



Southend-on-Sea City Council*

Auditor's Annual Report 2020/21

* Up until 1 March 2022 Southend on Sea City Council was known as Southend on Sea Borough Council, as our report relates to the Council activities before this date, we have referred to the Council as a Borough Council throughout.

April 2023

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Key Messages

Audit opinion on the financial statements

We anticipate issuing an unqualified opinion on the Council's financial statements.

The Councils' arrangements to secure Value for Money

Financial Sustainability

How the body plans and manages its resources to ensure it can continue to deliver its services

- The Council generated a deficit on the provision of services of £8.4m versus a deficit of £5.5m in the prior year however on a funding basis the Council achieved a net underspend of £1m compared to a net overspend of £4.5m in the prior year.
 - The Council produces an annual forecast as well as a Medium Term Financial Forecast (MTFF) for 2020/21 to 2024/25 which is reviewed annually. Whilst a balanced budget was in place for 2020/21, the MTFF shows an accumulated budget gap of £23.2m by 2024/25 with the Council seeking to implement measures as part of annual financial planning to address the budget gap for the year.
 - The financial position is reported four times a year and this includes an analysis of the actual expenditure incurred compared to budget.
 - Over the last three financial years, cash balances have remained between £43m and £46m, before increasing during 2020/21 to a year end balance of £66m. At 31 March 2021, the Council had total reserves of £518.2m, with usable reserves standing at £201.5m, and supporting the Council's overall financial position.
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Governance

How the body ensures that it makes informed decisions and properly manages its risks

- The Council has policies in place to facilitate informed decision making. The Constitution is regularly reviewed and provides detail as to the rules and procedures under which the Council operates. It sets out how decisions are made and the rights of citizens to obtain information and influence decisions.
 - The Council utilises an internal audit function which undertakes a risk based programme of work in accordance with the Accounts and Audit Regulations 2015 and the Public Sector Internal Audit Standards. They provide an annual audit report and opinion on the framework of governance, risk management and control, highlighting any significant control weaknesses.
 - The Council has a detailed risk management process in place and performed an assessment of the risks of Covid-19 during the year. The Council maintains a Risk Management Framework and risk register, which are reviewed on a quarterly basis by the Authority. The five independent thematic overview and scrutiny committees, hold the Council accountable for the decisions made.
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Improving economy, efficiency and effectiveness

How the body uses information about its costs and performance to improve the way it manages and delivers its services

- The Council assesses its performance regularly through meetings with the Cabinet and Corporate Management team. The financial and performance information produced is used at all levels of the Council to identify areas for improvement, addressing any poor performance and sharing good practice to continuously improve.
 - The Council assesses its significant partnerships, service level provision and monitors procurement through various means that allow an improvement to the way in which these are delivered.
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Purpose of this report

Our Auditor's Annual Report sets out the key findings arising from the work we have carried out at Southend-on-Sea Borough Council ("the Council") for the year ended 31 March 2021.

This report is intended to bring together the results of our work over the year at the Council, including commentary on the Council's arrangements to secure economy, efficiency and effectiveness in the use of resources ("Value for Money", "VfM"). This report fulfils the requirements of the Accounts and Audit Regulations for an Annual Audit Letter.

In preparing this report, we have followed the National Audit Office's ("NAO") Code of Audit Practice and its Auditor Guidance Note ("AGN") 03, Value for Money, and AGN 07, Auditor Reporting. These are available from the NAO website.

