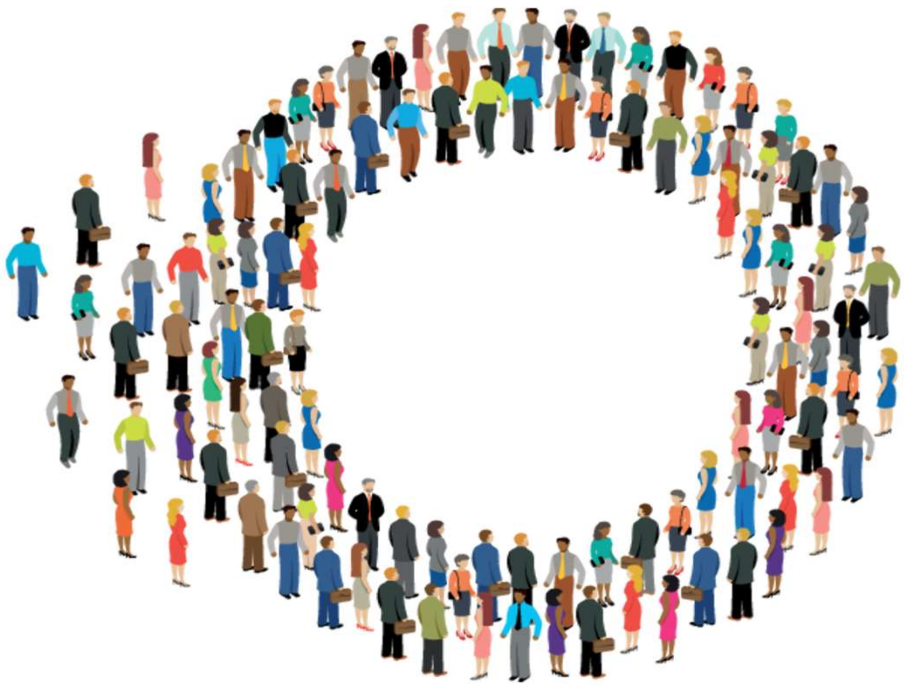


Southend-on-Sea City Council*

Final Report to the Audit Committee on the 2020/21 audit

Issued on 18 April 2023 for the meeting on 26 April 2023

* 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.

Deloitte Confidential: Government and Public Services

Contents

Introduction

The key messages in this report

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

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

I have pleasure in presenting an update to our final report to the Audit Committee of Southend-on-Sea Borough Council (the Council) for the 2020/21 audit. The scope of our audit was set out within our planning report presented to the Committee in April 2021.

Status of our Statement of Accounts audit	Our audit is now complete. Our report presented to the Audit Committee on 13 March 2023 covered reporting on the majority of our work performed, this report serves as an update report and therefore the majority of the pages of our report are consistent with the March report. The only update to the report since March reflects the finalisation of the Auditors Annual Report and a finding on the following area: - The valuation of property assets, which has resulted an adjustment to the financial statements as set out on page 10.
Status of our Value for Money audit	Our Value for Money work is complete and is reported to the Audit Committee in our Auditor’s Annual Report for 2020/2021, which is being presented at this meeting. We have not identified any significant weakness in arrangements to secure economy, efficiency and effectiveness in the use of resources. We have no matters to report by exception in our financial statement audit opinion.
Whole of Government Accounts (WGA)	We are required to report our overall audit opinion and key issues from our audit to the National Audit Office (NAO) following completion of the audit. However, the NAO have not yet confirmed for 2020/21, bodies which may be subject to additional procedures for reporting to the NAO to gain comfort over the WGA. Therefore, we are not able to confirm completion of the audit in this regard.

