrangements, and internal and external audit functions.
- 29 Review its performance against its terms of reference and objectives on an annual basis and report the results of this review to the PCC and the chief constable.
- 30 Publish an annual report on the work of the committee.



# Audit committee members – knowledge and skills framework

## CORE AREAS OF KNOWLEDGE

| Knowledge area                                        | Details of core knowledge required                                                                                                                                                                                                                                                                     | How the audit committee member is able to apply the knowledge                                                                                                                                                                                                                                                                                                                                                                   |
|-------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Organisational knowledge                              | <ul style="list-style-type: none"> <li>■ An overview of the governance structures of the authority and decision-making processes</li> <li>■ Knowledge of the organisational objectives and major functions of the authority</li> </ul>                                                                 | <ul style="list-style-type: none"> <li>■ This knowledge will be core to most activities of the audit committee including review of the AGS, internal and external audit reports and risk registers</li> </ul>                                                                                                                                                                                                                   |
| Audit committee role and functions (Chapters 3 and 6) | <ul style="list-style-type: none"> <li>■ An understanding of the audit committee's role and place within the governance structures. Familiarity with the committee's terms of reference and accountability arrangements</li> <li>■ Knowledge of the purpose and role of the audit committee</li> </ul> | <ul style="list-style-type: none"> <li>■ This knowledge will enable the audit committee to prioritise its work in order to ensure it discharges its responsibilities under its terms of reference and to avoid overlapping the work of others</li> </ul>                                                                                                                                                                        |
| Governance (Chapter 4)                                | <ul style="list-style-type: none"> <li>■ Knowledge of the seven principles of the CIPFA/Solace Framework and the requirements of the AGS</li> <li>■ Knowledge of the local code of governance</li> </ul>                                                                                               | <ul style="list-style-type: none"> <li>■ The committee will review the local code of governance and consider how governance arrangements align to the principles in the framework</li> <li>■ The committee will plan the assurances it is to receive in order to adequately support the AGS</li> <li>■ The committee will review the AGS and consider how the authority is meeting the principles of good governance</li> </ul> |

| Knowledge area                                  | Details of core knowledge required                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | How the audit committee member is able to apply the knowledge                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
|-------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Internal audit (Chapter 4)                      | <ul style="list-style-type: none"> <li>■ An awareness of the key principles of the PSIAS and the LGAN</li> <li>■ Knowledge of the arrangements for delivery of the internal audit service in the authority and how the role of the head of internal audit is fulfilled</li> </ul>                                                                                                                                                                                                                                                                        | <ul style="list-style-type: none"> <li>■ The audit committee has oversight of the internal audit function and will monitor its adherence to professional internal audit standards</li> <li>■ The audit committee will review the assurances from internal audit work and will review the risk-based audit plan. The committee will also receive the annual report, including an opinion and information on conformance with professional standards</li> <li>■ In relying on the work of internal audit, the committee will need to be confident that professional standards are being followed</li> <li>■ The audit committee chair is likely to be interviewed as part of the external quality assessment and the committee will receive the outcome of the assessment and action plan</li> </ul> |
| Financial management and accounting (Chapter 4) | <ul style="list-style-type: none"> <li>■ Awareness of the financial statements that a local authority must produce and the principles it must follow to produce them</li> <li>■ Understanding of good financial management principles</li> <li>■ Knowledge of how the organisation meets the requirements of the role of the CFO, as required by <a href="#">The Role of the Chief Financial Officer in Local Government (CIPFA, 2016)</a> and the <a href="#">CIPFA Statement on the Role of Chief Financial Officers in Policing (2018)</a></li> </ul> | <ul style="list-style-type: none"> <li>■ Reviewing the financial statements prior to publication, asking questions</li> <li>■ Receiving the external audit report and opinion on the financial audit</li> <li>■ Reviewing both external and internal audit recommendations relating to financial management and controls</li> <li>■ The audit committee should consider the role of the CFO and how this is met when reviewing the AGS</li> </ul>                                                                                                                                                                                                                                                                                                                                                  |
| External audit (Chapter 4)                      | <ul style="list-style-type: none"> <li>■ Knowledge of the role and functions of the external auditor and who currently undertakes this role</li> <li>■ Knowledge of the key reports and assurances that external audit will provide</li> <li>■ Knowledge about arrangements for the appointment of auditors and quality monitoring undertaken</li> </ul>                                                                                                                                                                                                 | <ul style="list-style-type: none"> <li>■ The audit committee should meet with the external auditor regularly and receive their reports and opinions</li> <li>■ Monitoring external audit recommendations and maximising benefit from audit process</li> <li>■ The audit committee should monitor the relationship between the external auditor and the authority and support the delivery of an effective service</li> </ul>                                                                                                                                                                                                                                                                                                                                                                       |