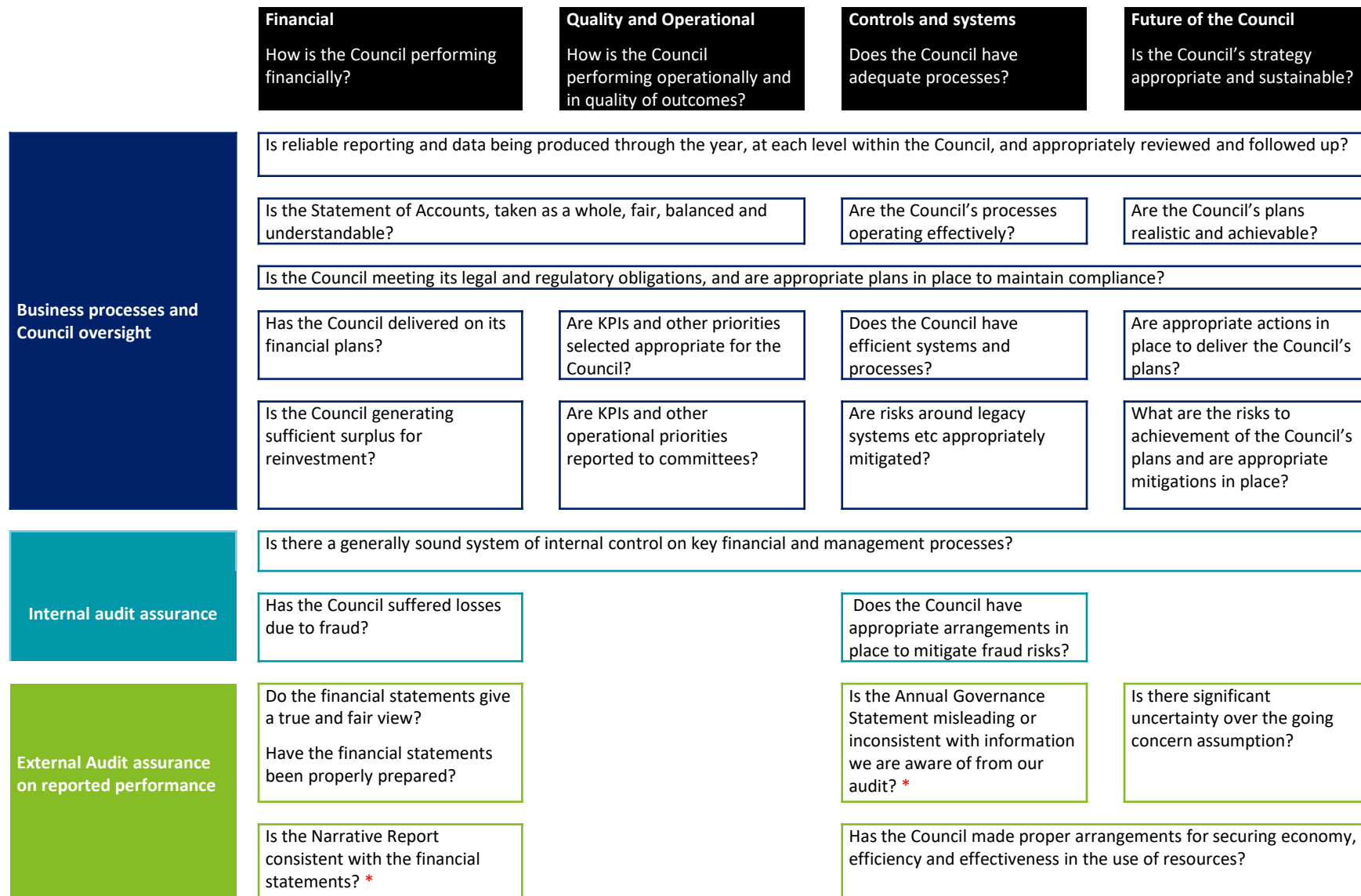
A key element of this report is our commentary on the Council's arrangements to secure economy, efficiency and effectiveness in the use of resources ("Value for Money", "VfM"). Our work considering these arrangements is based on our assessment of the adequacy of the arrangements the Council has put in place, based on our risk assessment. The commentary does not consider the adequacy of every arrangement the Council has in place, nor does it provide positive assurance that the Council is delivering or represents value for money.

Where we find significant weaknesses in the Council's VfM arrangements or areas where arrangements could be further strengthened, we include recommendations setting out what the Council needs to do to strengthen its arrangements.

We have not identified any significant weaknesses in the Council's VfM arrangements, and so have not reported any recommendations in respect of significant weaknesses.

Assurance sources for the Council

The diagram below illustrates how the assurances provided by external audit around finance, quality, controls and systems and the future of the Council (in the green rows) fits with some of the other assurances available over the Council's position and performance.



Opinion on the financial statements

We provide an independent opinion whether the Council's financial statements:

- Give a true and fair view of the financial position of the Council at 31 March 2021 and of the Council's income and expenditure for the year then ended;
- Have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Council Accounting in the United Kingdom in 2020/21.

The full opinion is included in the Council's Statement of Accounts, which can be obtained from the Council's website.

We conduct our audit in accordance with the NAO's Code of Audit Practice, International Standards on Auditing (UK) ("ISAs (UK)") and applicable law.

We are independent of the Council in accordance with applicable ethical requirements, including the Financial Reporting Council's Ethical Standard.

Audit opinion on the financial statements: We anticipate issuing an unqualified opinion on the Council's financial statements. We did not identify any matters where, in our opinion, proper practices had not been observed in the compilation of the financial statements.

Narrative Report: We reported that the information given in the Narrative Report for the year ended 31 March 2021 is consistent with the financial statements.

Annual Governance Statement: We did not identify any matters where, in our opinion, the Annual Governance Statement did not meet the disclosure requirements set out in the Code of Practice on Local Council Accounting, was misleading, or was inconsistent with information of which we are aware from our audit.

Reports in the public interest and duties as public auditor: We did not exercise any of our additional reporting powers in respect of the year ended 31 March 2021.

Audit Certificate: We are not able to certify completion of the audit until the Whole of Government Accounts requirements are published by the NAO and the audit procedures in relation to these are completed.

Our financial statement audit approach

An overview of the scope of the audit

Our audit was scoped by obtaining an understanding of the Council and the environment it operates in, including internal control, and assessing the risks of material misstatement to the financial statements. Our risk assessment procedures include considering the size, composition and qualitative factors relating to account balances, classes of transactions and disclosures. This enables us to determine the scope of further audit procedures to address identified risks of material misstatement.

Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team, led by the audit director, Mohammed Ramzan. The audit team included integrated Deloitte specialists bringing specific skills and experience in property valuations and in relation to local government pension scheme.

