



SOUTHEND-ON-SEA BOROUGH COUNCIL

ANNUAL AUDIT LETTER

Audit for the year ended 31 March 2018

31 August 2018

EXECUTIVE SUMMARY

PURPOSE OF THE LETTER

This annual audit letter summarises the key issues arising from the work that we have carried out at Southend-on-Sea Borough Council for the year ended 31 March 2018.

It is addressed to the Council but is also intended to communicate the key findings we have identified to key external stakeholders and members of the public.

RESPONSIBILITIES OF AUDITORS AND THE COUNCIL

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business and that public money is safeguarded and properly accounted for.

Our responsibility is to plan and carry out an audit that meets the requirements of the National Audit Office's (NAO's) Code of Audit Practice (the Code). Under the Code, we are required to report on:

- Our opinion on the Council's financial statements
- Whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

We recognise the value of your co-operation and support and would like to take this opportunity to express our appreciation for the assistance and co-operation provided during the audit.

BDO LLP

AUDIT CONCLUSIONS

FINANCIAL STATEMENTS

We issued our unmodified opinion on the financial statements on 31 July 2018.

Our audit procedures did not identify any material misstatements.

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

Our audit identified three errors above our reporting threshold, that would increase the deficit for the year by £0.558 million. As these were not material, these were not corrected by management.

USE OF RESOURCES

We issued our unmodified conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources on 31 July 2018.

FINANCIAL STATEMENTS

OPINIONS

We issued our unmodified opinion on the Council's financial statements on 31 July 2018.

This means we consider:

- The financial statements give a true and fair view of the financial position and its income and expenditure for the year
- Have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting 2017/18.

SCOPE OF THE AUDIT

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error.

This includes an assessment of whether the accounting policies are appropriate to the Council's circumstances and have been consistently applied and adequately disclosed the reasonableness of significant accounting estimates, and the overall presentation of the financial statements.

OUR APPLICATION OF MATERIALITY

We apply the concept of materiality both in planning and performing our audit and in evaluating the effect of misstatements.

We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonably knowledgeable users that are taken on the basis of the financial statements.

The materiality for the Council's financial statements was set at £7.4 million. This was determined with reference to a benchmark of gross expenditure (of which it represents 2 per cent) which we consider to be one of the principal considerations for the Council in assessing financial performance.

OUR ASSESSMENT OF RISKS OF MATERIAL MISSTATEMENT

Our audit was scoped by obtaining an understanding of the Council and its environment, including the system of internal control, and assessing the risks of material misstatement in the financial statements.

We set out below the risks that had the greatest effect on our audit strategy, the allocation of resources in the audit, and the direction of the efforts of the audit team.

FINANCIAL STATEMENTS

RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	CONCLUSION
Management override of controls	<p>Under auditing standards, there is a presumed risk of management override of controls as management is in a unique position to manipulate accounting records to prepare fraudulent financial statements.</p> <p>We responded to this risk by testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements.</p> <p>We reviewed the accounting estimates for bias and evaluated whether the circumstances producing the bias, if any, represent a risk of material misstatement due to fraud.</p> <p>We obtained an understanding of the business rationale for significant transactions that were outside the normal course of business for the Council or appeared to be unusual.</p>	<p>No issues were identified by our audit work from our review of journals and review of accounting estimates for management bias. We found no significant transactions that were outside the normal course of business or otherwise appear unusual.</p>

