



# SOUTHEND-ON-SEA BOROUGH COUNCIL

Annual Audit Letter 2014/15

28 October 2015

# 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 financial statements
- 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  
28 October 2015

## FINANCIAL STATEMENTS

1

We issued an unqualified true and fair opinion on the financial statements on 30 September 2015.

Three material misstatements were identified and corrected during the audit. These all related to complex capital accounting treatments.

There were two unadjusted audit differences one of which would increase the draft surplus on the provision of services in the CIES to £9.052 million (from £8.469 million) if adjusted. However Officers have indicated that if this adjustment was made (in respect of the insurance provision) the difference would be taken to the insurance reserve and so there would be no impact on the General Fund balance.

We noted one significant deficiency in internal control in relation to payroll amendments. The deficiency had previously been identified and reported by Internal Audit.

## USE OF RESOURCES

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We were satisfied that, in all significant respects, the Council had 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 30 September 2015.

## OTHER MATTERS

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

We have not exercised our statutory powers and have no matters to report in this respect.

Our audit of the Council's Whole of Government Accounts (WGA) return is in progress and is expected to be completed in November 2015.

The audit certificate will be issued upon completion of the WGA audit.

## GRANT CLAIMS AND RETURNS CERTIFICATION

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Our review of grant claims and returns is in progress and the results will be reported upon completion of this work.

# FINANCIAL STATEMENTS

1

OPINION

We issued an unqualified true and fair opinion on the financial statements on 30 September 2015.

## Financial performance

The Council reported a surplus on the provision of services of £8.469 million and achieved savings for the year of £6.8 million which was close to target. The General Fund balance was £11 million at 31 March 2015 which is within the Head of Finance and Resources recommended range of £10 million to £12 million. General Fund earmarked reserves were £48 million. The Council's overall useable reserves, which include the General Fund, Housing Revenue Account (HRA), Earmarked Reserves (including schools) and capital resources, have increased by £11.6 million in 2014/15.

The Council is continuing to monitor the overall financial position closely. As at the end of July 2015 the budget monitoring documentation shows that the Council is currently forecasting that full year savings of £10.3 million will be achieved in 2015/16. This is a £0.2 million shortfall against the budgeted savings target for the year.

## Financial statements

The draft Statement of Accounts was prepared and provided to us for audit on 30 June 2015. A comprehensive file of audit working papers was also provided.

Three material misstatements were identified and corrected during the audit:

- Forum Prior Period Adjustment (PPA) - A PPA for a gross asset value of £14.5m had been recognised in order to remove the parts of the complex relating to the other parties from the financial statements. The adjustment is now recognised in the opening balance sheet at 1 April 2013 and has led to an increase of £18.5m in the surplus on the provision of services in the Comprehensive Income and Expenditure Statement (CIES) reported for 2013/14.
- School Assets - A change in the 2014/15 Code of Practice on Government Accounting (the Code) requires the Foundation Trust schools in the borough to be excluded entirely from the Council's financial statements as control of the assets is held by the relevant trusts. This change in accounting treatment and policy required a PPA to be recognised by the Council. The PPA included by the Council in the draft accounts should have been recognised in the opening 1 April 2013 balances rather than as an in-year revaluation in 2013/14. This adjustment has reduced the gross balance sheet value of Property, Plant and Equipment by £34.9m. In the original draft accounts an exceptional gain for schools assets of £50.9m was included in the CIES but following

the adjustments made this has been removed and so there is no impact on the CIES for 2014/15 or 2013/14.

- Pier Valuation - The PPA included in the draft accounts submitted for audit was amended to be reflected in the opening balances of the 2013/14 year rather than as an in-year revaluation. This adjustment did not impact on the amounts recognised on the closing balance sheet for 2013/14 or the CIES but increased the opening balance sheet at 1 April 2013 by £27.3m.

All three of the above adjustments relate to complex capital accounting treatments.

There were two unadjusted audit differences one of which would increase the draft surplus on the provision of services in the CIES to £9.052 million (from £8.469 million) if adjusted. However Officers have indicated that if this adjustment was made (in respect of the insurance provision) the difference would be taken to the insurance reserve and so there would be no impact on the General Fund balance. There was one unadjusted disclosure matter.

We considered that these uncorrected misstatements did not have a material impact on our opinion on the financial statements.

## 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.

Management makes valuation adjustments to land and buildings based on valuation reports and useful economic lives provided by an independent firm of valuers with specialist knowledge and experience valuing local authority estates, which has regard to local prices and building tender indices in the public sector.

We were satisfied that the valuer was suitably independent of the Council, objective and experienced in undertaking this work.

We compared the asset values to price index information for all categories of assets and concluded that the assumptions made by the valuer were not unreasonable.

