



Southend-on-Sea Borough Council

PLANNING REPORT TO THE AUDIT COMMITTEE
Audit for the year ending 31 March 2016

Date of issue: 17 March 2016

CONTENTS

INTRODUCTION	1
YOUR BDO TEAM	2
OUR CLIENT SERVICE COMMITMENT TO YOU	3
ENGAGEMENT TIMETABLE	4
AUDIT SCOPE AND OBJECTIVES.....	5
MATERIALITY	6
OVERALL AUDIT STRATEGY	7
KEY AUDIT RISKS AND OTHER MATTERS	10
INDEPENDENCE	14
FEES.....	15
APPENDIX I: MATERIALITY.....	16
APPENDIX II: INDEPENDENCE.....	17

INTRODUCTION

PURPOSE AND USE OF OUR REPORT

The purpose of this report is to highlight and explain the key issues which we believe to be relevant to the audit of the financial statements of Southend on Sea Council (the Council) and use of resources of the Council for the year ending 31 March 2016. It forms a key part of our communication strategy with you, a strategy which is designed to promote effective two-way communication throughout the audit process. Planning is an iterative process and our plans, reflected in this report, will be reviewed and updated as our audit progresses.

This report has been prepared solely for the use of the Audit Committee.

In preparing this report, we do not accept or assume responsibility for any other purpose, or to any other person to whom it is shown or into whose hands it may come, except when expressly agreed by our prior written consent. If others choose to rely on the contents of this report, they do so entirely at their own risk.

YOUR BDO TEAM



Name	Contact details	Key responsibilities
Lisa Clampin Engagement Lead	Tel: 01473 320716 lisa.clampin@bdo.co.uk	Oversee the audit and sign the audit report
Alison Langridge Project Manager	Tel: 01473 320752 alison.langridge@bdo.co.uk	Management of the audit
Charlie Lovlee Assistant Manager	Tel: 01473 320774 charlie.lovlee@bdo.co.uk	Day to day management and supervision of the audit
Matthew Weller Senior	Tel: 01473 320804 matthew.weller@bdo.co.uk	Day to day supervision of the on-site audit

Lisa Clampin is the engagement lead and has the primary responsibility to ensure that the appropriate audit opinion is given on the financial statements and use of resources.

In meeting this responsibility, she will ensure that the audit has resulted in obtaining sufficient and appropriate evidence to provide reasonable, but not absolute, assurance that:

- the financial statements are free from material misstatement, whether due to fraud or error
- the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

She is also responsible for the overall quality of the engagement.

OUR CLIENT SERVICE COMMITMENT TO YOU

CLIENT SERVICE EXPECTATIONS

1

High quality audit service at a reasonable cost.

2

A quality team, with relevant expertise.

3

Clear communication.

4

Concentrating our work on areas of higher risk.

5

Avoiding surprises through timely reporting of issues.

6

Consulting with management to resolve matters early.

7

Meeting deadlines.