Materiality

Our work is planned and performed to detect material misstatements. We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the Council to be £7.6m, on the basis of 2% of planned Gross Expenditure.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £380k as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

Procedures for auditing the financial statements

Our audit of the financial statements included:

- developing an understanding of the Council, including its systems, processes, risks, challenges and opportunities and then using this understanding to focus audit procedures on areas where we consider there to be a higher risk of misstatement in the financial statements;
 - performing sample tests on balances in the financial statements to supporting documentary evidence, as well as other analytical procedures, to test the validity, accuracy, completeness and existence of those balances; and
 - interviewing members of the Council's management team and reviewing documentation to test the design and implementation of the Council's internal controls in certain key areas relevant to the financial statements.
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Approach to audit risks

We focused our work on areas where we considered there to be a higher risk of misstatement. We refer to these areas as significant audit risks.

We provided a detailed audit plan to the Council's Audit Committee setting out what we considered to be the significant audit risks for the Council, together with our planned approach to addressing those risks. We have provided a summary of each of the significant audit risks on the following pages.

Significant risks

Recognition of Covid-19 grant income

Risk identified

ISA 240 states that when identifying and assessing the risks of material misstatement due to fraud, the auditor shall, based on a presumption that there are risks of fraud in revenue recognition, evaluate which types of revenue, revenue transactions or assertions give rise to such risks.

We have assessed the income streams of the Council, the complexity of the recognition principles and the extent of any estimates used, and concluded that, with the exception of the funding received in 2020/21 in response to the Covid-19 pandemic, there is no significant risk of fraud.

During 2020/21, the Council has received additional funding in relation to Covid-19 grants of £51.3m. In addition, there are a number of business support schemes designed to help eligible businesses during the Covid-19 pandemic that are being administered by Councils on behalf of Central Government, the total value of this funding was £57.0m.

We have pinpointed the significant risk to the completeness and accuracy of the funding recognised in the Council's financial statements and the completeness and accuracy of the agency arrangement disclosures, where the Council has acted as an agent on behalf of Central Government in administering Covid-19 grants.

The key judgements for management are assessing:

- Any conditions associated with the Covid-19 grants; and
- Whether the Council is acting as a principal or agent in administering the Covid-19 schemes, and how this is subsequently recognised in both the Comprehensive Income and Expenditure Statement and Balance Sheet.

Deloitte response and challenge

We have completed the following procedures:

- Assessed the design and implementation of the controls in relation to the accounting treatment of all COVID-19 related funding.
 - Tested a sample of funding for Covid-19 grants and confirmed these have been recognised in accordance with any conditions applicable, including appropriate recognition in both the Comprehensive Income and Expenditure Statement and Balance Sheet; and
 - Considered the adequacy of disclosures in the financial statements, including accounting policies and where relevant critical accounting judgement and key sources of estimation uncertainty disclosures.
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Significant risks (continued)

Recognition of Covid-19 grant income (continued)

**Deloitte
response
and
challenge
(Continued)**

- Tested the agency arrangement disclosures to confirm, where it is concluded that the Council is acting as an agent, that:
- the transactions have been excluded from the Comprehensive Income and Expenditure Statement;
 - the Balance Sheet reflects the debtor or creditor position at 31 March 2021 in respect of cash collected or expenditure incurred on behalf of the principal; and
 - the net cash position at 31 March 2021 is included in the financing activities in the Cash Flow Statement.

Conclusion

We have concluded our testing on this area and confirm no material misstatements identified.

Significant risks (continued)

Valuation of property assets

Risk identified

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

The Council held dwellings of £412m (2019/20: £375m) and other land and buildings of £255m (2019/20:£266m) at 31 March 2021 which are required to be recorded at current or fair value at the balance sheet date. The authority also holds £39m (2019/20: £41m) of commercial investment property. The increase in property assets from prior year is mainly due to additions in dwellings and revaluation movements.

The Council updates the valuation of its properties using a rolling revaluation programme. The main assets which were revalued in the year were the Council dwellings, investment properties, garages and hostels within the Housing Revenue Account.

Deloitte response and challenge

We have completed the following procedures:

- We have reviewed the design and implementation of the controls in place in relation to property valuations;
- We have considered the work performed by the Council's valuer, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
- We have engaged our valuation specialists, Deloitte Real Estate, to review and challenge the appropriateness of the assumptions used in the valuation of the Council's property assets;
- We sample tested key asset information used by the Council's valuers in performing their valuation, such as gross internal areas, back to supporting documentation;
- We have reviewed assets not subject to valuation in 2020/21 to confirm that the remaining asset base is not materially misstated;
- We have considered the impact of Covid-19 on the valuation of property assets and ensured, where necessary, the Council has reflected the impact in their valuations; and
- We have reviewed the presentation of revaluation movements, and the disclosures included in the Statement of Accounts.

Conclusion

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

Significant risks (continued)

Management override of controls

Risk identified

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

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

Deloitte response and challenge

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

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

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

Journals

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

Significant transactions

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

Management override of controls (continued)

Deloitte response and challenge**Accounting estimates**

- We have performed design and implementation testing of the controls over key accounting estimates and judgements.
- The key judgements in the financial statements are those selected as significant audit risks and other areas of audit interest as discussed elsewhere in this report.
- We reviewed accounting estimates for biases that could result in material misstatements due to fraud. We note that overall the changes to estimates in the period were balanced and did not indicate a bias to achieve a particular result.
- We tested accounting estimates and judgements, focusing on the areas of greatest judgement and value. Our procedures included comparing amounts recorded or inputs to estimates to relevant supporting information from third party sources.