Introduction

The key messages in this report (continued)

Conclusions from our testing	• The key judgements in the audit process related to:
	  • valuation of investment properties and Property Plant and Equipment (hereafter referred to as PPE);
	  • valuation of infrastructure assets;
	  • capitalisation of expenditure; and
	  • recognition of Covid 19 grant income
	• We have not identified any unadjusted audit adjustments or disclosure deficiencies. All adjustments and disclosure deficiencies noted during testing have been corrected by management in the financial statements.
	• Based on the current status of our audit work, we envisage issuing an unmodified audit opinion, with no reference to any matters in respect of the Council's arrangements to secure economy, efficiency and effectiveness in the use of resources, or the Annual Governance Statement.

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

Introduction

The key messages in this report (continued)

Impact of Covid-19 grants and change in significant risk assessment	Following the issuance of the audit plan, we completed a risk assessment of Covid-19 funding streams. This risk assessment highlighted the need for the Council to make significant judgements around the recognition and treatment of Covid-19 grant funding in the 2020/21 financial statements. Given the level of judgement involved, we have decided to treat Covid-19 grant income as a significant audit risk. Further information regarding the work performed and our conclusions on this risk can be viewed on page 8 and 9.

Mohammed Ramzan
Audit lead

Responsibilities of the Audit Committee

Helping you fulfil your responsibilities

Why do we interact with the Audit Committee?

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

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

Oversight of external audit

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

Integrity of reporting

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

Internal controls and risks

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

Oversight of internal audit

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

Whistle-blowing and fraud

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

Our audit explained

We tailor our audit to your organisation and your strategy

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

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

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

Our audit report
Based on the current status of our audit work, we envisage issuing an unmodified audit report.

Determine materiality
When planning our audit we set our overall materiality for the group accounts at £7.7m (2019/20: £7.7m). We have initially determined our materiality on the gross expenditure for the 2019/20 year, the final materiality remains unchanged and has been determined using the gross expenditure for the year under audit. The Council only materiality has been determined at £7.6m (2019/20: £7.6m). Final Group and Council performance materiality was set at £5.4m (2019/20: £5.4m) and £5.3m (2019/20: £5.3m) respectively. We will report to you all misstatements exceeding £0.38m (2019/20: £0.39m).

Significant risk assessment
In our planning report we explained our risk assessment process and detailed the significant risks we have identified on this engagement. During our audit procedures, we also revised our risk assessment for COVID related grants and valuation of infrastructure assets to significant risk level. We report our findings and conclusions on these risks in this report.

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

Significant risks

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.

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 we have noted a recommendation in respect of the controls around the Covid grants. Please see page 29 for more detail.

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 £411m (2019/20: £375m) and other land and buildings of £263m (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 noted an adjustment that was required to be made to accurately reflect the assets at their most up to date valuation values. This resulted in a £7.1m reduction to the asset net book values at year-end. The financial statements have been updated to reflect this adjustment and therefore there is no uncorrected misstatement to be communicated.

Significant risks (continued)

Management override of controls

Risk identified	Management is in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Although management is responsible for safeguarding the assets of the Council, we planned our audit so that we had a reasonable expectation of detecting material misstatements to the Statement of Accounts.
Deloitte response and challenge	We have considered the overall sensitivity of judgements made in preparation of the Statement of Accounts, and note that: • The Council's results throughout the year were projecting overspends in operational areas. This was closely monitored and whilst projecting overspends, the underlying reasons were well understood; and • Senior management's remuneration is not tied to particular financial results. We have considered these factors and other potential sensitivities in evaluating the judgements made in the preparation of the financial statements. **Journals** • We have tested the design and implementation of controls in relation to journals. • We have made inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments. • We have used Spotlight data analytics tools to test a sample of journals, based upon identification of items of potential audit interest. Our analysis has covered all journals posted in the year. **Significant transactions** • We did not identify any significant transactions outside the normal course of business or any transactions where the business rationale was not clear.