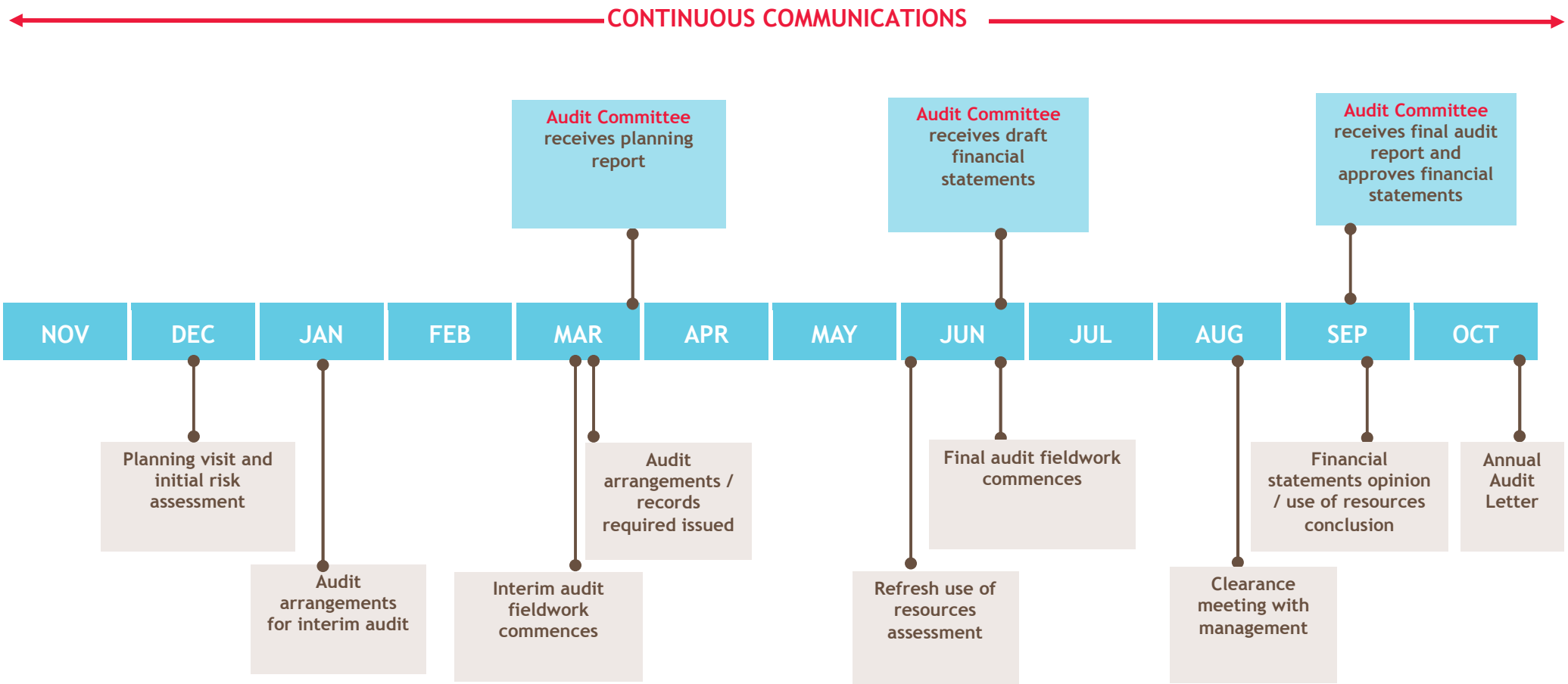
8

Identifying shortcomings in controls and processes.

ENGAGEMENT TIMETABLE

TIMETABLE

The timeline below identifies the key dates and anticipated meetings for the production and approval of the audited financial statements and completion of the use of resources audit.



AUDIT SCOPE AND OBJECTIVES

SCOPE AND OBJECTIVES

Our audit scope covers the audit in accordance with the NAO Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the NAO.

To form an opinion on whether:

FINANCIAL STATEMENTS		OTHER INFORMATION	WGA CONSOLIDATION	USE OF RESOURCES
<p>1 The financial statements give a true and fair view of the financial position of the group and authority and its expenditure and income for the period in question.</p>	<p>2 The financial statements have been prepared properly in accordance with the relevant accounting and reporting framework as set out in legislation, applicable accounting standards or other direction.</p>	<p>3 Other information published together with the audited financial statements is consistent with the financial statements (including the governance statement).</p>	<p>4 The return required to facilitate the preparation of WGA consolidated accounts is consistent with the audited financial statements.</p>	<p>5 The authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.</p>

ADDITIONAL POWERS AND DUTIES

6 To consider the issue of a report in the public interest.
To make a written recommendation to the authority, where necessary.

7 To allow electors to raise questions about the accounts and consider objections.
To apply to the court for a declaration that an item of account is contrary to law, where necessary.
To consider whether to issue an advisory notice or to make an application for judicial review, where necessary.

MATERIALITY

GROUP AND COMPONENT MATERIALITY

	MATERIALITY	CLEARLY TRIVIAL THRESHOLD
Group	£8,300,000	£207,500
Significant components:		
Council	£8,300,000	£207,500

Please see Appendix I for detailed definitions of materiality and triviality.

Planning materiality for the group and the Council has been based on 2% of the prior year gross expenditure. At this stage, the figure is based on the prior year financial statements. This will be revisited when the draft financial statements for the current year are received for audit.