Conclusion

We have not identified any significant bias in the key judgements made by management based on work performed to date.

We have not identified any instances of management override of controls in relation to the specific transactions tested based on work performed to date.

Significant risks (continued)

Capitalisation of expenditure

Risk identified	<p>At the time of publishing the 2020/21 financial statements, it has been noted that as part of the Medium Term Financial Strategy (MTFS), the Council had a substantial capital programme of £216m over the next five years. The capital programme included £66.3m spend in 2020/21.</p> <p>Determining whether or not expenditure should be capitalised can involve judgement as to whether costs should be capitalised under International Financial Reporting Standards.</p> <p>The Council has greater flexibility of the use of revenue resource compared to capital resource. There is also, therefore, an incentive for officers to misclassify revenue expenditure as capital. We have therefore identified classification of capital expenditure as a fraud risk in the financial statements.</p>
Deloitte response and challenge	<p>We have tested the design and implementation of controls around the capitalisation of costs.</p> <p>We have selected a sample of additions in the year to test whether they have been appropriately capitalised in accordance with the accounting requirements. This sample included Assets Under Construction.</p>
Conclusion	<p>After concluding our work, we have no matters to bring to the attention of the Audit Committee.</p>

Significant risks (continued)

Valuation of infrastructure assets

Background Infrastructure assets are inalienable assets, expenditure on which is only recovered by continued use of the asset created. They include carriageways, structures, street lighting, street furniture and traffic management systems, and are measured in the accounting code at historical cost.

The accounting code requires that where a component of an asset is replaced:

- the cost of the new component should be reflected in the carrying amount of the infrastructure asset; and
- the gross costs and accumulated depreciation of the old component should be derecognised to avoid double counting.

Auditors have identified that local authorities in the UK have not been properly accounting for infrastructure assets since the move to IFRS in 2020/21 due to information deficits. This is particularly the case in relation to roads, where the engineering records used for maintenance have not been created to map against identifiable components.

CIPFA/ LASAAC attempted to resolve the issues and undertook an urgent consultation on temporary changes to the code. However, it was unable to agree an approach that addressed the concerns of all stakeholders whilst also supporting high quality financial reporting.

This has resulted in the Department for Levelling Up, Housing and Communities (DLUHC) agreeing to provide a statutory instrument, which will help resolve some of the issues identified, whilst a permanent solution is identified. The statutory instrument has now been issued.

Significant risks (continued)

Valuation of infrastructure assets (continued)

Risk identified

The following concerns were raised by local authority auditors in relation to the treatment of infrastructure assets in local authority statement of accounts:

- Derecognition of components – concerns were raised that local authorities were not derecognising infrastructure assets after they had been replaced by additions. This was due to the derecognition provisions of the Code being difficult for local authorities to apply for infrastructure assets, as authorities do not have detailed records of infrastructure asset components in place.
- Gross book value and accumulated depreciation – as a result of local authorities not disposing of infrastructure asset components when they were replaced, the gross book value and accumulated depreciation balances included in the property, plant and equipment disclosure notes for infrastructure assets are overstated. This is because components that are no longer in use are still included in both balances.
- Infrastructure asset disaggregation – concerns were raised that the records held by some local authorities do not sufficiently disaggregate the infrastructure asset balance within the authorities fixed asset register, so as to allow both the authority and auditors, to understand the actual types of infrastructure assets held by the authority. For example, it was noted that a number of authorities nationally include one line entitled “infrastructure assets” in the fixed asset register, with no further information available regarding what is included in the balance.
- Useful economic lives – it was identified that authorities often have limited support for the useful economic lives used in relation to infrastructure assets.

These issues were all raised with CIPFA and the Department for Levelling Up, Housing and Communities (DLUHC).

We believe the above concerns to be relevant to the Council, as it has a net book value of £112.5m (2019/20: £102.5m) in relation to infrastructure assets as at year end. The current year net book value reflected above is before the adjustment made in relation to the application of the new guidance and statutory instrument issued. Per inspection of the fixed asset register and per inquiry with management we have noted the following:

Significant risks (continued)

Valuation of infrastructure assets (continued)

Risk identified (Continued)

1. Derecognition of components: The Council has recognised £63.1m in additions to infrastructure over the last 5 years with no disposals noted at all during this period. Per inquiry with management there were no disposals made as in accordance with the code infrastructure assets are described as inalienable assets, expenditure on which is only recoverable by continued use of the asset created, i.e. there is no prospect of sale or alternative use.

2. For the useful economic lives (hereafter referred to as UEL) of infrastructure assets, a detailed exercise was carried out in 2012/13 to determine the average length of time each type of asset is in use before it needs to be replaced. Apart from the assessment of UELs for street lighting in 2017/18 there has no detailed reassessment of UELs for other infrastructure assets since.

Due to the above factors we deem the risk associated to the valuation of infrastructure assets to be significant for our audit purposes.

