

# Southend-on-Sea City Council

Report of Deputy Chief Executive and Executive Director  
(Finance & Resources)

to

**Audit Committee**

on

**23 November 2022**

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**Agenda  
Item No.**

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**External Audit 2020/21 Status Update**

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

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## **1 Purpose of Report**

- 1.1 To provide an update to the Audit Committee on the status of the 2020/21 external audit of the Statement of Accounts and to share the updated planning intentions for the 2021/22 audit.

## **2 Recommendation**

- 2.1 That this report is noted. A further update on progress will be provided to the January 2023 meeting of Audit Committee.

## **3 Background**

- 3.1 The Council's external auditors, Deloitte, provided updates to the Audit Committee on 13 December 2021, 27 April 2022 and 20 July 2022 regarding the status of the 2020/21 audit of the Statement of Accounts. These updates were provided in letters dated 9 December 2021, 13 April 2022 and 1 July 2022 and an audit director or audit partner attended all meetings virtually to provide the updates and to respond to any comments.
- 3.2 The Council has been in regular dialogue with Deloitte regarding the re-commencement of their audit of the 2020/21 Statement of Accounts. In their update to Audit Committee in July, Deloitte confirmed that they had allocated team members to the 2020/21 and 2021/22 audits. At that time, they anticipated having a small engagement team to finalise a significant part of the 2020/21 audit work during July and August, with a more substantial engagement team allocated from September to November. It was anticipated that these staff bookings would enable them to address the backlog audit of 2020/21 and to complete the 2021/22 audit before the end of 2022, including the Value for Money work for both periods.

## 4 The 2020/21 audit

- 4.1 Southend's audit has been assigned a permanent Audit Lead, Mo Ramzan. A new audit manager was introduced to the team supported by a more experienced manager, who had worked with Local Authorities previously. The re-commencement of the 2020/21 audit began in July as planned but as Deloitte reviewed their files it became clear that there was more audit work to be done to finalise the 2020/21 audit than they had anticipated. In response to this Deloitte brought in a more substantial audit team to meet the extra workload. The majority of the audit team had not previously worked on Southend's audit, including the most senior members of the team.
- 4.2 The 2020/21 audit is taking place over a year later than it should have done, The Council's finance team have been responding to audit queries whilst also being comprehensively involved with advising the business regarding the 2022/23 financial challenge, 2023/24 budget preparations and the updated Medium Term Financial Forecast, during a time of huge uncertainty. The audit questions relate to a period which could range anywhere from over 2½ to over 1½ years ago which has created some real difficulties and severe capacity challenges for finance staff. It should be noted that, with the exception of a few last remaining items, every request has been responded to.
- 4.3 Given all the circumstances set out in paragraphs 4.1 and 4.2 the 2020/21 audit has taken longer to complete than anticipated. However, Deloitte's audit is substantially complete subject to finalisation of a few matters, as set out in their Report to Those Charged with Governance elsewhere on this agenda. In previous years, upon receiving that report, the Audit Committee would then be asked to adopt the Statement of Accounts and approve it for publication. However, for 2020/21 there are two remaining items that prevent that from happening at this stage.
- 4.4 There is a national issue regarding the reporting of infrastructure assets, which are assets such as the Council's network of roads, footpaths and cycleways, its bridges, coastal defences and street furniture (such as road signs and street lighting). Accounting for infrastructure assets in Local Government has not historically been considered to be an area of significant audit risk. However, recent concerns have been raised by Local Government auditors that, due to historical information deficits regarding these assets, local authorities are unable to provide sufficient evidence to demonstrate that these assets are being accounted for in accordance with the Code of Practice on Local Authority Accounting. This has led to delays to audit completion for many authorities and the potential risk of widespread accounts qualifications.
- 4.5 A long-term solution is being sought but due to the complexity of the issue this will necessarily take time. So to meet the immediate need to mitigate the risks of widespread qualifications of local authority accounts and delays to audit, the Government and CIPFA are going to issue the following over the next couple of months:
- The Department for Levelling Up, Housing and Communities (DLUHC) will be issuing a Statutory Instrument which is expected to give the option of a statutory override regarding partial replacement of infrastructure assets.

DLUHC have released a draft version of the Statutory Instrument and have issued a “call for evidence”, to which the Council has responded via their online survey.

- CIPFA are due to issue guidance which is expected to remove the requirement to disclose the gross cost and accumulated depreciation. They are also due to issue a technical bulletin that will include further details about how authorities should apply the new requirements.