The clearly trivial amount is based on 2.5% of the materiality level of the group. The Council, as parent entity, has a separate clearly trivial level also using the same 2.5%.

OVERALL AUDIT STRATEGY

We will perform a risk based audit on the group and Council's financial statements and the Council's use of resources

This enables us to focus our work on key audit areas.

Our starting point is to document our understanding of the group, Council and other component entities' businesses and the specific risks it faces. We discussed the changes to the businesses and management's own view of potential audit risk during our planning visit in order to gain an understanding of the activities and to determine which risks impact on our audit. We will continue to update this assessment throughout the audit.

For the financial statements audit, we also confirm our understanding of the accounting systems in order to ensure their adequacy as a basis for the preparation of the financial statements, group-wide controls and the consolidation process, and that proper accounting records have been maintained.

For the use of resources audit, we consider the significance of business and operational risks insofar as they relate to 'proper arrangements', including risks at both sector and Council-specific level, and draw on relevant cost and performance information as appropriate.

We then carry out our audit procedures in response to risks.

Approach to components of the group financial statements

Our approach is designed to ensure we obtain the requisite level of assurance across the whole group.

Total coverage is expected to be as shown opposite, which is based upon prior year figures. We do not expect any significant changes in the proportion of expenditure and net assets in 2015/16.

SCOPE	EXPENDITURE 2014/15	NET ASSETS 31/3/15	EXPENDITURE 2013/14	NET ASSETS 31/3/14
Full scope procedures	£403m	£388m	£407m	£370m
Trust Funds	£1m	£17m	£1m	£15m
South Essex Homes	£11m	(£6m)	£10m	(£5m)
Total	£415m	£399m	£418m	£380m

OVERALL AUDIT STRATEGY

Group matters

COMPONENT NAME	% GROUP EXPENDITURE	% GROUP NET ASSETS	COMPONENT AUDITOR	OVERVIEW OF WORK TO BE PERFORMED	OVERVIEW OF THE NATURE OF OUR PLANNED INVOLVEMENT IN THE WORK PERFORMED BY THE COMPONENT AUDITOR
Full scope procedures:					
Council	97.4%	95.8%	BDO UK	Code audit of the financial statements prepared under CIPFA Code of Practice on Local Authority Accounting.	Undertaken by the group audit team.
Non-significant component procedures:					
Trust funds	0%	4.2%	N/A	PPE existence subject to specified procedures and analytical review.	Specified tests undertaken by the group audit team.
South Essex Homes Limited	2.6%	0%	Scrutton Bland	Analytical review of financial statements prepared by the component entity assessed against expectations and prior year amounts.	N/A

OVERALL AUDIT STRATEGY

Risks and planned audit responses

For the financial statements audit, under International Standard on Auditing 315 “Identifying and assessing the risks of material misstatement through understanding the entity and its environment”, we are required to consider significant risks that require special audit attention.

In assessing a risk as significant, we exclude the effects of identified controls related to the risk. The ISA requires us at least to consider:

- Whether the risk is a risk of fraud
- Whether the risk is related to recent significant economic, accounting or other developments and, therefore, requires specific attention
- The complexity of transactions
- Whether the risk involves significant transactions with related parties
- The degree of subjectivity in the measurement of financial information related to the risk, especially those measurements involving a wide range of measurement uncertainty
- Whether the risk involves significant transactions that are outside the normal course of business for the entity, or that otherwise appear to be unusual.

For the use of resources audit, the NAO has provided information on potential significant risks such as:

- Organisational change and transformation
- Significant funding gaps in financial planning
- Legislative or policy changes
- Repeated financial difficulties or persistently poor performance
- Information from other inspectorates and review agencies suggesting governance issues or poor service performance.

We consider the relevance of these risks to the Council in forming our risk assessment and audit strategy.

Internal audit

We will ensure that we maximise the benefit of the overall audit effort carried out by internal audit and ourselves, whilst retaining the necessary independence of view.

We understand that internal audit reviews have been undertaken across a range of accounting systems and governance subjects. We will consider these reports as part of our audit planning and consider whether to place any reliance on internal audit work as evidence of the soundness of the control environment.