| Knowledge area                        | Details of core knowledge required                                                                                                                                                                                                                                                                                                                                                                                                   | How the audit committee member is able to apply the knowledge                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
|---------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Risk management (Chapter 4)           | <ul style="list-style-type: none"> <li>■ Understanding of the principles of risk management, including linkage to good governance and decision making</li> <li>■ Knowledge of the risk management policy and strategy of the organisation</li> <li>■ Understanding of risk governance arrangements, including the role of members and of the audit committee</li> </ul>                                                              | <ul style="list-style-type: none"> <li>■ In reviewing the AGS, the committee will consider the robustness of the authority’s risk management arrangements and should also have awareness of the major risks the authority faces</li> <li>■ Keeping up to date with the risk profile is necessary to support the review of a number of audit committee agenda items, including the risk-based internal audit plan, external audit plans and the explanatory foreword of the accounts. Typically, risk registers will be used to inform the committee</li> <li>■ The committee should also review reports and action plans to develop the application of risk management practice</li> </ul> |
| Counter fraud (Chapter 4)             | <ul style="list-style-type: none"> <li>■ An understanding of the main areas of fraud and corruption risk to which the organisation is exposed</li> <li>■ Knowledge of the principles of good fraud risk management practice in accordance with the <a href="#">Code of Practice on Managing the Risk of Fraud and Corruption</a> (CIPFA, 2014)</li> <li>■ Knowledge of the organisation’s arrangements for tackling fraud</li> </ul> | <ul style="list-style-type: none"> <li>■ Knowledge of fraud risks and good fraud risk management practice will be helpful when the committee reviews the organisation’s fraud strategy and receives reports on the effectiveness of that strategy</li> <li>■ An assessment of arrangements should support the AGS and knowledge of good fraud risk management practice will support the audit committee member in reviewing that assessment</li> </ul>                                                                                                                                                                                                                                     |
| Values of good governance (Chapter 5) | <ul style="list-style-type: none"> <li>■ Knowledge of the Seven Principles of Public Life</li> <li>■ Knowledge of the authority’s key arrangements to uphold ethical standards for both members and staff</li> <li>■ Knowledge of the whistleblowing arrangements in the authority</li> </ul>                                                                                                                                        | <ul style="list-style-type: none"> <li>■ The audit committee member will draw on this knowledge when reviewing governance issues and the AGS</li> <li>■ Oversight of the effectiveness of whistleblowing will be considered as part of the AGS. The audit committee member should know to whom concerns should be reported</li> </ul>                                                                                                                                                                                                                                                                                                                                                      |

| Knowledge area                                                                                                            | Details of core knowledge required                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     | How the audit committee member is able to apply the knowledge                                                                                             |
|---------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>Treasury management (only if it is within the terms of reference of the committee to provide scrutiny) (Chapter 5)</p> | <ul style="list-style-type: none"> <li>■ <b>Effective Scrutiny of Treasury Management</b> is an assessment tool for reviewing the arrangements for undertaking scrutiny of treasury management. The key knowledge areas identified are:                             <ul style="list-style-type: none"> <li>– regulatory requirements</li> <li>– treasury risks</li> <li>– the organisation’s treasury management strategy</li> <li>– the organisation’s policies and procedures in relation to treasury management</li> </ul> </li> <li>■ See also <b>Treasure Your Assets</b> (CfPS, 2017)</li> </ul> | <ul style="list-style-type: none"> <li>■ Core knowledge on treasury management is essential for the committee undertaking the role of scrutiny</li> </ul> |

