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# Annual Audit Letter 2011/12

Southend-on-Sea Borough Council

OCTOBER 2012



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**Code of Audit Practice and Statement of Responsibilities of Auditors and Audited Bodies**

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission contains an explanation of the respective responsibilities of auditors and of the audited body. Reports and letters prepared by appointed auditors are addressed to members or officers. They are prepared for the sole use of the audited body and no responsibility is taken by auditors to any Member or officer in their individual capacity or to any third party.

[Local Government Code of Audit Practice](#)

[Statement of Responsibilities of Auditors and of Audited Bodies](#)

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# Executive summary

This Annual Audit Letter summarises the findings of the work we have completed in respect of the year ended 31 March 2012.

## Accounts

- The financial statements give a true and fair view of the Council's financial affairs and income and expenditure for the year and were properly prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.
- The finalised Annual Governance Statement was not misleading or inconsistent with other information of which we were aware.
- We completed the assurance review of the Whole of Government Accounts to confirm that the information reported in the final submission was consistent with the audited financial statements and we were able to provide an unqualified opinion .

## Internal control

- We noted a number of deficiencies in internal control in respect of the implementation and operation of the new financial management system.
- We were able to rely on the work of Internal Audit.

## Grants

- We completed reviews of twelve grant claims and returns to confirm that the information reported was in accordance with the requirements of the scheme.
- Arrangements are generally sound for the preparation and submission of returns.
- A number of errors were found during our testing of the Housing and Council Tax Benefits grant claim.

## Use of resources

- We are satisfied that in all significant respects, the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012.
- We issued an unqualified value for money conclusion.

Our detailed findings and recommendations were reported to Management and the Audit Committee in our Annual Governance Report (September 2012).

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# Introduction

## THE PURPOSE OF THIS LETTER

The purpose of this Letter is to summarise the key issues arising from the work that we have carried out during the year. Although this Letter is addressed to the Members, it is also intended to communicate the significant issues we have identified, in an accessible format, to key external stakeholders, including members of the public.

The Letter will be published on the Audit Commission's website at [www.audit-commission.gov.uk](http://www.audit-commission.gov.uk) and also on the Council's website.

## RESPONSIBILITIES OF THE AUDITORS AND THE COUNCIL

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing auditors to local public bodies in England.

As the Council's external auditors, we have a broad remit covering financial and governance matters. We target our work on areas which involve significant amounts of public money and on the basis of our assessment of the key risks to the Council achieving its objectives.

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. We have considered how the Council is fulfilling these responsibilities.

## SCOPE OF THE AUDIT

Our main responsibility as the appointed auditor is to plan and carry out an audit that meets the requirements of the Audit Commission's Code of Audit Practice (the Code). Under the Code, we are required to review and report as independent auditors 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 carry out reviews of grant claims and returns, but as *agents* of the Audit Commission, following set work programmes (called "certification instructions").

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## **REPORTING THE AUDIT**

We provided reports to “those charged with governance” (the Audit Committee) and management on the findings of the audit focusing on key issues regarding internal control, financial governance, accounting arrangements and operational performance. We aim to provide management with clear recommendations to assist with governance and service improvements that will add value to the audit.

Reports issued during the year were:

- Audit Fee Letter issued April 2011
- Grants and certification work (2010/11 returns) issued February 2012
- Annual Audit Plan issued December 2011
- Update to Audit Plan letter issued September 2012
- Annual Governance Report to those charged with governance issued September 2012
- Annual Audit Letter issued October 2012.

## **ACKNOWLEDGEMENT**

Our aim is to deliver a high standard of audit which makes a positive and practical contribution that supports the Council's own agenda.

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 course of the audit.

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# Key findings

## ACCOUNTS

### Financial statements

We issued an unqualified true and fair opinion on the financial statements on 28 September 2012.

With the exception of the fixed asset register, the bank reconciliation and the payroll reconciliation, all key requested working papers were made accessible to us in accordance with the agreed timetable.

Three material errors were identified in relation to property, plant and equipment (PPE). These were corrected by the Council in the financial statements, although these have no overall impact on the financial outturn for the year.

The errors exceeding “performance materiality” were in respect of:

- The omission of accounting for the disposal of Shoebury High School and Shoebury Technical College when these assets became leased to the school
- A discrepancy between the PPE values recorded in the fixed asset register and the values recorded in the financial statements across a range of asset classes
- The double counting of Heritage Assets following the introduction of new accounting rules in 2011/12 and revaluations performed on some of those assets during the year.

The Council also adjusted for non-material errors in a number of areas, including the majority of the cash flow statement, Group Accounts figures, and a number of disclosure requirements that had not been appropriately addressed in the draft financial statements.

We reported four uncorrected misstatements to the Audit Committee, which we did not consider would have a material impact on our opinion on the financial statements. The impact of correcting for these misstatements would have been a reduction of £1.3m in net assets of the Council.

The audit was appropriately facilitated and the finance staff were responsive and co-operative.

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### **Annual governance statement**

We discussed the draft statement with senior officers and were satisfied that the finalised Annual Governance Statement was not inconsistent or misleading with other information we were aware of from our audit of the financial statements.

### **INTERNAL CONTROL**

The Council implemented a new financial management system, Agresso, during the 2011/12 financial year. The Agresso modules incorporating accounts receivable, accounts payable and the general ledger were implemented from the beginning of November 2011. The payroll module was implemented from the beginning of February 2012.