KEY AUDIT RISKS AND OTHER MATTERS

Key: ■ Significant risk ■ Normal risk ■ Other issue

AUDIT RISK AREAS - FINANCIAL STATEMENTS			
RISK	DESCRIPTION	PLANNED AUDIT RESPONSE	EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE
Management override	The primary responsibility for the detection of fraud rests with management. Their role in the detection of fraud is an extension of their role in preventing fraudulent activity. They are responsible for establishing a sound system of internal control designed to support the achievement of departmental policies, aims and objectives and to manage the risks facing the organisation; this includes the risk of fraud.	Our audit is designed to provide reasonable assurance that the accounts are free from material misstatement, whether caused by fraud or error. We are not responsible for preventing fraud or corruption, although our audit may serve to act as a deterrent. We consider the manipulation of financial results through the use of journals and management estimates as a significant fraud risk.	Not applicable.
	Under International Standards on Auditing (UK and Ireland) 240, there is a presumed significant risk of management override of the system of internal controls.	In every organisation, management may be in a position to override routine day to day financial controls. Accordingly, our audit has been designed to consider this risk and adapt procedures accordingly.	
Revenue recognition	Under International Standard on Auditing 240 “The Auditor’s responsibility to consider fraud in an audit of financial statements” there is a presumption that income recognition presents a fraud risk. For local authorities, the risks can be identified as affecting the completeness, accuracy and existence of income. In particular, we also consider there to be a significant risk in relation to the completeness and existence of fees and charges in the CIES.	We will carry out audit procedures to gain an understanding of the Council’s internal control environment for the significant income streams, including how this operates to prevent loss of income and ensure that income is recognised in the correct accounting period. We will carry out focussed substantive testing on a sample of income received and debtor accruals to ensure that accounting policies have been correctly applied in determining the point of recognition of income.	Not applicable.

KEY AUDIT RISKS AND OTHER MATTERS

Continued

AUDIT RISK AREAS - FINANCIAL STATEMENTS

RISK	DESCRIPTION	PLANNED AUDIT RESPONSE	EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE
<p>HRA property valuations</p>	<p>Local authorities are required to ensure that the carrying value of property, plant and equipment (PPE) is not materially different to the fair value at the balance sheet date. 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 which should be accounted for.</p> <p>As part of the 5 year rolling re-valuation programme, all HRA property assets have been re-valued in 2015/16. Upon review of these revaluation schedules, the upwards revaluation of HRA properties totalled £50m and downwards revaluations totalled £34m. Of the £34m downward movements, £16m was the write off of generic capital expenditure items for which there appears to be a reasonable explanation. However, current market conditions for property lead us to expect only upward revaluations and so the remaining downward revaluations movement of £18m is contra to our expectations and could be indicative of material misstatement.</p>	<p>We will review the instructions provided to the valuer and review the valuer's skills and expertise in order to determine if we can rely on the management expert.</p> <p>We will confirm that the basis of valuation for assets valued in year is appropriate based on their usage.</p> <p>We will review valuation movements against indices of price movements for similar classes of assets and follow up valuation movements that appear unusual against indices.</p>	<p>We will review independent data that shows indices and price movements for classes of assets against the percentage movement applied by the Council.</p>
<p>Pension liability assumptions</p>	<p>The net pension liability comprises the Council's share of the market value of assets held in the Essex County Council 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 is based on the most up to date membership data held by the pension fund and has regard to local factors such as mortality rates and expected pay rises along with other assumptions around inflation when calculating the liability. There is a risk the valuation is not based on accurate membership data or uses</p>	<p>We will agree the disclosures to the information provided by the pension fund actuary.</p> <p>We will review the reasonableness of the assumptions used in the calculation against other local government actuaries and other observable data.</p>	<p>We will agree the disclosures to the report received from the actuary.</p> <p>We will use the PwC consulting actuary report for the review of the methodology of the actuary and reasonableness of the assumptions.</p>

	inappropriate assumptions to value the liability.		
Fraud and error	<p>We are required to discuss with you the possibility of material misstatement, due to fraud or error.</p> <p>We are informed by management that there have not been any cases of material fraud or error, to their knowledge.</p>	<p>We will continue to consider throughout the audit process and discuss with management.</p>	Not applicable.
Narrative reporting	<p>The Council will be required to produce a 'Narrative Report' replacing the Explanatory Foreword in the financial statements.</p> <p>The Narrative Report includes additional information not previously included in the Explanatory Foreword.</p>	<p>We will compare the narrative report against the Code requirements to ensure that all elements of the narrative report are correctly included.</p> <p>We will review the narrative report to ensure consistency with our understanding of the entity and the financial statements.</p>	Not applicable.