Significant risks (continued)

Management override of controls (continued)

Deloitte response and challenge	**Accounting estimates** • We have performed design and implementation testing of the controls over key accounting estimates and judgements. • The key judgements in the financial statements are those selected as significant audit risks and other areas of audit interest as discussed elsewhere in this report. • We reviewed accounting estimates for biases that could result in material misstatements due to fraud. We note that overall the changes to estimates in the period were balanced and did not indicate a bias to achieve a particular result. • We tested accounting estimates and judgements, focusing on the areas of greatest judgement and value. Our procedures included comparing amounts recorded or inputs to estimates to relevant supporting information from third party sources.
Conclusion	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	At the time of publishing the 2020/21 financial statements, it has been noted that as part of the Medium Term Financial Strategy, the Council had a substantial capital programme of £216m over the next five years. The capital programme included £66.3m spend in 2020/21. Determining whether or not expenditure should be capitalised can involve judgement as to whether costs should be capitalised under International Financial Reporting Standards. 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.
Deloitte response and challenge	We have tested the design and implementation of controls around the capitalisation of costs. We have selected a sample of additions in the year to test whether they have been appropriately capitalised in accordance with the accounting requirements. This sample included Assets Under Construction.
Conclusion	After concluding our work, we have no matters to bring to the attention of the Audit Committee.

Significant risks (continued)

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 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 have not noted any material misstatements. We did however note an observation during our testing performed. For more detail of the observation noted please see page 30.

Other areas of audit focus

Pension liability valuation

Risk identified	The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme (LGPS). The Council's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Council's Balance Sheet. Per the draft financial statements at 31 March 2021, this totalled £169.6m (2019/20: £144.5m). As a result of this being an estimated balance there is a risk that inappropriate inputs and assumptions are used, which could result in the pension liability valuation being materially misstated.
Deloitte response and challenge	We have completed the following procedures: • We obtained a copy of the actuarial report for the Council produced by Barnett Waddingham, the scheme actuary, and agreed the report to the Statement of Accounts pension disclosures. • We reviewed the disclosures made in the Statement of Accounts against the requirements of the Code. • We liaised with the audit team of Essex Pension Fund to obtain assurances over the information supplied to the actuary in relation to the Council. • We assessed the independence and expertise of the actuary supporting the basis of reliance upon their work. • We reviewed and challenged the assumptions made by Barnett Waddingham, including benchmarking as shown in the table on the following page. • We assessed the reasonableness of the Council's share of the total assets of the scheme with the Pension Fund financial statements.

Other areas of audit focus (continued)

Pension liability valuation (continued)

Review of assumptions used by actuary

As part of our testing, we reviewed the assumptions used by the actuary and have set out below our assessment of the assumptions used in the IAS19 valuation.

Assumption	Council	Benchmark	Deloitte Assessment
Discount rate (% p.a.)	2%	1.90-2.15%	
Retail Price Index (RPI) Inflation rate (% p.a.)	2.8%	2.50-2.90%	
Consumer Price Index (CPI) Inflation rate (% p.a.)	3.8%	Council specific	
Salary increase (% p.a.) (over RPI inflation)	2.8%	2.70-2.85%	
Pension increase in payment (% p.a.)	22	23	
Pension increase in deferment (% p.a.)	23	24.70	
Mortality - Life expectancy of a male pensioner from age 65 (currently aged 65)	2%	1.90-2.15%	
Mortality - Life expectancy of a male pensioner from age 65 (currently aged 45)	2.8%	2.50-2.90%	

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

Assessment key

In reasonable range

Towards limit of reasonable range

Optimistic or Prudent

Other areas of audit focus (continued)

Porters Place Southend-on-Sea LLP

Risk identified	We have noted a long term debtor balance of £2.25m within the financial statements of the Council due to be received from Porters Place Southend-on-Sea LLP (hereafter referred to as Porters Place). Porters Place is one of the joint ventures in which the Council participates. It is a 30-year partnership with Swan Housing Association and their wholly owned subsidiary Swan BQ Limited, with the purpose to regenerate the Queensway Estate and surrounding environs. Over the last year Swan Housing Association have been in discussions with parties around a possible business combination. Through discussions with management and our knowledge obtained around the possible transaction we concluded that there is a risk that balances due under the Porters Place agreement may not be recoverable.
Deloitte response and challenge	We have completed the following procedures: • We inquired of management as to the latest update on the planned business combination to understand the level of risk within the balances noted. • We inspected documentation and information available to us substantiate the amounts at risk as well as mitigations of the risk noted. The Council has included additional disclosure in this regard within note 5 of the statement of accounts. • We inspected the statement of accounts and confirmed that the disclosure given were reasonable and in line with our expectation. • We have added a representation within the management representation letter that will need to be signed by the Council at the signing date to confirm information obtained in relation to Porters Place and any developments have been considered for any impact on the financial statements and communicated to the audit team.
Conclusion	After concluding our work, we have no matters to bring to the attention of the Audit Committee.