## SPECIALIST KNOWLEDGE THAT ADDS VALUE TO THE AUDIT COMMITTEE

This section may be of particular benefit when recruiting independent members.

| Knowledge area                                                  | Details of supplementary knowledge                                                                                                                                                                                              | How the audit committee member is able to add value to the committee                                                                                                                                                                                                                                                                                                                                                                                            |
|-----------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Accountancy                                                     | <ul style="list-style-type: none"> <li>Professional qualification in accountancy</li> </ul>                                                                                                                                     | <ul style="list-style-type: none"> <li>More able to engage with the review of the accounts and financial management issues coming before the committee</li> <li>Having an understanding of the professional requirements and standards that the finance function must meet will provide helpful context for discussion of risks and resource issues</li> <li>More able to engage with the external auditors and understand the results of audit work</li> </ul> |
| Internal audit                                                  | <ul style="list-style-type: none"> <li>Professional qualification in internal audit</li> </ul>                                                                                                                                  | <ul style="list-style-type: none"> <li>This would offer in-depth knowledge of professional standards of internal audit and good practice in internal auditing</li> <li>The committee would be more able to provide oversight of internal audit and review the output of audit reports</li> </ul>                                                                                                                                                                |
| Risk management                                                 | <ul style="list-style-type: none"> <li>Risk management qualification</li> <li>Practical experience of applying risk management</li> <li>Knowledge of risks and opportunities associated with major areas of activity</li> </ul> | <ul style="list-style-type: none"> <li>Enhanced knowledge of risk management will inform the committee's oversight of the development of risk management practice</li> <li>Enhanced knowledge of risks and opportunities will be helpful when reviewing risk registers</li> </ul>                                                                                                                                                                               |
| Governance and legal                                            | <ul style="list-style-type: none"> <li>Legal qualification and knowledge of specific areas of interest to the committee, for example constitutional arrangements, data protection or contract law</li> </ul>                    | <ul style="list-style-type: none"> <li>Legal knowledge may add value when the committee considers areas of legal risk or governance issues</li> </ul>                                                                                                                                                                                                                                                                                                           |
| Service knowledge relevant to the functions of the organisation | <ul style="list-style-type: none"> <li>Direct experience of managing or working in a service area similar to that operated by the authority</li> <li>Previous scrutiny committee experience</li> </ul>                          | <ul style="list-style-type: none"> <li>Knowledge of relevant legislation, risks and challenges associated with major service areas will help the audit committee to understand the operational context</li> </ul>                                                                                                                                                                                                                                               |

| Knowledge area                   | Details of supplementary knowledge                                                                                                            | How the audit committee member is able to add value to the committee                                                                                                          |
|----------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Programme and project management | <ul style="list-style-type: none"> <li>■ Project management qualifications or practical knowledge of project management principles</li> </ul> | <ul style="list-style-type: none"> <li>■ Expert knowledge in this area will be helpful when considering project risk management or internal audit reviews</li> </ul>          |
| IT systems and IT governance     | <ul style="list-style-type: none"> <li>■ Knowledge gained from management or development work in IT</li> </ul>                                | <ul style="list-style-type: none"> <li>■ Knowledge in this area will be helpful when considering IT governance arrangements or audit reviews of risks and controls</li> </ul> |