KEY AUDIT RISKS AND OTHER MATTERS

Continued

AUDIT RISK AREAS - USE OF RESOURCES

RISK	DESCRIPTION	PLANNED AUDIT RESPONSE	EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE
Sustainable finances	The update to the Medium Term Financial Strategy to 2018/19 has forecast further reductions in Government core grant funding, falling New Homes Bonus funding from 2017/18 and annual inflationary and pay award pressures. Budget gaps have been identified in 2016/17 (£13.7 million), 2017/18 (£10.3million), 2018/19 (£8.4 million). Identifying the required level of savings from 2016/17 will be a challenge and is likely to require difficult decisions around service provision and alternative delivery models.	We will review the assumptions used in the Medium Term Financial Strategy and assess the reasonableness of the cost pressures and the amount of Government grant reductions applied. We will monitor the delivery of the budgeted savings in 2015/16 and the plans to reduce services costs and increase income from 2017/18. We will also review the strategies to close the budget gap after 2016/17.	We shall review core grant data published by central government.

INDEPENDENCE

INDEPENDENCE

Under Auditing and Ethical Standards, we are required as auditors to confirm our independence to ‘those charged with governance’. In our opinion, and as confirmed by you, we consider that for these purposes it is appropriate to designate the Audit Committee as those charged with governance.

Our internal procedures are designed to ensure that all partners and professional staff are aware of relationships that may be considered to have a bearing on our objectivity and independence as auditors. The principal statements of policies are set out in our firm-wide guidance. In addition, we have embedded the requirements of the Standards in our methodologies, tools and internal training programmes. The procedures require that engagement leads are made aware of any matters which may reasonably be thought to bear on the firm’s independence and the objectivity of the engagement lead and the audit staff. This document considers such matters in the context of our audit for the period ended 31 March 2016.

The threats we have identified are described below together with the safeguards we have put in place to mitigate those threats.

DETAILS OF RELATIONSHIP (INCLUDE ANY OTHER INFORMATION NECESSARY)	THREATS TO INDEPENDENCE CREATED	SAFEGUARDS PUT IN PLACE (AND WHY THEY ADDRESS SUCH THREATS)
BDO are undertaking a review of the internal audit provision during 2015/16 to assess the value for money of the current service and appraise potential alternative service provision options.	Self-review threat	This review will be undertaken by individuals not involved in the main audit process.

Other than the items identified above, we have not identified any potential threats to our independence as auditors.

On the following page, we have recorded details of any non audit services and have documented above where these potentially present threats to our independence and safeguards in place.

We confirm that the firm complies with the Financial Reporting Council’s Ethical Standards for Auditors and, in our professional judgement, is independent and objective within the meaning of those Standards.

In our professional judgement the policies and safeguards in place ensure that we are independent within the meaning of all regulatory and professional requirements and that the objectivity of the audit engagement partner and audit staff is not impaired. These policies include partner and manager rotation. The table in appendix II sets out the length of involvement of key members of the audit team and the planned year of rotation.

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

FEES

FEES SUMMARY

Our proposed fees, excluding VAT, for the year ending 31 March 2016 are:

	£
Audit fee	142,816
Certification fee (Housing benefits subsidy)	22,226
Total audit and certification fees:	165,042
Fees for audit related services (see below)	9,450
Fees for non audit services (see below)	6,000
TOTAL FEES	180,492

OTHER FEES ANALYSIS

Audit related services:

Teachers Pensions certification fee	6,950
CFB06 Capital receipts return	2,500
Total	9,450

Non audit services:

Review of internal audit provision	6,000
Total	6,000

Fee invoices will be raised in four equal instalments of £35,704 in June 2015, September 2015, December 2015 and March 2016, following which our firm's standard terms of business state that full payment is due within 14 days of receipt of invoice.

Certification of the housing benefits subsidy claim will be billed on completion of the work.