Covid-19 pandemic

Impact on reporting and our audit

Requirements	CIPFA has issued guidance highlighting the importance of considering the impact of Covid-19 in preparation of the 2020/21 financial statements, including communicating risks and governance impacts in narrative reporting. This is consistent with the Financial Reporting Council’s guidance to organisations on the importance of communicating the impact of Covid-19 and related uncertainties, including their impact on resilience and going concern assessments. Entity-specific explanations of the current and expected effects of Covid-19 and the Council’s plans to mitigate those effects should be included in the narrative reporting (including where relevant the Annual Governance Statement), including in the discussion on Principal Risks and Uncertainties impacting an organisation. As well as the effects upon reserves, financial performance and financial position, examples of areas highlighted by CIPFA include the impact on service provision, changes to the workforce and how they are deployed, impacts upon the supply chain, cash flow management, and plans for recovery. Risks highlighted include those relating to subsidiaries and investments, capital programmes, and resilience of the community including partner organisations and charities.
Actions	A thorough assessment of the current and potential future effects of the Covid-19 pandemic is required including: • A detailed analysis across the council’s operations, including on its income streams, supply chains and cost base, and the consequent impacts on financial position and reserves; • The economic scenario or scenarios assumed in making forecasts and on the sensitivities arising should other potential scenarios materialise (including different funding scenarios); • Any material uncertainties relating to the council’s financial position, the financial sustainability of the Council, and the potential requirement for a section 114 notice; and • The effect of events after the reporting date, including the nature of non-adjusting events and an estimate of their financial effect, where possible.

Covid-19 pandemic

Impact on reporting and our audit (continued)

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

Covid-19 pandemic

Impact on reporting and our audit (continued)

	Potential Impact on Statement of Accounts	Audit response
Impact on property, plant and equipment	The Royal Institute of Chartered Surveyors issued a practice alert in March 2020 as a result of which valuers identified a material valuation uncertainty at 31 March 2020 for most types of property valuation, resulting in disclosure in financial statements and "emphasis of matter" paragraphs in audit reports. By September 2020 RICS considered that there was no longer material uncertainty over valuations from that date, and therefore valuations at 31 March 2021 are not expected to be affected by material valuation uncertainties. However, the ongoing financial impact of the pandemic has impacted valuations, both through demand for particular asset types and weakening the financial standing of tenants. The Council needs to consider its approach to the measurement of property, plant and equipment (where property held at current value is based on market valuations) and the Council should consider with their valuers the impact that Covid 19 has had on current values. The Council will also need to consider whether there are any indications of impairment of assets requiring adjustment at 31 March 2021.	The Council has considered its approach to the measurement of property, plant and equipment (PPE). Where property held at current value is based on market valuations, the Council considered with their valuers the impact that Covid-19 has had on current value. The Council also considered whether there was any indications of impairment of assets requiring adjustment at 31 March 2021. There is no material uncertainty disclosed in the Statement of Accounts and we have concluded that this is appropriate based on our work on property valuations, (see page 10). Our work included challenge as to whether the Council had appropriately considered the impact of Covid-19 on the valuation. Disclosures of the key judgements in this area are made in the notes to the financial statements.
Valuation of commercial or investment properties	Following the Covid-19 pandemic, the fair value measurements for financial instruments and investment properties held by the Council needs to be reviewed against the conditions and assumptions at the measurement date. Although volatility is lower relative to 31 March 2020, there have been significant market movements during the year which may impact valuations.	The Council has considered its approach to the measurement of Investment property (IP). Where property held at current value is based on market valuations the Council considered with their valuers the impact that Covid-19 has had on current value. The Council also considered whether there are any indications of impairment of assets requiring adjustment at 31 March 2021. The is no material uncertainty disclosed in the Statement of Accounts as expected relating to IP.