Deloitte response and challenge

We have completed the following procedures:

- Assessed the design and implementation of the controls in place relating to the valuation of infrastructure assets.
- On derecognition of components: The Council has opted to determine the carrying amount that is to be derecognised as nil, as per the Statutory Instrument (hereafter refer to as 'SI') within paragraph 30M.4, a disclosure is required to be made in the Council's statement of the accounts that they have applied this assumption. The audit team has confirmed that the Council has opted to apply the SI and have made the assumption that the carrying amount of any assets that have been replaced was nil. The audit team has reviewed the Statement of Accounts and confirmed that this disclosure has been made.
- Gross book value and accumulated depreciation: The audit team has reviewed the infrastructure assets disclosure included in the Council's revised financial statements and have compared this to the CIPFA Bulletin example, and can confirm that no issues have been identified.
- Infrastructure Asset disaggregation: The audit team has challenged the disaggregation of infrastructure assets as reflected on the fixed asset register and concluded that the disaggregation is reasonable.

Significant risks (continued)

Valuation of infrastructure assets (continued)

**Deloitte
response
and
challenge
(Continued)**

We have completed the following procedures (continued):

- The audit team reviewed and challenged the determination of the useful economic lives applied to infrastructure assets by the Council and confirmed the rationale for the determination of the useful economic lives to be appropriately supported and reasonable in light of information reviewed.
- The audit team has reviewed the revised accounting policies and compared these to the example accounting policy included in the CIPFA Bulletin annex A. Following completion of this review, no issues have been identified.

Conclusion

Following the conclusions of the work performed as detailed above, we identified an adjustment that was required to reflect the updated useful economic life and valuation as of 1 April 2021 and this has been reflected by the Council.

Auditor's work on Value for Money (VfM) arrangements

The section 151 Officer and the Council are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in the use of resources. This includes taking properly informed decisions and managing key operational and financial risks so that they can deliver their objectives and safeguard public money.

The section 151 Officer reports on the Council's arrangements, and the effectiveness with which the arrangements are operating as part of their Annual Governance Statement.

Under the Local Audit and Accountability Act 2014, we are required to be satisfied that proper arrangements have been made to secure economy, efficiency and effectiveness in the use of resources. Under the National Audit Office's Auditor Guidance Note 3, we are required to assess arrangements under three areas:

Financial Sustainability	<i>How the body plans and manages its resources to ensure it can continue to deliver its services</i>
Governance	<i>How the body ensures that it makes informed decisions and properly manages its risks</i>
Improving economy, efficiency and effectiveness	<i>How the body uses information about its costs and performance to improve the way it manages and delivers its services</i>

In this report, we set out the findings from the work we have undertaken. Where we have found significant weaknesses in arrangements, we are required to make recommendations so that the Council can consider them and set out how it plans to make improvements. We have not identified any significant weaknesses in arrangements.

In planning and performing our work, we consider the arrangements that we expect bodies to have in place, and potential indicators of risks of significant weaknesses in those arrangements. As a result of the Covid-19 pandemic, there have been changes in nationally led processes, changes in expectations around Council's arrangements, and events occurring outside of the Council's control, which affect the relevance of some of these indicators. We have still considered whether these indicators are present, but have considered them in the context of the circumstances of 2020/21 in assessing whether they are indicative of a risk of significant weakness.

In addition to our financial statement audit, we performed a range of procedures to inform our VfM commentary, including:



Interviews with key stakeholders, including Executive Director Finance and Resources, Monitoring Officer, Director of Strategy, Head of Procurement and Head of Internal Audit.



Review of Council and committee reports and attendance at Audit Committee meetings.



Reviewing reports from third parties including internal audit reports.



Considering the findings from our audit work on the financial statements.



Review of the Council's Annual Governance Statement and Narrative Report.

VfM arrangements: Financial Sustainability

Approach and considerations

We have considered how the Council plans and manages its resources to ensure it can continue to deliver its services, including:

- How the Council ensures it identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds these into them;
- How the Council plans to bridge its funding gaps and identifies achievable savings;
- How the Council plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities;
- How the Council ensures that its financial plan is consistent with other plans such as workforce, capital, investment, and other operational planning; and
- How the Council identifies and manages risks to financial resilience, including challenge of the assumptions underlying its plans.

Commentary

The Council reported a deficit on the provision of services of £8.4m versus a deficit of £5.5m in the prior year. However it should be noted that this is before adjustments between the accounting and the funding basis under regulation. For the final revenue outturn the Council achieved a net underspend of £1m and a net overspend of £4.5m in the prior year. The current year deficit is mainly driven by the impacts of COVID-19 which resulted in significant increases in expenditure for the Council in supporting residents and local businesses but these were offset by significant increases in financial support from Government. In addition, there has been an increase in financing expenditure for the current year and the overall borrowings balance was decreased by repayments during the year.

At 31 March 2021, the Council had net asset of £518.2m (31 March 2020: £504.5m) and cash of £66m (31 March 2020: £43m). At 31 March 2021, the Council had total reserves of £518.2m, which included usable reserves of £201.5m which supports the Council's overall financial position and £162.1m usable reserves in the prior year.

The Council's annual planning process and processes around identification of significant pressures were significantly impacted by the Covid-19 pandemic. We saw evidence that the Council adapted its arrangements to respond and they were in line with our expectation in the current operating environment.

There has been varied impact of the Covid-19 pandemic on the operations of the Council and planned delivery of its capital programme, with additional Covid-19 grant income being received during the year. The Council has reviewed the additional costs of Covid-19 and utilised Covid-19 grants to support the delivery of services during the pandemic.