## CORE SKILLS

| Skills                                              | Key elements                                                                                                                                                                                                                    | How the audit committee member is able to apply the skill                                                                                                                                                                                                                                                                                                                                         |
|-----------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Strategic thinking and understanding of materiality | <ul style="list-style-type: none"> <li>■ Able to focus on material issues and overall position, rather than being side tracked by detail</li> </ul>                                                                             | <ul style="list-style-type: none"> <li>■ When reviewing audit reports, findings will include areas of higher risk or materiality to the organisation, but may also highlight more minor errors or control failures. The audit committee member will need to pitch their review at an appropriate level to avoid spending too much time on detail</li> </ul>                                       |
| Questioning and constructive challenge              | <ul style="list-style-type: none"> <li>■ Able to frame questions that draw out relevant facts and explanations</li> <li>■ Challenging performance and seeking explanations while avoiding hostility or grandstanding</li> </ul> | <ul style="list-style-type: none"> <li>■ The audit committee will review reports and recommendations to address weaknesses in internal control. The audit committee member will seek to understand the reasons for weaknesses and ensure a solution is found</li> </ul>                                                                                                                           |
| Focus on improvement                                | <ul style="list-style-type: none"> <li>■ Ensuring there is a clear plan of action and allocation of responsibility</li> </ul>                                                                                                   | <ul style="list-style-type: none"> <li>■ The outcome of the audit committee will be to secure improvements to the governance, risk management or control of the organisation, including clearly defined actions and responsibilities</li> <li>■ Where errors or control failures have occurred, then the audit committee should seek assurances that appropriate action has been taken</li> </ul> |
| Able to balance practicality against theory         | <ul style="list-style-type: none"> <li>■ Able to understand the practical implications of recommendations to understand how they might work in practice</li> </ul>                                                              | <ul style="list-style-type: none"> <li>■ The audit committee should seek assurances that planned actions are practical and realistic</li> </ul>                                                                                                                                                                                                                                                   |

| Skills                                                     | Key elements                                                                                                                                                                                                   | How the audit committee member is able to apply the skill                                                                                                                                                                                                                                                 |
|------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Clear communication skills and focus on the needs of users | <ul style="list-style-type: none"> <li>■ Support the use of plain English in communications, avoiding jargon, acronyms, etc</li> </ul>                                                                         | <ul style="list-style-type: none"> <li>■ The audit committee will seek to ensure that external documents such as the AGS and the narrative report in the accounts are well written for a non-expert audience</li> </ul>                                                                                   |
| Objectivity                                                | <ul style="list-style-type: none"> <li>■ Evaluate information on the basis of evidence presented and avoiding bias or subjectivity</li> </ul>                                                                  | <ul style="list-style-type: none"> <li>■ The audit committee will receive assurance reports and review risk registers. There may be differences of opinion about the significance of risk and the appropriate control responses and the committee member will need to weigh up differing views</li> </ul> |
| Meeting management skills                                  | <ul style="list-style-type: none"> <li>■ Chair the meetings effectively: summarise issues raised, ensure all participants are able to contribute, focus on the outcome and actions from the meeting</li> </ul> | <ul style="list-style-type: none"> <li>■ These skills are essential for the audit committee chair to help ensure that meetings stay on track and address the items on the agenda. The skills are desirable for all other members</li> </ul>                                                               |





# Self-assessment of good practice

This appendix provides a high-level review that incorporates the key principles set out in CIPFA's Position Statement and this publication. Where an audit committee has a high degree of performance against the good practice principles, then it is an indicator that the committee is soundly based and has in place a knowledgeable membership. These are the essential factors in developing an effective audit committee.

A regular self-assessment can be used to support the planning of the audit committee work programme and training plans. It can also inform an annual report.

