



SOUTHEND-ON-SEA BOROUGH COUNCIL

Annual Audit Letter 2013/14

29 OCTOBER 2014

EXECUTIVE SUMMARY

Background

This Annual Audit Letter summarises the key issues arising from the work that we have carried out during the year. It is addressed to the Council but is also intended to communicate the significant issues 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 Audit Commission's Code of Audit Practice (the Code). Under the Code, we are required to review and report on:

- the Council's Statement of Accounts
- whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

We are also required to review and report on the Council's Annual Governance Statement, Whole of Government Accounts (WGA) submission, whether we have exercised our statutory powers under the Audit Commission Act 1998 in any matter, and our grant claims and returns certification work.

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
29 October 2014

STATEMENT OF ACCOUNTS

1

We issued an unqualified true and fair opinion on the financial statements on 29 September 2014.

Three material misstatements were identified and corrected during the audit. Six other material misstatements were identified that affected the disclosure notes to the financial statements only.

During our review of the key financial systems we did not identify any significant deficiencies in internal controls.

USE OF RESOURCES

2

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.

We issued an unqualified value for money conclusion on 29 September 2014.

OTHER MATTERS

3

We are satisfied that the Annual Governance Statement is not inconsistent or misleading with other information we were aware of from our audit of the financial statements and complies with Delivering Good Governance in Local Government (CIPFA / SOLACE).

The Council has amended its WGA Data Collection Tool submission to reflect the amendments made to the financial statements. We reported that it is consistent with the audited financial statements except for the split between usable and unusable reserves. The counterparty information is consistent with the accounting records. The WGA assurance statement was issued on the 28 October 2014.

The audit certificates for 2011/12 to 2013/14 remain outstanding pending the conclusion of our response to an Objection received in respect of the 2011/12 audit. The issues raised by the objector related to car parking and the use of vehicles with CCTV cameras.

GRANT CLAIMS AND RETURNS CERTIFICATION

4

We have completed our review of the Housing Pooled Capital Receipts return and have no matters to report. Our work on the Housing Benefits subsidy claim for 2013/14 is in progress.

We will report the findings from this work in December 2014.

STATEMENT OF ACCOUNTS

1

OPINION

We issued an unqualified true and fair opinion on the financial statements on 29 September 2014.

Financial performance

The Council reported a surplus on the provision of services of £7.7 million.

After adjusting for items in the Movement in Reserves Statement, the Council reported a surplus on the General Fund of £18.5 million before transfers to earmarked revenue reserves of £19.3 million. The HRA reported a surplus of £2.7 million.

Financial statements

Three material misstatements were identified and corrected during the audit:

- Recharges Prior Period Adjustment (PPA) - Some of the internal recharge income and expenditure between departments was “double counted” in the prior year in relation to the “Adult Social Care” and “Children’s and Educational Services” lines of the comprehensive income and expenditure statement. Whilst the Council had identified the cause of the issue, no PPA had been affected or disclosed in the draft accounts. This does not have any impact on the net deficit reported for the prior year, but the gross overstatement was £10.6m.
- Valuation of HRA assets- The value of HRA properties increased materially during 2013/14, but this was not included within the valuer’s report to the Council and so was not reflected in the draft financial statements received for audit. An increase of £13.8m was calculated and adjustments made to reflect this in the accounts.
- Cashflow (Current and Prior year) - The interest received and paid was incorrectly disclosed within the Cashflow Statement. The total gross impact in the current year was £11.7m and in prior year adjustments totalled £32.5m, although there was no net impact on the Statement.

Six other material misstatements affect the disclosure notes to the financial statements only. These were:

- The minimum lease payments due in relation to Southend airport were incorrectly excluded from the prior year disclosure in the accounts and so the disclosure was understated by £24.2m.
- Two notes within the Group Accounts (Property, Plant and Equipment and Pensions), which were materially different to Southend’s individual accounts, had been omitted from the draft accounts.
- Misclassification of £45.0m between items valued internally and those valued externally within the rolling re-valuation note.
- Although not directly instructed by the Code or associated guidance, a detailed note for the adjustments to surplus /deficit on the provision of services for non-cash-movements, within the Cashflow Statement was not included in the draft accounts.
- The maturity analysis of borrowing included in the Financial Instruments note did not include interest payments due under the loan terms and so was understated by £221m. The customers figure in the credit risk disclosure did not agree to the figure in Note 16 and so was understated by £8.8m.