The Council has a well established annual financial planning and forecasting process. The financial plan is considered as part of the overall operational planning process and this process is led by the Executive Director Finance and Resources.

The Authority has a balanced MTF for 2020/21 to 2024/25. In preparing the 2020/21 budget, the Authority performed a full review of the base budget due to the significant changes that had occurred over the previous two years. This involved reviewing both the internal and external environments to ensure that all financial pressures were identified and factored in to the budget.

VfM arrangements: Financial Sustainability

Approach and considerations	Commentary
<p>We have considered how the Council plans and manages its resources to ensure it can continue to deliver its services, including:</p> <ul style="list-style-type: none">• How the Council ensures it identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds these into them;• How the Council plans to bridge its funding gaps and identifies achievable savings;• How the Council plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities;• How the Council ensures that its financial plan is consistent with other plans such as workforce, capital, investment, and other operational planning; and• How the Council identifies and manages risks to financial resilience, including challenge of the assumptions underlying its plans.	<p>The Council's MTFS provides the framework within which revenue and capital spending decisions can be made over the medium term. It is reviewed and updated on an annual basis to take into account any alterations that may be required as a result of the changed circumstances.</p> <p>The 2020/21 budget is linked to the Councils objectives and financial sustainability strategy and has been prepared to ensure the Authority has sufficient resources to deliver services.</p> <p>To address funding gaps, the Council relies on income generation and saving initiatives such as expenditure cuts, and it's significant commercial and rental property holdings continue to provide a stable income base to underpin the budget and assist in the provision of local services. Future options under consideration by the Council include increasing car parking charges, Council Tax and extra income received for eligible services delivered to the Housing Revenue Account.</p> <p>The Council undertakes detailed budget monitoring on a monthly basis and provides reports to Cabinet on a quarterly basis which includes a review of the actual outturn position against the budget, and details any significant variances. This regular review also allows the Council to identify any changes in demand throughout the year.</p> <p>The Financial Sustainability Strategy (FSS) for the next ten years is the high-level long-term strategy that frames the financial future and intentions for the Council. It helps to set the context of the MTFS, guide the Councils approach to maximising resources, prioritising investment and the effective targeting of resources to deliver the ambitions and outcomes within the Southend 2050 programme and roadmap phases.</p> <p>Its primary purpose is to outline the Councils approach, desire and commitment to achieving financial sustainability by embracing the area's economic potential, growing the Councils local tax base and increase sustainable income capabilities.</p>

VfM arrangements: Governance

Approach and considerations

We have considered how the Council ensures that it makes informed decisions and properly manages its risks, including:

- How the body monitors and assesses risk and how the body gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud;
- How the body approaches and carries out its annual budget setting process;
- How the body ensures effective processes and systems are in place to ensure budgetary control; to communicate relevant, accurate and timely management information (including non-financial information); supports its statutory financial reporting requirements; and ensures corrective action is taken where needed;
- How the body ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency; and
- How the body monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of officer behaviour.

Commentary

The Council has a detailed risk management process in place. The Council maintains a Risk Management Policy and a Corporate risk register which is reviewed twice a year by Cabinet and tabled at Audit Committee meetings. The risks identified are allocated to an owner to implement the mitigating actions. Due to the Covid-19 pandemic, the risk register was reviewed and risks identified relating to the pandemic added.

The Council also has a Counter Fraud and Investigations Team that has a work plan to enhance awareness of the risk of fraud, to prevent and detect fraud and that will receive and investigate allegations of fraud or impropriety.

The Counter Fraud and Investigation Team reports the delivery of that plan and an outline of the investigations that have been undertaken to the Audit Committee on a quarterly basis.

The Audit Committee reviews the adequacy of risk management arrangements and has oversight of the Council's system of internal control, including arrangements to prevent and detect fraud. The Council has a series of policies covering internal controls, including a whistleblowing and anti-money laundering policy. These policies are readily available for all staff to review on the Council's website. The Audit Committee approves the annual Internal Audit Plan, and receives updates at committee meetings through the year.

The internal audit function are required to provide independent, objective assurance and designed to add value to and improve operations. Internal audit reviewed the risk management which is tabled at Audit Committee meetings and approved by Cabinet. The Council received one limited assurance report relating to contract management however based on the follow up report done by Internal audit, we are satisfied that this does not represent a significant risk of weakness. The Head of Internal Audit opinion for the year provided "Satisfactory Assurance" that there is a sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.

The Council undertakes detailed budget monitoring on a monthly basis and provides reports to Cabinet and Corporate Management Team (CMT) on a quarterly basis which includes a review of the actual outturn position against the budget, and details any significant variances.

VfM arrangements: Governance

Approach and considerations

Commentary

We have considered how the Council ensures that it makes informed decisions and properly manages its risks, including:

- How the body monitors and assesses risk and how the body gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud;
- How the body approaches and carries out its annual budget setting process;
- How the body ensures effective processes and systems are in place to ensure budgetary control; to communicate relevant, accurate and timely management information (including non-financial information); supports its statutory financial reporting requirements; and ensures corrective action is taken where needed;
- How the body ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency; and
- How the body monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of officer behaviour.