FINANCIAL STATEMENTS

RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	CONCLUSION
Valuation of property, plant and equipment	<p>Due to the significant value of the Council's property assets, and the high degree of estimation uncertainty, there is a significant risk over the valuation of property, plant and equipment where valuations are based on assumptions or where updated valuations have not been provided for a class of assets at the year-end.</p> <p>We responded to this risk by:</p> <ul style="list-style-type: none"> • Reviewing the instructions provided to the valuer and the valuer's skills and expertise in order to determine if we can rely on the management expert. • Checking the basis of valuation for assets valued in year as appropriate. • Checking the accuracy and completeness of the source data used by the valuer. • Confirming that the valuation movements are consistent with the expectations provided by independent data about the property market. • Confirming that the assets not specifically valued in the year have been properly assessed to confirm that their reported valued remained materially correct. 	<p>The Council engaged an external valuer to value a sample of property assets at 1 April 2017.</p> <p>From our review of the instructions provided to the valuer and our assessment of the expertise of the valuer, we were satisfied that we could rely on the management expert.</p> <p>We confirmed that the basis of valuation for assets valued in year was appropriate based on the nature and use of the assets.</p> <p>Assumptions used and valuation movements were found to be reasonable.</p> <p>Our review confirmed that appropriate indexation adjustments had been applied to all assets not subject to revaluation in year.</p>

FINANCIAL STATEMENTS

RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	CONCLUSION
Valuation of pension liability	<p>There is a risk the membership data and cash flows provided to the actuary at 31 March may not be correct, or the valuation uses inappropriate assumptions to value the liability.</p> <p>This is a significant risk due to the higher estimation uncertainty arising from the range of assumptions available to value the pension liability.</p> <p>We responded to this risk by:</p> <ul style="list-style-type: none"> • Agreeing the information provided to the actuary. • Reviewing the reasonableness of the assumptions used in the calculation against other local government actuaries and other observable data. • Requesting assurance from the auditor of the pension fund over the controls for providing accurate membership data to the actuary. • Checking whether any significant changes in membership data have been communicated to the actuary. 	<p>We did not identify any issues regarding the accuracy of the disclosures in the financial statements or the accuracy and completeness of data provided by the fund to the actuary.</p> <p>Our review of the reasonableness of assumptions used to calculate the present value of future pension obligations concluded that, overall, they were reasonable.</p> <p>During the course of the audit, Essex County Council notified the Council of a material misstatement in respect of the pension fund liability data provided by the Essex pension fund actuary. This led to an increase in the Council's pension liability of £8.554 million, and an increase in the Group pension liability of £9.393 million. The Council amended this in the final financial statements.</p>

USE OF RESOURCES

CONCLUSION	We issued our unmodified conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources on 31 July 2018.
	This means we consider that the Council has proper arrangements to: <ul style="list-style-type: none">• Ensure it took properly informed decisions• Deploy resources to achieve planned and sustainable outcomes for taxpayers and local people.

SCOPE OF THE AUDIT

We are required to be satisfied that proper arrangements have been made to secure economy, efficiency and effectiveness in the use of resources.

As part of reaching our overall conclusion we consider the following sub criteria in our work: informed decision making, sustainable resource deployment, and working with partners and other third parties.

OUR ASSESSMENT OF SIGNIFICANT RISKS

Our audit was scoped by our cumulative knowledge brought forward from previous audits, relevant findings from work undertaken in support of the opinion on financial statements, reports from the Council including internal audit, information disclosed or available to support the annual governance statement, and information available from the risk registers and supporting arrangements.

We set out below the risks that had the greatest effect on our audit strategy, the allocation of resources in the audit, and the direction of the efforts of the audit team.

USE OF RESOURCES

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

APPENDIX

REPORTS ISSUED

We issued the following reports since our previous annual audit letter.

REPORT	DATE
Grant claims and certification (year ending 31/03/2017)	4 January 2018
Audit plan	9 April 2018
Audit completion report	19 July 2018

FEES

We have not had to amend our planned fees.

AUDIT AREA	FINAL FEES £	PLANNED FEES £
Audit - PSAA scale fee	142,816	142,816
Housing benefits subsidy certification fee	21,284	21,284
Total audit fees	164,100	164,100
Fees for non-audit services*	14,000	14,000
Total assurance services	178,100	178,100

*NON AUDIT SERVICES FEES ANALYSIS

	£
Teachers Pensions certification fee	7,000
Pooled capital receipts certification fee	3,500
Homes and Communities Agency Information Management System compliance assurance fee	3,500
Total	14,000



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

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