| Good practice questions                       |                                                                                                                       | Yes | Partly | No |
|-----------------------------------------------|-----------------------------------------------------------------------------------------------------------------------|-----|--------|----|
| <b>Audit committee purpose and governance</b> |                                                                                                                       |     |        |    |
| 1                                             | Does the authority have a dedicated audit committee?                                                                  |     |        |    |
| 2                                             | Does the audit committee report directly to full council?<br>(applicable to local government only)                    |     |        |    |
| 3                                             | Do the terms of reference clearly set out the purpose of the committee in accordance with CIPFA's Position Statement? |     |        |    |
| 4                                             | Is the role and purpose of the audit committee understood and accepted across the authority?                          |     |        |    |
| 5                                             | Does the audit committee provide support to the authority in meeting the requirements of good governance?             |     |        |    |
| 6                                             | Are the arrangements to hold the committee to account for its performance operating satisfactorily?                   |     |        |    |
| <b>Functions of the committee</b>             |                                                                                                                       |     |        |    |
| 7                                             | Do the committee's terms of reference explicitly address all the core areas identified in CIPFA's Position Statement? |     |        |    |
|                                               | ■ good governance                                                                                                     |     |        |    |
|                                               | ■ assurance framework, including partnerships and collaboration arrangements                                          |     |        |    |
|                                               | ■ internal audit                                                                                                      |     |        |    |
|                                               | ■ external audit                                                                                                      |     |        |    |
|                                               | ■ financial reporting                                                                                                 |     |        |    |
|                                               | ■ risk management                                                                                                     |     |        |    |
|                                               | ■ value for money or best value                                                                                       |     |        |    |

| Good practice questions |                                                                                                                                                                           | Yes | Partly | No |
|-------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----|--------|----|
|                         | <ul style="list-style-type: none"> <li>■ counter fraud and corruption</li> </ul>                                                                                          |     |        |    |
|                         | <ul style="list-style-type: none"> <li>■ supporting the ethical framework</li> </ul>                                                                                      |     |        |    |
| 8                       | Is an annual evaluation undertaken to assess whether the committee is fulfilling its terms of reference and that adequate consideration has been given to all core areas? |     |        |    |
| 9                       | Has the audit committee considered the wider areas identified in CIPFA’s Position Statement and whether it would be appropriate for the committee to undertake them?      |     |        |    |
| 10                      | Where coverage of core areas has been found to be limited, are plans in place to address this?                                                                            |     |        |    |
| 11                      | Has the committee maintained its advisory role by not taking on any decision-making powers that are not in line with its core purpose?                                    |     |        |    |

**Membership and support**

|    |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |  |  |  |
|----|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--|--|--|
| 12 | <p>Has an effective audit committee structure and composition of the committee been selected?</p> <p>This should include:</p> <ul style="list-style-type: none"> <li>■ separation from the executive</li> <li>■ an appropriate mix of knowledge and skills among the membership</li> <li>■ a size of committee that is not unwieldy</li> <li>■ consideration has been given to the inclusion of at least one independent member (where it is not already a mandatory requirement)</li> </ul> |  |  |  |
| 13 | Have independent members appointed to the committee been recruited in an open and transparent way and approved by the full council or the PCC and chief constable as appropriate for the organisation?                                                                                                                                                                                                                                                                                       |  |  |  |
| 14 | Does the chair of the committee have appropriate knowledge and skills?                                                                                                                                                                                                                                                                                                                                                                                                                       |  |  |  |
| 15 | Are arrangements in place to support the committee with briefings and training?                                                                                                                                                                                                                                                                                                                                                                                                              |  |  |  |
| 16 | Has the membership of the committee been assessed against the core knowledge and skills framework and found to be satisfactory?                                                                                                                                                                                                                                                                                                                                                              |  |  |  |
| 17 | Does the committee have good working relations with key people and organisations, including external audit, internal audit and the CFO?                                                                                                                                                                                                                                                                                                                                                      |  |  |  |
| 18 | Is adequate secretariat and administrative support to the committee provided?                                                                                                                                                                                                                                                                                                                                                                                                                |  |  |  |

| Good practice questions               |                                                                                                                                                                    | Yes | Partly | No |
|---------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----|--------|----|
| <b>Effectiveness of the committee</b> |                                                                                                                                                                    |     |        |    |
| 19                                    | Has the committee obtained feedback on its performance from those interacting with the committee or relying on its work?                                           |     |        |    |
| 20                                    | Are meetings effective with a good level of discussion and engagement from all the members?                                                                        |     |        |    |
| 21                                    | Does the committee engage with a wide range of leaders and managers, including discussion of audit findings, risks and action plans with the responsible officers? |     |        |    |
| 22                                    | Does the committee make recommendations for the improvement of governance, risk and control and are these acted on?                                                |     |        |    |
| 23                                    | Has the committee evaluated whether and how it is adding value to the organisation?                                                                                |     |        |    |
| 24                                    | Does the committee have an action plan to improve any areas of weakness?                                                                                           |     |        |    |
| 25                                    | Does the committee publish an annual report to account for its performance and explain its work?                                                                   |     |        |    |