Covid-19 pandemic

Impact on reporting and our audit (continued)

	Potential Impact on Statement of Accounts	Audit response
Expected credit losses	Since 31 March 2020, there has been a significant downturn in economic activity, with many businesses and individuals significantly impacted. The Council will need to consider the provision for credit losses for receivables, including for expected credit losses for assets accounted for under IFRS 9.	For non-public sector debtors consideration is needed of the impact on the required level of provision for expected credit losses under IFRS 9. The Council reflected an increase in debtor balances on prior year and we noted that the Council has increased is level of provisioning as well. We are in the process of completing our work, which includes the consideration of the impact of Covid 19 on the provisioning levels.
Covid-19 grants	Our judgement is that the significant risk at the Council relates to the recognition of grants with terms and conditions attached, specifically around the new grants received in year relating to Covid-19 where terms and conditions may be less clear and there is no historical basis for the accounting treatment. There is a risk that the Council will recognise the income before the terms and conditions of the Covid-19 grants have been met. There are also a number of grants relating to Covid-19, such as the business rates relief, where management need to determine if they are acting in the capacity of an Agent or Principal.	We have tested the design and implementation of key controls in place around the recognition of Covid-19 grant income; We have reviewed the accounting treatment of new Covid-19-related grants for 2020/21 to confirm that they have been correctly accounted for as either an Agent or Principal arrangement; and We have tested a sample of grants including the new Covid-related grants to ensure that any terms and conditions were met prior to recognition as income.
Narrative and other reporting issues	The following areas will need to be considered by local authorities as having been impacted on by the Covid-19 pandemic. • Narrative reporting as well as the usual reporting requirements will need to cover the effects of the pandemic on services, operations, performance, strategic direction, resources and financial sustainability. • Reporting judgements and estimation uncertainty, the Council will need to report the impact on material transactions including decisions made on the measurements of assets and liabilities.	We note that the narrative report adequately discloses matters related to Covid-19, including risks, potential impacts and other issues. The report is compliant with the guidance in this area.

Covid-19 pandemic

Impact on reporting and our audit (continued)

	Potential Impact on Statement of Accounts	Audit response
Impact on pension fund investment measurement	As a result of the Covid-19 pandemic pension fund investments have been subject to volatility. At 31 March 2021, we noted that the Council's share of pension fund assets had moved by £132.6m.	We engaged early with the Pension Fund auditor to not only gather information for year-end measurements but to also understand any estimation techniques and any changes to those techniques that may be needed to measure the financial instruments. Where such volatility exists it may mean that the inputs used in the fair value measurement may change and may require a change of measurement technique, and consideration of the level of uncertainty in valuations where there is significantly more estimation. Our audit work has been completed and did not identify any material misstatement.

Value for money

Our conclusions are reported in our Auditor’s Annual Report for 2020/2021

Value for Money requirements

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

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

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

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

In addition, we have:

- reviewed of the Council’s draft Annual Governance Statement;
- reviewed internal audit reports through the year and the Head of Internal Audit Opinion
- considered issues identified through our other audit and assurance work; and
- considered the Council’s financial performance and management throughout 2020/21.