All differences identified from our audit work have been adjusted for in the final version of the accounts.

Significant judgements and estimates

Fair value of land and buildings

The calculation of the fair value of land and buildings is subject to a high level of estimation uncertainty that requires the exercise of judgement in determining the appropriate assumptions underlying the valuation. The Council engaged Wilks, Head and Eve as a management expert to provide information on asset values and market trends.

The value of HRA properties increased materially during 2013/14, but this was not included within the valuer's report to the Council and so was not reflected in the draft financial statements received for audit. An increase of £13.8m was calculated and adjustments made to reflect this in the accounts.

Through our audit work and testing, we were satisfied that the value of the other assets, reported in the financial statements, are materially correct.

Actuarial assumptions

The actuarial assumptions used for pension valuations are subject to a high degree of estimation uncertainty that requires the exercise of judgement in determining the appropriate assumptions underlying the valuation.

Essex County Council Pension Fund engaged Barnett Waddingham as a management expert. We are satisfied that the actuary is independent of the Council, objective and is experienced in undertaking this work. Our review of the assumptions applied in estimating the pension liability suggest that these are not significantly different from those being applied by the actuaries of other local authorities.

Internal controls

We did not identify any significant deficiencies in internal controls.

USE OF RESOURCES

2

CONCLUSION

We issued an unqualified value for money conclusion on 29 September 2014.

Our principal work in arriving at our value for money (“VfM”) conclusion was comparing the Council’s performance against the requirements specified by the Audit Commission in its guidance:

- the organisation has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future
- the organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

Focus of review

We have reviewed the Council’s arrangements against risk indicators and key issues facing the sector including the Government’s spending review, funding over the medium term, risks arising from welfare reform, and risks from the localisation of business rates.

In our audit plan we reported the follow significant risk to the Council:

- There is a risk that the Council will not have robust plans in place to generate £16.3m of savings required in 2015/16 to balance the budget, which is notably higher than previous in-year levels. Over the next three years, Southend need to find savings of £37.3m, creating further financial pressures.

We also review the Council’s relative performance against the VfM Profile Tool and Financial Ratios Analysis Tool produced by the Audit Commission, issues arising from VfM Briefings provided by the Audit Commission, and the key assumptions in the Medium Term Financial Strategy.

Financial resilience

Our financial resilience work has considered the Council's arrangements for financial governance, financial planning and financial control.

During 2013/14, as part of setting the budget for 2014/15 and following the financial settlement announced during the year, the Council updated the four year Medium Term Financial Strategy (MTFS) that identifies the budget gap which needs to be addressed through the Council's financial planning arrangements.

The budget gap of £37.3 million identified for the period covered by the MTFS (up from £29.6 million in the MTFS published at the end of 2012/13) is forecast to arise as follows:

- 2015/16: £16.3 million (increased from £8.7 million in the previous MTFS)
- 2016/17: £10.9 million (increased from £8.4 million in the previous MTFS)
- 2017/18: £10.1 million

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. The budget setting process for 2015/16 has recently begun, with discussions held between senior management and Cabinet regarding the Council's approach to the process. The 2015/16 budget will need to take account of the Council's new corporate priorities, which have been developed by the joint administration formed following the local elections in May 2014. These new priorities will also need to be incorporated into the next iteration of the MTFS.

Financial outturn 2013/14

In 2013/14 the Council overspent against the budget overall for the year by £845,000, decreasing the General Fund balance to £11m, after making an additional contribution to general earmarked reserves of £19.3m (excluding HRA reserves). £8.7m of this transfer relates to a change in the way in which the Council accounts for grants without conditions attached to their use. A further £5.9m relates to funds set aside to finance the repayment of the pension deficit made in April 2014 and required following the most recent triennial valuation of the pension scheme.

In 2013/14 the HRA underspent against the budget for the year, and was therefore able to contribute £2.7m to HRA earmarked reserves, while maintaining the HRA balance at £3.5m.

Budget 2014/15 and beyond

To assist with addressing the budget gap in 2014/15, as part of setting the budget for the year the Council identified planned savings of £7.3m (£10.4m in 2013/14) across departments and corporate areas as follows:

- Corporate Services - £0.9m
- People - £4.5m
- Place - £1.0m
- Corporate - £0.1m
- Highways, ICT, Social Care and Transport - £0.9m

The projects to be delivered to achieve this level of savings were specified and approved by Members as part of the 2014/15 budget setting process.