# Evaluating the effectiveness of the audit committee

**Assessment key**

|   |                                                                                                                                                                                              |
|---|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 5 | Clear evidence is available from a number of sources that the committee is actively supporting improvements across all aspects of this area. The improvements made are clearly identifiable. |
| 4 | Clear evidence from some sources that the committee is actively and effectively supporting improvement across some aspects of this area.                                                     |
| 3 | The committee has had mixed experience in supporting improvement in this area. There is some evidence that demonstrates their impact but there are also significant gaps.                    |
| 2 | There is some evidence that the committee has supported improvements, but the impact of this support is limited.                                                                             |
| 1 | No evidence can be found that the audit committee has supported improvements in this area.                                                                                                   |

| Areas where the audit committee can add value by supporting improvement | Examples of how the audit committee can add value and provide evidence of effectiveness | Self-evaluation, examples, areas of strength and weakness | Overall assessment:<br>5 – 1<br>See key above |
|-------------------------------------------------------------------------|-----------------------------------------------------------------------------------------|-----------------------------------------------------------|-----------------------------------------------|
|-------------------------------------------------------------------------|-----------------------------------------------------------------------------------------|-----------------------------------------------------------|-----------------------------------------------|

|                                                                                      |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |  |  |
|--------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--|--|
| Promoting the principles of good governance and their application to decision making | <ul style="list-style-type: none"> <li>■ Supporting the development of a local code of governance</li> <li>■ Providing robust review of the AGS and the assurances underpinning it</li> <li>■ Working with key members/PCC and chief constable to improve their understanding of the AGS and their contribution to it</li> <li>■ Supporting reviews/audits of governance arrangements</li> <li>■ Participating in self-assessments of governance arrangements</li> <li>■ Working with partner audit committees to review governance arrangements in partnerships</li> </ul> |  |  |
|--------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--|--|

| Areas where the audit committee can add value by supporting improvement                                                       | Examples of how the audit committee can add value and provide evidence of effectiveness                                                                                                                                                                                                                                                                    | Self-evaluation, examples, areas of strength and weakness | Overall assessment: 5 – 1<br>See key above |
|-------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------|--------------------------------------------|
| Contributing to the development of an effective control environment                                                           | <ul style="list-style-type: none"> <li>■ Actively monitoring the implementation of recommendations from auditors</li> <li>■ Encouraging ownership of the internal control framework by appropriate managers</li> <li>■ Raising significant concerns over controls with appropriate senior managers</li> </ul>                                              |                                                           |                                            |
| Supporting the establishment of arrangements for the governance of risk and for effective arrangements to manage risks        | <ul style="list-style-type: none"> <li>■ Reviewing risk management arrangements and their effectiveness, eg risk management benchmarking</li> <li>■ Monitoring improvements</li> <li>■ Holding risk owners to account for major/strategic risks</li> </ul>                                                                                                 |                                                           |                                            |
| Advising on the adequacy of the assurance framework and considering whether assurance is deployed efficiently and effectively | <ul style="list-style-type: none"> <li>■ Specifying its assurance needs, identifying gaps or overlaps in assurance</li> <li>■ Seeking to streamline assurance gathering and reporting</li> <li>■ Reviewing the effectiveness of assurance providers, eg internal audit, risk management, external audit</li> </ul>                                         |                                                           |                                            |
| Supporting the quality of the internal audit activity, particularly by underpinning its organisational independence           | <ul style="list-style-type: none"> <li>■ Reviewing the audit charter and functional reporting arrangements</li> <li>■ Assessing the effectiveness of internal audit arrangements, providing constructive challenge and supporting improvements</li> <li>■ Actively supporting the quality assurance and improvement programme of internal audit</li> </ul> |                                                           |                                            |