Value for money

Our conclusions are reported in our Auditor’s Annual Report for 2020/2021 (continued)

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

We have also obtained an understanding of:

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

Findings of our work

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

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

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

Your control environment and findings

High-level impact on our approach

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

Your control environment

Your risk assessment process

Your information systems and communication

Your control activities

Your monitoring of controls

Area	Deloitte comment	Maturity CY/PY
Recognition of COVID-19 grant income	The audit team identified a control deficiency in one of the key controls in relation to the COVID-19 grant income. Please see page 29 for more detail.	
Valuation of property assets	No deficiency was identified in the design and implementation of the controls in the process.	
Management override of controls	No deficiency was identified in the design and implementation of the controls in the process	
Capitalization of expenditure	No deficiency was identified in the design and implementation of the controls in the process	

Key: Mature Developing Lagging

Your control environment and findings

Control deficiency

Observation	Year first communicated, severity, component of internal control	Deloitte recommendation	Management response and remediation plan
During our testing of the key controls in relation to covid-19 grants we have noted that the Council do not maintain a revenue grant register. We acknowledge that tracking of grants has been done by individual service lines, however without a central revenue grant register, the Council cannot monitor grants received; track expenditure against the amount awarded; and ensure any conditions have been met.	2022, medium, control activities	We recommend that management maintain a central revenue grant register – both for covid-19 and non-covid grants.	Management has agreed and have prepared a revenue grant register to be maintained centrally going forward.

Your control environment and findings

Area for management focus

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

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

Our audit report

The form and content of our report

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

Our opinion on the financial statements

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

Emphasis of matter and other matter paragraphs

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

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

Value for Money reporting by exception

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

To date, we have no matters to report by exception in our financial statement audit opinion.

Irregularities and fraud

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

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

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

Your annual report

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

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

Purpose of our report and responsibility statement

Our report is designed to help you meet your governance duties

What we report

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

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

The scope of our work

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

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

Use of this report

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

What we don't report

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

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

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

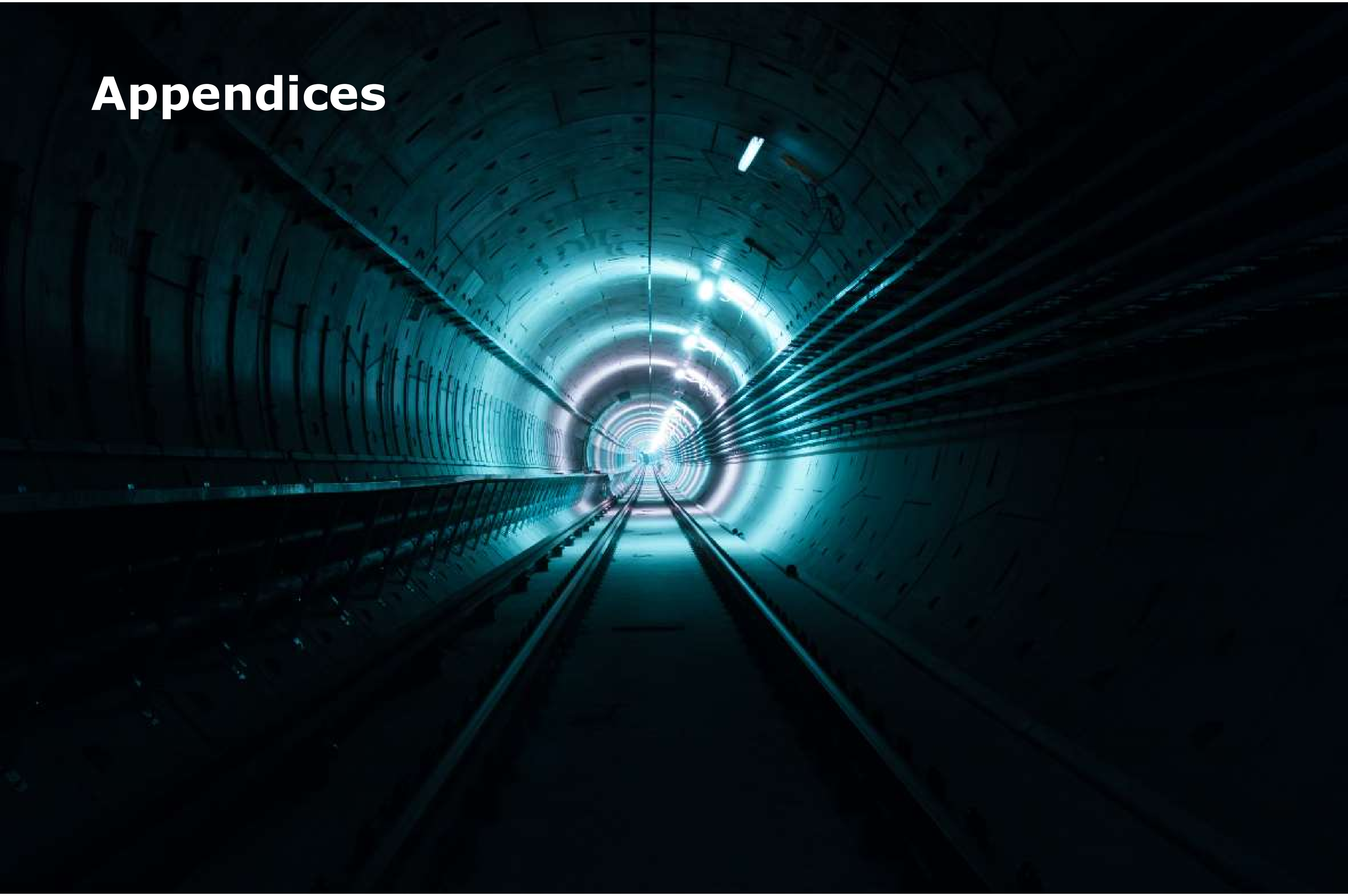
We welcome the opportunity to discuss our report with you and receive your feedback.