From our review of the latest forecast position (as at end of June 2014), the Council is slightly behind where it planned to be to deliver its 2014/15 financial objectives and targets. The most recently available budget monitoring documentation shows that the Council is currently forecasting that full year savings of £6.6m will be achieved in 2014/15. This is a £0.7m shortfall against the budgeted savings target for the year. Management is now working to improve this position for 2014/15 and is beginning to develop the budget for 2015/16 and beyond.

Challenging economy - efficiency - effectiveness

Our work focused on:

- Reviewing the action plan put in place as a result of the Local Government Association (LGA) peer review that was undertaken in January 2014 and considering whether the Council is on track to achieve the objectives set by the Board.
- Following up our previous work on the Health and Wellbeing (H&WB) Board, which identified a number of areas for development and further investigation.

During 2013/14 the Council and its partners have continued to work on developing the H&WB arrangements and how the H&WB is tackling the health challenges and issues faced by the Borough. The Council invited the LGA to undertake a peer review challenge of the H&WB arrangements, which demonstrated that the Council is open to new ideas and committed to further improving the foundations that were already in place. The results were reported in February 2014.

The H&WB Board has made further progress during 2013/14 including:

- The development of a joint Southend-on-Sea Health System Strategic Plan 2014-2019 setting out the shared vision and ambitions for improving outcomes for the health system in Southend-on-Sea over the next five years. The plan was approved in June 2014.
- Becoming a Health and Social Care Integration Pioneer site and development of a Better Care Fund plan that is aligned with the Integration Pioneer programme
- Further embedding of health and wellbeing across the Council with increased understanding and focus on improving the wider determinants of health

- Continued strong partnership working arrangements developing award winning joint programmes.

Areas and activities that the Council and its partners still need to develop further to enhance the effectiveness of the H&WB in achieving the outcomes it is pursuing include:

- Being more widely recognised as the primary strategic forum driving the response to the key challenges faced by the health and care system, to exert the appropriate influence over relevant organisations
- Further developing the use of joint commissioning and working to tackle the major challenges to health and wellbeing currently faced by the Borough
- Agreeing a protocol for the sharing and use of data to provide the best possible evidence base for decision making
- Agreeing the arrangements for evaluating the effectiveness of H&WB work and action plans, including the required performance management information, so that the Board can properly monitor progress towards objectives.

The Council has continued to make good progress to bring the Board to its current position, in line with the statutory requirements and influencing the response to the health challenges of the Borough. The Board has plans in place to assist with maintaining the momentum in the development of arrangements and relationships, so that the anticipated benefits of the operation of a successful and influential the Board can be converted into improvements in the public services provided for the residents of the Borough.

OTHER MATTERS

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REPORT BY EXCEPTION

Other matters are detailed below.

Annual Governance Statement

We are satisfied that the Annual Governance Statement is not inconsistent or misleading with other information we were aware of from our audit of the financial statements and complies with Delivering Good Governance in Local Government (CIPFA / SOLACE).

Objection

The audit certificates for 2011/12 and 2012/13 remain outstanding pending the conclusion of our response to an Objector. The issues raised by the Objector related to car parking and the use of vehicle with CCTV cameras.

The findings and conclusions have been reported to the representative of the Objectors. A draft Statement of Reasons has been prepared and is in the process of passing through internal and Audit Commission quality assurance phases.

Our certificates for the years 2011/12 to 2013/14 can only be issued once the full process of the Objections has been concluded.

Whole of Government Accounts

A significant number of inconsistencies were identified between the WGA Data Collection Tool (DCT) submitted for audit and the draft financial statements. All inconsistencies have been corrected in the final version of the WGA.

The Council has also amended the DCT to reflect the amendments made to the financial statements during the course of our audit. We reported that the final DCT is consistent with the audited financial statements except for the split between usable and unusable reserves. The counterparty information is consistent with the accounting records.