National and local guidance is assessed and used to form the basis of a number of assumptions in the budget. Current year performance is evaluated with notable variances explained to determine any ongoing impact. The budget seeks to explain year on year movements and any pressures are identified. There is a clear process in place to set the annual budget and this is approved by the Council on a timely basis.

The Council produces a quarterly performance report which includes a review of the actual outturn position against the budget, and details any significant variances. This is reported to the Authority quarterly, which ensures there is sufficient oversight of the budget monitoring process. The report also includes non financial information and reports on how the Authority is achieving against the Councils strategic objectives.

The Council received OFSTED Findings from the HM Inspector which indicates improvement are required in Children's Services. Based on the procedures performed, we confirmed that measures were in place to address these findings and are satisfied that no significant weakness in arrangements exist. A Children Services Improvement Board was adopted by the Council to address the OFSTED finding, the HM Inspector was satisfied with the progress on the findings as confirmed in his letter 27 June 2022.

The Authority has an approved decision making methodology for investment and divestment decisions, which includes approval by the Investment Board and Council. Where necessary, decisions will be reviewed by Cabinet for comment and to determine if the proposal should be approved. Business cases with supporting information are submitted to the relevant committee for approval. This allows for challenge and transparency before decisions are approved.

We have reviewed the Annual Governance Statement and confirmed that no the significant control weaknesses were identified which is consistent with our work performed.

The Council has a number of staff policies in place including a code of conduct. These are all contained within the Constitution and are readily available for all staff to access. Declarations of interest are maintained for all senior members of staff and decision making officers.

VfM arrangements: Governance

Approach and considerations

Commentary

We have considered how the Council ensures that it makes informed decisions and properly manages its risks, including:

- How the body monitors and assesses risk and how the body gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud;
- How the body approaches and carries out its annual budget setting process;
- How the body ensures effective processes and systems are in place to ensure budgetary control; to communicate relevant, accurate and timely management information (including non-financial information); supports its statutory financial reporting requirements; and ensures corrective action is taken where needed;
- How the body ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency; and
- How the body monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of officer behaviour.

The Council has a Monitoring Officer in place, assisted by a team of lawyers to deal with complaints and in certain instances external providers are used for drawing up major contracts. The legal team is currently reviewing the Whistle-blower policy, Constitution and complaints process against members. The complaints process is reported to the Scrutiny committee. The Council is not involved in legal proceedings that may impact on financial sustainability nor have they been subject to any external investigations

VfM arrangements: Improving economy, efficiency and effectiveness

Approach and considerations:

We have considered how the body uses information about its costs and performance to improve the way it manages and delivers its services, including:

- How financial and performance information has been used to assess performance to identify areas for improvement;
- How the Council evaluates the services it provides to assess performance and identify areas for improvement;
- How the Council ensures it delivers its role within significant partnerships, engages with stakeholders it has identified, monitors performance against expectations, and ensures action is taken where necessary to improve; and
- Where the Council commissions or procures services, how the Council ensures that this is done in accordance with relevant legislation, professional standards and internal policies, and how the body assesses whether it is realising the expected benefits.

Commentary

The Council assesses its performance through quarterly Performance and Finance Monitoring Reports which is reported to Cabinet. There is also a Quarterly Budget Monitoring process in place which ensures that both revenue and capital net spending is controlled and reported through a rolling forecast that goes through scrutiny and Cabinet process.

The Cabinet committee is also the basis for challenging management as well as identifying emerging risks; this allows financial plans to align as smoothly as possible with emerging financial challenges and therefore maintain financial sustainability and identify areas for improvement

The Council uses Southend 2050 Outcomes Success Measures Report which is reported to Cabinet on a quarterly basis to measure its operational performance which has been refined in light of the pandemic. The impact has been reflected in all statutory reporting and reporting to inform decision making.

The Council is proactive in delivering its role through partnership working and through wider engagement with other stakeholders. There are numerous examples ranging from commercial partnership arrangements with the private sector for the delivery and discharging its responsibilities in areas such as Housing, Health and Wellbeing with other public bodies, including the third sector. Some examples include:

The Association of South Essex Local Authorities (ASELA) (for which the Council is accountable body), the Partnership Board, the Health and Wellbeing Board, etc. Funding is awarded via SLAs with agreed outcomes monitored on a quarterly basis to Cabinet to ensure VfM and effective performance.

Another partnership the Council has in place is with Porters Place, which is one of the joint ventures in which the Council participates. It is a 30-year partnership with Swan Housing Association and their wholly owned subsidiary Swan BQ Limited, with the purpose to regenerate the Queensway Estate and surrounding area. Through discussions with management and our understanding of the potential transaction we confirmed that Swan Housing Association have been in discussions with Sanctuary Housing Association about a possible business combination. Following in-depth discussions between the two organisations, and approval by both Boards on 25 November 2022, Swan joined Sanctuary as a subsidiary on 8 February 2023.

VfM arrangements: Improving economy, efficiency and effectiveness

Approach and considerations:

We have considered how the body uses information about its costs and performance to improve the way it manages and delivers its services, including:

- How financial and performance information has been used to assess performance to identify areas for improvement;
- How the Council evaluates the services it provides to assess performance and identify areas for improvement;
- How the Council ensures it delivers its role within significant partnerships, engages with stakeholders it has identified, monitors performance against expectations, and ensures action is taken where necessary to improve; and
- Where the Council commissions or procures services, how the Council ensures that this is done in accordance with relevant legislation, professional standards and internal policies, and how the body assesses whether it is realising the expected benefits.