| Areas where the audit committee can add value by supporting improvement                                                                                   | Examples of how the audit committee can add value and provide evidence of effectiveness                                                                                                                                                                                                                                                                                                                                         | Self-evaluation, examples, areas of strength and weakness | Overall assessment:<br>5 – 1<br>See key above |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------|-----------------------------------------------|
| Aiding the achievement of the authority's goals and objectives through helping to ensure appropriate governance, risk, control and assurance arrangements | <ul style="list-style-type: none"> <li>■ Reviewing how the governance arrangements support the achievement of sustainable outcomes</li> <li>■ Reviewing major projects and programmes to ensure that governance and assurance arrangements are in place</li> <li>■ Reviewing the effectiveness of performance management arrangements</li> </ul>                                                                                |                                                           |                                               |
| Supporting the development of robust arrangements for ensuring value for money                                                                            | <ul style="list-style-type: none"> <li>■ Ensuring that assurance on value for money arrangements is included in the assurances received by the audit committee</li> <li>■ Considering how performance in value for money is evaluated as part of the AGS</li> </ul>                                                                                                                                                             |                                                           |                                               |
| Helping the authority to implement the values of good governance, including effective arrangements for countering fraud and corruption risks              | <ul style="list-style-type: none"> <li>■ Reviewing arrangements against the standards set out in the <a href="#">Code of Practice on Managing the Risk of Fraud and Corruption</a> (CIPFA, 2014)</li> <li>■ Reviewing fraud risks and the effectiveness of the organisation's strategy to address those risks</li> <li>■ Assessing the effectiveness of ethical governance arrangements for both staff and governors</li> </ul> |                                                           |                                               |

| Areas where the audit committee can add value by supporting improvement                                                                          | Examples of how the audit committee can add value and provide evidence of effectiveness                                                                                                                                                                                                                                                                                                                                     | Self-evaluation, examples, areas of strength and weakness | Overall assessment:<br>5 – 1<br>See key above |
|--------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------|-----------------------------------------------|
| Promoting effective public reporting to the authority’s stakeholders and local community and measures to improve transparency and accountability | <ul style="list-style-type: none"> <li>■ Improving how the authority discharges its responsibilities for public reporting; for example, better targeting at the audience, plain English</li> <li>■ Reviewing whether decision making through partnership organisations remains transparent and publicly accessible and encourages greater transparency</li> <li>■ Publishing an annual report from the committee</li> </ul> |                                                           |                                               |



CIPFA Better Governance Forum

## Audit Committee Update

– helping audit committees to be effective

Developing an Effective Annual Governance Statement

March 2018

Dear Audit Committee Member,

I hope you find the first Local Audit Quality Forum a useful and worthwhile day. CIPFA believes that audit committees have a valuable role to play in supporting good governance, strong public financial management and effective internal audit and external audit, so we are very pleased to support this initiative.

I hope this briefing will be a useful resource to supplement the day. It looks at the steps an authority can take to develop an effective annual governance statement and the contribution the audit committee can make to that.

The briefing is available to download free from our website: [www.cipfa.org/services/support-for-audit-committees](http://www.cipfa.org/services/support-for-audit-committees).

Our Position Statement on Audit Committees will also be available to download from the CIPFA website shortly.

Best wishes

Rob Whiteman  
Chief Executive  
CIPFA

# Developing an Effective Annual Governance Statement

CIPFA and Solace introduced a new governance framework, *Developing Good Governance in Local Government: Framework*, in April 2016, with seven new governance principles. By adopting the new Framework local authorities should be ensuring that their governance arrangements in practice are in accordance with the principles. The annual governance statement (AGS) is a mandatory requirement for local government bodies set out in statutory regulations<sup>1</sup>. In essence, it is an accountability statement from each local government body to stakeholders on how well it has delivered on governance over the course of the previous year. The benchmarks that are used to make that statement are the principles in the Framework.