Deloitte LLP

Deloitte LLP

Birmingham | 18 April 2023

Appendices



Independence and fees

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

Independence confirmation	We confirm the audit engagement team, and others in the firm as appropriate, Deloitte LLP and, where applicable, all Deloitte network firms are independent of the Council and will reconfirm our independence and objectivity to the Audit Committee for the year ending 31 March 2021 in our final report to the Audit Committee.
Fees	There are no non-audit fees.
Non-audit services	We continue to review our independence and ensure that appropriate safeguards are in place including, but not limited to, the rotation of senior partners and professional staff and the involvement of additional partners and professional staff to carry out reviews of the work performed and to otherwise advise as necessary.
Relationships	We have no other relationships with the Authority, its members, officers and affiliates, and have not supplied any services to other known connected parties.

The professional fees expected to be charged by Deloitte, as per our Audit Plan for the period from 01 April 2020 to 31 March 2021 are as follows:

	Current year £'000	Prior year £'000
Financial statement audit including Whole of Government and procedures in respect of Value for Money assessment	159	120
Total audit	**159**	**120**

The value set out here is as estimated at the time of our Audit Plan. This represents an increase to the scale fee for the audit of £109k.

In line with PSAA correspondence that scale fees should be negotiated by individual s151 officers based on the individual circumstances of each body, we will discuss the final position with the Council on completion of the 2020/21 audit.

All additional fees are subject to agreement with PSAA.

Our approach to quality

AQR team report and findings

Executing high quality audits remains our number one priority. We are committed to our critical public interest role and continue to embed our culture of quality and excellence into all of our people. This includes using new technology and tools to continue to transform our audit approach.

In July 2021 the Financial Reporting Council ("FRC") issued individual reports on each of the seven largest firms, including Deloitte, on Audit Quality Inspections providing a summary of the findings of its Audit Quality Review ("AQR") team for the 2020/21 cycle of reviews.

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

In that context, overall FRC inspection results, showing an improvement since last year from 76% to 79% of all inspections assessed as good or needing limited improvement, reflect the progress we are making. The overall profile of our ICAEW inspections and our internal inspection programme also show a similar overall improvement since last year.

The results for the inspections of FTSE 350 entities fell short of our overall scores, reflecting specific findings on those particular audits rather than issues pervasive across other audits. Our objective continues to be for all of our audits to be assessed as good or needing limited improvement and we know we still have work to do in order to meet this standard.