Discussion is ongoing with Deloitte about the reporting of infrastructure assets in the Council’s accounts in the context of this national issue. Both parties await the publication of the above documents before any conclusions can be reached.

4.6 The Council’s group accounts for 2020/21 include 50% of the figures for Porters Place Southend-on-Sea LLP. In their 2020/21 Annual Report and Financial Statements the LLP have disclosed a material uncertainty relating to the partnership’s ability to continue as a going concern. At the time their accounts were signed, Swan Housing Association were going through a merger with Orbit Group and that was planned for 1<sup>st</sup> October 2022. This merger did not happen and Swan Housing Association are now in discussions with Sanctuary, one of the largest housing associations in the country. The availability of the Junior Loan Facility funding from Swan Housing Association and ongoing support from the JV partner is dependent on the completion of this merger.

4.7 Nevertheless, the LLP’s Annual Report and Financial Statements disclose that, after considering the uncertainties, the Members of the joint venture have a reasonable expectation that the Partnership has adequate resources to continue in operational existence for the foreseeable future, being a period of at least twelve months following the approval of the financial statements. Therefore, the LLP continued to adopt the going concern basis of accounting in preparing their 2020/21 financial statements.

4.8 Given the above, the Council and Deloitte await the outcome of the merger of Swan and Sanctuary before assessing any potential impact on the Councils Statement of Accounts for 2020/21.

## **5 The 2021/22 audit**

5.1 Deloitte has issued the records required listing for the 2021/22 audit and the Council’s finance team are underway with uploading the necessary audit evidence to Deloitte’s secure document site. Based on what has been uploaded so far, Deloitte have begun their 2021/22 audit planning. The timescale for the main audit work to be undertaken is yet to be determined, however it is anticipated that the 2021/22 audit will be able to benefit from the experience and lessons learned in completing the 2020/21 audit.

## **6 Value for Money assessment**

- 6.1 Deloitte have been provided with all the information they have requested in order to make an assessment of the Council's Value for Money (VfM) arrangements for 2020/21 and 2021/22. Their VfM work is substantially complete and they intend to issue a combined Auditors Annual Report which will cover the conclusions of their VfM work for 2020/21 and 2021/22. To date they have not identified any significant weakness in the arrangements to secure economy, efficiency and effectiveness in the use of resources. This is consistent with the Council's self-assessment against the expectations of CIPFA's Financial Management Code, for which the progress update is included elsewhere on this agenda.

## **7 Reasons for Recommendations**

- 7.1 For the members of the Audit Committee to be kept up to date with the latest situation regarding the 2020/21 independent audit of the Statement of Accounts and to also share the updated audit planning intentions for the 2021/22 Accounts.

## **8 Corporate Implications**

- 8.1 Contribution to the Southend 2050 Road Map

Operating robust and appropriate governance arrangements contributes to the delivery of all Council aims and priorities.

The accuracy, format and content of the Statement of Accounts are key determinants in maintaining the Council's reputation for financial probity and effective financial stewardship.

- 8.2 Financial Implications

The Statement of Accounts is required to present a true and fair view of the Council's financial position as at the end of the financial year and also the income and expenditure for the financial year.

- 8.3 Legal Implications

The Statement of Accounts is a statutory document required by the Accounts and Audit Regulations 2015 issued by the Secretary of State. Those regulations require that the audited Statement of Accounts 2020/21 are adopted and published by 31 July 2021. These arrangements had been updated for the 2020/21 financial year by the Accounts and Audit (Amendment) Regulations 2021 to 30 September 2021.

In accordance with Regulation 10 of the Accounts and Audit (England) Regulations 2015 notice was given that the conclusion of the audit of the Statement of Accounts for Southend on Sea Borough 2020/21 had been delayed.

#### 8.4 People Implications

There are no people implications arising from this report.

#### 8.5 Property Implications

There are no property implications arising from this report.

#### 8.6 Consultation

There are no consultation implications arising from this report.

#### 8.7 Equalities Impact Assessment

There are no equalities implications arising from this report.

#### 8.8 Risk Assessment

There is the risk of reputational damage if the Council's audited Statement of Accounts are not published by the statutory deadlines.

#### 8.9 Value for Money

The audit arrangements are due to include an independent value for money assessment.

#### 8.10 Community Safety Implications

There are no community safety implications arising from this report.

#### 8.11 Environmental Impact

There are no environmental implications arising from this report.

### **9 Background Papers**

None

### **10 Appendices**

None