Commentary

The CIPFA Financial Resilience Index, an independent assessment of the resilience of local authorities and the Getting to Know your Business programme – baseline position to assist with Financial resilience and assess performance are also used as comparative measures of the Council position against other local authorities.

The Council has room for improvement in terms of Contract Management which was also identified by Internal Audit however there is an action plan in place and the Council has made good progress to address those findings

The Council has procurement procedures and policies to ensure that the Council operates in an open and transparent manner, achieves value for money and sustainable quality through a proactive commercial approach to procurement and commissioning for the communities of Southend. In terms of the Procurement process followed, Local Supplier list available for SBC officers to use for single sourcing (<£10,000), 3 quotes for (<£25,000). For (£25,000-<£75,000), in line with the Council thresholds and the regulations, the Council advertise opportunities via the UK Contracts finder site (unless buying via a framework). Opportunities within may be price driven or the Council may also include a quality element depending on what they are buying and Tender Process is followed for (> £75,000).

The Annual Procurement Plan and Contract Procedure Rules are reviewed annually by Cabinet to incorporate the key changes needed due to the Covid-19 pandemic.

Based on the above, we have not identified any significant weaknesses in the Councils arrangements to improve economy, efficiency and effectiveness.



Appendices

Appendix 1: Purpose of our report and responsibility statement

What we report

Our report fulfils our obligations under the Code of Audit Practice to issue an Auditor's Annual Report that brings together all of our work over the year, including our commentary on arrangements to secure value for money, and recommendations in respect of identified significant weaknesses in the Council's arrangements.

What we don't report

Our audit was not designed to identify all matters that may be relevant to the Audit Committee.

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

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

The scope of our work

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

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

Use of this report

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

A handwritten signature in black ink that reads "Deloitte LLP". The signature is written in a cursive, flowing style.

Deloitte LLP

Birmingham, 17 April 2023

Appendix 2: Council's responsibilities

Public bodies spending taxpayers' money are accountable for their stewardship of the resources entrusted to them. They should account properly for their use of resources and manage themselves well so that the public can be confident.

Financial statements are the main way in which local public bodies account for how they use their resources. Local public bodies are required to prepare and publish financial statements setting out their financial performance for the year. To do this, bodies need to maintain proper accounting records and ensure they have effective systems of internal control.

All local public bodies are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness from their resources. This includes taking properly informed decisions and managing key operational and financial risks so that they can deliver their objectives and safeguard public money. Local public bodies report on their arrangements, and the effectiveness with which the arrangements are operating, as part of their annual governance statement.

The section 151 Officer of the Council, 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 Council Accounting.

In preparing the Statement of Accounts the section 151 Officer is required to select suitable accounting policies and make judgements and estimates that are reasonable and prudent. The section 151 Officer is required to confirm that the Statement of Accounts, taken as a whole, is fair, balanced, and understandable, and provides the information necessary for Council Tax payers, regulators and stakeholders to assess the Council's performance, business model and strategy.

The section 151 Officer is required to comply with the CIPFA Code of Practice and prepare the financial statements on a going concern basis, unless the Council is informed of the intention for dissolution without transfer of services or function to another entity. In applying the going concern basis of accounting, the section 151 Officer has applied the 'continuing provision of services' approach set out in the CIPFA code of practice as it is anticipated that the services the Council provides will continue into the future.

The section 151 Officer and Council are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in the use of the Council's resources, for ensuring that the use of public funds complies with the relevant legislation, delegated authorities and guidance, for safeguarding the assets of the Council, and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Appendix 3: Auditor's responsibilities

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Auditor's responsibilities relating to the Council's arrangements for securing economy, efficiency and effectiveness in the use of resources

We are required under the Code of Audit Practice and the Local Audit and Accountability Act 2014 to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

We are not required to consider, nor have we considered, whether all aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We undertake our work in accordance with the Code of Audit Practice, having regard to the guidance, published by the Comptroller & Auditor General in April 2021, as to whether the Council has proper arrangements for securing economy, efficiency and effectiveness in the use of resources against the specified criteria of financial sustainability, governance, and improving economy, efficiency and effectiveness.

The Comptroller & Auditor General has determined that under the Code of Audit Practice, we discharge this responsibility by reporting by exception if we have reported to the Council a significant weakness in arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2021. Other findings from our work, including our commentary on the Council's arrangements, are reported in our Auditor's Annual Report.

Auditor's other responsibilities

We are also required to report to you if we exercise any of our additional reporting powers under the Local Audit and Accountability Act 2014 to:

- make a written recommendation to the Council, copied to the Secretary of State;
- make a referral to the Secretary of State if we believe that the Council or an officer of the Council is:
 - about to make, or has made, a decision which involves or would involve the Council incurring unlawful expenditure; or
 - about to take, or has begun to take a course of action which, if pursued to its conclusion, would be unlawful and likely to cause a loss or deficiency; and
- consider whether to issue a report in the public interest.



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