We agree with and accept the FRC's findings on the individual inspections. The FRC has recognised improvements following the actions and programmes for previous years and we welcome the good practice points raised, including in respect of impairment and revenue where individual findings continue to occur.

Overall, we are pleased that there have been no significant findings over our firm wide processes and controls over the last three inspection cycles in the areas subject to rotational review by the FRC. However, we are continually enhancing our processes and controls across our business and such changes will directly or indirectly affect audit quality.

All the AQR public reports are available on its website. https://www.frc.org.uk/auditors/audit-quality-review/audit-firm-specific-reports

Our approach to quality

AQR team report and findings

The AQR's 2020/21 Audit Quality Inspection Report on Deloitte LLP

"We reviewed 19 individual audits this year and assessed 15 (79%) as requiring no more than limited improvements. Of the 11 FTSE 350 audits we reviewed this year, we assessed eight (73%) as achieving this standard".

"Our key findings related primarily to the need to:

- Improve the evaluation and challenge of management's key assumptions of impairment assessments of goodwill and other assets.
- Enhance the consistency of group audit teams' oversight of component audit teams.
- Strengthen the effectiveness and consistency of the testing of revenue."

"The firm has taken steps to address the key findings in our 2019/20 public report, with actions that included increasing the extent of consultations, and enhanced learning, coaching and support programmes.

We have identified improvements, for example, in the extent of challenge of management by audit teams in respect of the estimates used for model testing. This was identified as a key finding last year.

We also identified good practice in a number of areas of the audits we reviewed (including robust procedures relating to going concern and evidence to support the challenge of management in areas of key judgement) and in the firm-wide procedures (including establishing a centre of excellence focused on credit for banking audits to encourage the consistent application of the firm's methodology and guidance)."

Our approach to quality

AQR team report and findings

Improve the evaluation and challenge of management's key assumptions of impairment assessments of goodwill and other assets

How we have addressed this area as a firm

To address this finding, we have done, or plan, the following:

- We refreshed our Impairment Centre of Excellence ("COE") to establish clear partner leadership and introduced frequent communication touchpoints to share best practice, hot topics and technical updates.
- We performed a risk focused strategic allocation of impairment specialists for a selection of December 2020 audit engagements, taking into account industry knowledge and experience. Going forward we will seek to involve the EQCR partner to determine whether the allocated specialist should have industry knowledge or whether generalist knowledge would provide an enhanced independent challenge to an industry focused engagement team.
- We will update our impairment guidance notes and consultation document to include specific risk criteria which require further discussion with a panel of specialists, including, but not limited to, where the audit team develop their own model or where cashflow forecasts extend beyond a commonly used period.
- The launch of the Digital Blueprint project management tool will assist teams in prioritising their time across all areas of the audit.
- We will hold workshops with our partners and directors to bring to life the common causes that have led to FRC findings and to ensure greater consistency in expectations in respect of the expected depth of review.
- We have introduced a new coaching program to support the development of primary reviewing skills and to identify any reviewing skills gaps which need addressing.
- To respond to the poor quality and untimely preparation of information by the company for audit, we expect, where appropriate, to increase the communication with management and those charged with governance so that there are clearer expectations in respect of the quality of information prepared for audit.
- We have updated our impairment template memo to reflect the most recent inspection findings we will develop additional training materials on hot topics and areas of regulatory focus, for example, guidance to assist in the challenge of cash flow assumptions and cost reduction initiatives.
- We also developed a new template to support teams in auditing accounting estimates in response to the requirements of ISA (UK) 540 revised 'Auditing Accounting Estimates & Related Disclosures'.

How we addressed this area in our audit

- Southend Council recorded an impairment charge on its Property, plant and equipment. Refer to page 10 for our audit approach.

Our other responsibilities explained

Fraud responsibilities and representations

Responsibilities:

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

Required representations:

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

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

Audit work performed:

In our planning, we identified the risk of fraud in the recognition Covid-19 grant income, capital expenditure and management override of controls as a significant audit risk.

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

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

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

Concerns:

No significant concerns have been identified from our work

Deloitte.