Our fee is based on the following assumptions

The complete draft financial statements and supporting work papers will be prepared to a standard suitable for audit. All balances will be reconciled to underlying accounting records.

Key dates will be met, including receipt of draft accounts and working papers prior to commencement of the final audit fieldwork.

We will receive only one draft of the financial statements prior to receiving the final versions for signing.

Within reason, personnel we require to hold discussions with will be available during the period of our on-site work (we will set up meetings with key staff in advance).

APPENDIX I: MATERIALITY

CONCEPT AND DEFINITION

- The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to monetary misstatements but also to disclosure requirements and adherence to appropriate accounting principles and statutory requirements.
- We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. For planning, we consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements. In order to reduce to an appropriately low level the probability that any misstatements exceed materiality, we use a lower materiality level, performance materiality, to determine the extent of testing needed. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.
- Materiality therefore has qualitative as well as quantitative aspects and an item may be considered material, irrespective of its size, if it has an impact on (for example):
 - Narrative disclosure e.g. accounting policies, going concern
 - Instances when greater precision is required (e.g. senior management remuneration disclosures).
- International Standards on Auditing (UK & Ireland) also allow the auditor to set a lower level of materiality for particular classes of transaction, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

CALCULATION AND DETERMINATION

- We have determined materiality based on professional judgement in the context of our knowledge of the Council, including consideration of factors such as sector developments, financial stability and reporting requirements for the financial statements.
 - We determine materiality in order to:
 - Assist in establishing the scope of our audit engagement and audit tests
 - Calculate sample sizes
 - Assist in evaluating the effect of known and likely misstatements on the financial statements.
-

APPENDIX I: MATERIALITY

Continued

REASSESSMENT OF MATERIALITY


- We will reconsider materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality if we had been aware.
- Further, when we have performed all our tests and are ready to evaluate the results of those tests (including any misstatements we detected) we will reconsider whether materiality combined with the nature, timing and extent of our auditing procedures, provided a sufficient audit scope. If we conclude that our audit scope was sufficient, we will use materiality to evaluate whether uncorrected misstatements (individually or in aggregate) are material.
- You should be aware that any misstatements that we identify during our audit, both corrected and uncorrected errors, might result in additional audit procedures being necessary.

UNADJUSTED ERRORS

- In accordance with auditing standards, we will communicate to the Audit Committee all uncorrected misstatements identified during our audit, other than those which we believe are 'clearly trivial'.
 - Clearly trivial is defined as matters which will be of a wholly different (smaller) order of magnitude than the materiality thresholds used in the audit, and will be matters that are clearly inconsequential, whether taken individually or in aggregate.
 - We will obtain written representations from the Audit Committee confirming that in their opinion these uncorrected misstatements are immaterial, both individually and in aggregate and that, in the context of the financial statements taken as a whole, no adjustments are required.
 - There are a number of areas where we would strongly recommend/request any misstatements identified during the audit process being adjusted. These include:
 - Clear cut errors whose correction would cause non-compliance with statutory requirements, management remuneration, other contractual obligations or governmental regulations that we consider are significant.
 - Other misstatements that we believe are material or clearly wrong.
-

APPENDIX II: INDEPENDENCE

INDEPENDENCE - ENGAGEMENT TEAM ROTATION		
SENIOR TEAM MEMBERS	NUMBER OF YEARS INVOLVED	ROTATION TO TAKE PLACE IN YEAR ENDED
Lisa Clampin - Engagement lead	2	31/03/2020
Alison Langridge - Project manager	4	31/03/2023



The matters raised in our report prepared in connection with the audit are those we believe should be brought to your attention. They do not purport to be a complete record of all matters arising. This report is prepared solely for the use of the organisation and may not be quoted nor copied without our prior written consent. No responsibility to any third party is accepted.

BDO LLP is a corporate establishment under the Limited Liability Partnership Act 2000 and a UK Member Firm of BDO International. BDO Northern Ireland, a separate partnership, operates under a licence agreement. BDO LLP and BDO Northern Ireland are both separately authorised and regulated by the Financial Conduct Authority to conduct investment business.

Copyright ©2016 BDO LLP. All rights reserved.

www.bdo.co.uk