The totals of the usable and unusable reserves as set out in the DCT do not map directly to the final signed accounts because of the way the WGA pulls through the group reserves. The WGA forces the mis-classification of £5,929k unusable reserves as usable reserves. The same mis-mapping is forced by the WGA with the opening balances, where £4,949k of unusable reserves are mis-classified as usable reserves. Without the workings of the WGA form being revised, it is not possible for Southend-on-Sea Borough Council to accurately reflect their reserves on the balance sheet.

Due to the volume of inconsistencies in the draft referred to above the WGA was not submitted by the deadline of the 3 October 2014. The final return was submitted on 28 October 2014.

Some recommendations to improve the process have been discussed and agreed with management. These will be reported to the next Audit Committee within the progress report.

GRANT CLAIMS AND RETURNS CERTIFICATION

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CERTIFICATION WORK

The 2012/13 Housing and Council Tax Benefit subsidy claim and the Teachers' Pension claim were subject to qualification. The National Non-Domestic Rates return and Pooled Capital Receipts return were certified without qualifications.

Certification findings 2012/13

We presented our most recent Grant claims and returns certification report in January 2014, which included the results of the audited returns for 2012/13. We certified 4 returns amounting to over £157 million.

Housing and Council Tax Benefits

The Housing and Council Tax Benefit Subsidy Return was qualified as a result of twelve errors identified from our testing. These resulted in nine areas requiring "40 plus" testing and three areas of 100% testing, as required by the methodology agreed with the Department for Work and Pensions (DWP). This methodology requires that, for situations where errors are identified that cannot be concluded as isolated, extended testing of an additional sample of 40 cases is required. Where the Council checked 100% of cases the claim form was amended. Where 40 plus testing was undertaken errors were extrapolated as these were systematic issues. The extrapolated errors all related to over-claim of subsidy.

These were all reported to the Department for Work and Pensions and had the potential impact of reducing the total subsidy claimable by £716,043 because the Council breached the overpayments threshold within the scheme and therefore receive less subsidy.

Recommendations were made and management have taken action to address the issues highlighted.

Teachers' Pension claim

A large number of errors were found with the Teachers' Pension return that was submitted for audit.

Overall, we concluded that the control environment for this grant claim was weak and that improvements needed to be made. A detailed action plan was agreed and management have taken action to address the issues highlighted

Work in progress for 2013/14

We have completed our review of the Housing Pooled Capital Receipts return and have no matters to report. Our work on the Housing Benefits subsidy claim for 2013/14 is in progress.

We will report the findings from this work in January 2015.

APPENDIX

Reports issued

We issued the following reports in respect of the 2013/14 financial year.

REPORT	DATE
Planning letter	April 2013
Grant Claims and Returns Certification Report	January 2014
Audit Plan	March 2014
Final Audit Report	September 2014
Annual Audit Letter	October 2014

Fees update

We reported our original fee proposals in our Audit Plan issued in March 2014. Our fees to date and any variance to the original proposal are shown below.

AUDIT AREA	PROPOSED FEES £	FEES UPDATE £
Audit fee	189,351	(note 1) 192,267
Certification work	37,400	(note 2) 29,574
Teachers' Pension Grant Claim	(note 3) TBC	(note 3) TBC
Total fees for audit services	226,751	221,841
Non audit fees		
-Fraud Awareness Training	4,196	4,196


Note 1 - A fee variation has been requested from the Audit Commission. This is the proposed variation and will not be final until it has been agreed with the Audit Commission. The additional fee results from problems encountered with the review of the WGA DCT.

Note 2 - work remains on going on the housing benefit subsidy return. We will report the findings from this work and the final fees separately.

Note 3 - at the time of drafting, the scope and approach, and consequent fees, for providing "reasonable assurance" to the Teachers Pensions Agency has yet to be agreed.

Audit Fee: The updated fee includes an increase of £2,916 in relation to the extra time spent to complete the Whole of Government Accounts Return. As a number of inconsistencies were identified between the draft accounts and the WGA return submitted for audit.

Certification work: The scale fee was reduced to exclude the Teachers' Pension grant claim and to take account of the reduced level of work for Council Tax within the Housing and Council Tax Benefits grant claim. The figure quoted above is the revised scale fee, as published on the Audit Commission website.



The matters raised in our report prepared in connection with the audit are those we believe should be brought to your attention. They do not purport to be a complete record of all matters arising. This report is prepared solely for the use of the council and may not be quoted nor copied without our prior written consent. No responsibility to any third party is accepted.

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