## What does the guidance say?

The guidance for the AGS is included along with the Framework and it builds on the previous requirements<sup>2</sup>. In addition to the organisation acknowledging its responsibility for ensuring governance is effective, the AGS should:

- focus on outcomes and value for money
- evaluate against the local code and principles
- be in an open and readable style
- include an opinion on whether arrangements are fit for purpose
- include identification of significant governance issues and an action plan to address them
- explain action taken in the year to address the significant governance issues identified in the previous year's statement
- be signed by the chief executive and leading member in a council. The police and crime commissioner (PCC) and chief constable should sign theirs.

CIPFA has not established any 'set text' for authorities to use in acknowledging their responsibility for the governance framework. Many authorities have tended to use the original text from the 2007 guidance, but CIPFA has not included this in the latest guidance in order to encourage more flexibility.

## Who is the audience?

The AGS is prepared to account to your stakeholders and they are wide and varied. They include:

- local citizens
- local businesses
- partners
- Ministry of Housing, Communities and Local Government (MHCLG)
- external auditors, inspectorates and regulators.

In addition, it should also be a statement that is of value internally – to other members of the governing body and to staff.

## What makes a meaningful statement?

The most important way to make the statement meaningful is to ensure that it is an open and honest reflection of your governance and your current challenges. It has been known for the AGS to contain 'window dressing statements' to gloss over areas of poor performance or to fudge the effectiveness of interventions. Where that is the case, the AGS adds little value and

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<sup>1</sup> In England the [Accounts and Audit Regulations 2015](#)

<sup>2</sup> [Delivering Good Governance in Local Government: Framework \(Addendum\)](#) CIPFA 2012

doesn't build confidence in the leadership of the organisation. One of the key aspects of the AGS is the identification of areas for improvement and the associated action plan. Where these are done well the AGS becomes a meaningful tool for improving governance.

The AGS should also provide a clear evaluation against the principles of good governance and an opinion of whether the arrangements are fit for purpose or not. If the opinion is vague or not included then again the AGS does not send a clear message about accountability.

### **What can be done to make the statement more effective?**

Effectiveness of an AGS will be improved if it more successfully communicates the key messages. There are a number of approaches that some authorities have taken to make their AGS more effective:

- keeping it short and focused – where an organisation has an up-to-date local code that sets out their arrangements, then the AGS can make reference to that rather than repeat the detail
- using diagrams to explain key elements
- using colour or pictures to engage the reader.

Regardless of how well the AGS is written, it will not be effective if it is not regarded as important by those charged with governance and the leadership team.

### **What shouldn't we do?**

There are a number of pitfalls in preparing an AGS. These are some of the common ones:

- not ensuring that a range of perspectives support the AGS
- making it too long and wordy
- including too much description rather than evaluation
- omitting the opinion on whether the arrangements are fit for purpose or not
- not being explicit about the actions that will be taken to address the governance issues identified
- not accounting for action taken to address previous weaknesses.

### **How can the audit committee help?**

The audit committee can play a very valuable role in the development of the AGS and in the finished look of the statement. The committee should understand the process that has been undertaken to review governance and so should be able to see how the conclusions in the AGS have been arrived at. There should be no real surprises for the committee.

The committee can provide a valuable reality check for the draft document as well. Is it well written and clearly presented? Is the action plan adequate and realistic?

The committee can send an important message about the value and importance of the AGS, which will support those providing assurance to support its conclusions. Once the AGS has been approved, the committee can review progress in implementing the actions, so helping to ensure that the AGS is meaningful and is an effective tool for improvement in governance.

### **A note on timing**

For the 2017/18 AGS in England the deadline for approval and publication of the statement will be brought forward to 31 July instead of 30 September. This is a requirement of the [Accounts and Audit Regulations 2015](#). As a result, committees may find that the AGS is appearing on their agendas earlier than in previous years.

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