The implementation of the Agresso system has been undertaken on a risk assessed phased basis, with ongoing developments continuing to the system following the commencement of use of the system. What this means is that controls surrounding the system for various elements (e.g. debt recovery) had not been designed or implemented at the point at which the core computer system was switched on. The "risk assessed" aspect reflects management's decision to cease certain activities entirely until appropriate controls had been designed and implemented.

We consider that the absence of bank reconciliations generated by Agresso from November 2011 to August 2012 represents a significant weakness in the control environment in both 2011/12 and also 2012/13. The Council is working to catch up and achieve timely bank reconciliations by December 2012.

In its Annual Governance Statement the Council has recognised that there are lessons to be learnt from the introduction of the Agresso system. We agree with this assessment and support the Council's intention to take that learning into the ongoing development of the Agresso system and other future system development projects.

We have discussed this issue with management and those charged with governance and made recommendations for improvement.

In completing our work we reviewed and tested the work of Internal Audit and, where Internal Audit had been able to undertake and complete reviews in this area, we were able to place reliance on it.

### **WHOLE OF GOVERNMENT ACCOUNTS**

As the Council is above the reporting threshold for a full review, we completed the assurance review of the Whole of Government Accounts to confirm that the information reported in the final submission was consistent with the audited financial statements.

The assurance statement that we were required to issue for 2011/12 was unqualified.

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## GRANTS

The overall conclusion for grant claims work completed for the year ended 31 March 2011 is that arrangements are generally sound for the preparation and submission of returns. A number of errors were found during our testing of the Housing and Council Tax Benefits grant claim.

Whilst there was improvement in the Council's arrangements over the identification of grants that require independent audit certification, there remains scope to further improve the communication in respect of the availability of Officers to assist with certification queries.

Our audit of the Housing and Council Tax Benefit Subsidy audit found an increasing number of errors identified in the benefit calculations for some claimants, resulting in a number of cases where Housing & Council Tax Benefit was overpaid to claimants. The Council should provide additional training to benefits processors and perform increased sample checking of processors work, to prevent such errors occurring and to detect them where they do.

Our grants and certification work for 2011/12 is currently in progress and will be reported in our grants and certification work report to the Council in February 2013.

## USE OF RESOURCES

### Financial resilience

Our financial resilience work has considered the Council's arrangements for financial governance, financial planning and financial control, including improvements in arrangements over the prior year.

During 2011/12 the Council updated the four year Medium Term Financial Strategy (MTFS), as part of setting the budget for 2012/13, that identifies the budget gap that needs to be addressed through the Council's financial planning arrangements following the financial settlement announced during the year.

The budget gap of £32.5 million is forecast as follows:

- 2013/14: £13.0 million (increased from £5.5 million in the previous MTFS mainly due to increased anticipated reductions in funding, determined from Government announcements)
- 2014/15: £ 8.5 million (decreased from £9.0 million in the previous MTFS)
- 2015/16: £11.0 million

The Council's political and managerial leadership understand the financial position and challenges being faced by the Council over the MTFS period, and the need to reduce budgets to match the available resource.



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The Council's financial planning arrangements are being utilised to manage the process. However, there remains work to do to determine specific detailed plans as to how the reductions will be achieved and then implement the actions required by those plans to continue to deliver a balanced financial position into the medium term.

### **Challenging economy, efficiency and effectiveness**

Our review of economy, efficiency and effectiveness has considered the Council's arrangements for prioritising resources and improving efficiency and productivity.

The budget set for 2011/12 ensured that resources were allocated in accordance with the Council's priorities. As the Council continues to challenge the resource allocation in the next round of budget and medium term financial planning, the Council must ensure that it continues to focus resources to address priorities, and re-visit these priorities to ensure that they remain appropriate to the needs of the Borough.

### **Budget 2012/13 and beyond**

To assist with addressing the budget gap in 2012/13, as part of setting the budget for the year, the Council identified planned savings of £11.8m across the Council's directorates.

Variances against both the service budgets and the budget savings will need to be addressed so that the Council can achieve its planned financial position for 2012/13 as a further stepping stone to addressing the medium term budget gap. If the 2012/13 plans are not achieved this will exacerbate the reductions to be delivered in future periods, making it even more difficult to achieve a balanced budget position in future periods. The Council's in year financial monitoring is reporting that to date the majority of savings are on target to be delivered by the end of the financial year.

Challenges facing the Council include the localisation of support for Council Tax which is due to be implemented in April 2013. Central Government funding is due to be cut nationally by 10%, which for Southend amounts to approximately £1.5m. This rises to £2.2m when factoring in additional loss in collection, caseload figures and preceptor payments. Therefore the Council needs to determine discounts, or benefits, to be offered to residents and the affordability of those as part of the budget setting process. The Council is working with other Essex authorities on future arrangements and project plans and a draft local scheme has been completed.

Overall the Council is working to manage the delivery of the required savings over the MTFS period and currently has sufficient flexibility in its reserves to remain financially resilient.

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## **AUDIT CERTIFICATE**

Shortly before completing the audit at the end of September we received notification from a member of the public that they were seeking clarification about the Council's treatment of parking enforcement using the mobile CCTV camera, and that this could lead to a potential objection to the accounts.

The parking enforcement notices generated by the mobile CCTV camera are not material to the financial statements and therefore we were able to issue our opinion on the financial statements, but have withheld our audit certificate confirming full completion of the audit pending resolution of this potential objection.