### 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 were satisfied that the actuary was independent of the Council, objective and experienced in undertaking this work. Our review of the assumptions applied in estimating the pension liability suggest that these were not significantly different from those being applied by the actuaries of other local authorities.

### Chase Leisure Centre

Chase High School is a Foundation Trust School which was removed from the financial statements as a result of changes in the Code.

The school has a leisure centre attached to it, in which the Council has shared access outside of school hours and is run under the central leisure contract. As such the Council has an interest in the building.

Officers have reviewed the terms of the shared access agreement in conjunction with the latest school valuation and floor plan. They concluded that the leisure centre represents approximately one third of the school site and that the Council has use of it for 50 percent of the time. Based upon this the leisure centre has been recognised in the accounts at a value of £2m. We reviewed the Council's approach to determining £2m as an appropriate

estimate of the value of its interest in Chase High School and we conclude that it is materially correct and recognition of the amount is appropriate.

### Internal controls

We noted one significant deficiency in internal control in relation to payroll amendments. The deficiency had previously been identified and reported by Internal Audit.

# FINANCIAL STATEMENTS

## Annual Governance Statement

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

## Narrative reporting

Local authorities are required to include an explanatory foreword in the Statement of Accounts to provide an explanation of the financial position and to assist in the interpretation of the financial statements.

CIPFA is considering how local authorities can develop their narrative reporting requirements, such as including management commentary or strategic reporting, but has postponed this review until the legislative requirements for the sector are resolved. However, CIPFA's consultation on 'Telling the Story' will propose introducing a reconciliation from the reported outturn in the financial statements to the Council's management accounts.

# USE OF RESOURCES

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## CONCLUSION

We issued an unqualified value for money conclusion on 30 September 2015.

Our principal work in arriving at our value for money 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 draw assurances relating to value for money responsibilities from:

- the Council's system of internal control as reported on in its governance statement
- the results of the work of inspectorates and review agencies
- any other locally determined risk-based value for money work that auditors consider necessary to discharge their responsibilities.

We also considered the findings from the following sources:

- value for money profiles tool
- risk indicators arising from other audit activities such as liaison meetings and review of minutes and committee reports
- key issues facing the sector highlighted in guidance issued by the Audit Commission.

There were no inspections or external reviews completed at the Council during the year. Risk based value for money work was undertaken in relation to the Council's Medium Term Financial Strategy (MTFS).

## Financial resilience

We reviewed the latest Medium Term Financial Strategy (MTFS) which covers the four year period to 2018/19. The Council set a balanced budget for 2015/16 but this requires planned savings of £10.5 million to be achieved. The MTFS forecasts a budget gap totalling £32.4 million 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.

Although the current budget gap is significant the Council is aware of the importance of finding sustainable savings or new revenue streams. The Cabinet has now held two away day sessions with the Corporate Management Team (CMT) on understanding the Council's position, identifying what high level strategic areas Directors need to look at and identifying some areas for longer term savings ideas.

From our review of the latest forecast position (at the end of July 2015), the Council was slightly behind where it planned to be to deliver its 2015/16 financial objectives and targets. The budget monitoring documentation showed that the Council was forecasting that full year savings of £10.3 million would be achieved in 2015/16. This is a £0.2 million shortfall against the budgeted savings target for the year.

We reviewed the assumptions used in developing the MTFS and found these to be reasonable. A prudent approach to expectations of future government funding was adopted by the Council.

The Council continues to maintain sufficient earmarked reserves and balances. As at 31 March 2015, the General Fund balance was £11 million which is within the Head of Finance and Resources recommended range of £10 million to £12 million. General Fund earmarked reserves were £48 million. The Council's overall useable reserves, which include the General Fund, HRA, Earmarked Reserves (including schools) and capital resources, increased by £11.6 million in 2014/15.

### BETTER CARE FUND

The Southend Better Care Fund (BCF) plan was officially approved in December 2014 with the Section 75 agreement signed between the Council and Southend CCG on 31 March 2015 to specifically create the BCF for the 2015/16 financial year.

The Southend Health and Wellbeing Board set the strategic direction and are monitoring high level progress receiving regular progress reports. The Joint Executive Group (JEG) is monitoring the progress and prepares the reports to the Health and Wellbeing Board.

The governance of the BCF includes appropriate individuals from the relevant bodies and overall is concluded to be appropriate.

### CONTRACT MANAGEMENT

There were instances of non-compliance with contract procedure rules within the Council. As a result of this a fundamental review and update of the Council's contract management framework has been undertaken by management including Internal Audit completing a detailed review of the contract management framework during the year.

The new contract and financial procedural rules were approved at the Council meeting on 23 July 2015.

## Challenging economy, efficiency, effectiveness

### PRIORITISING RESOURCES

The Council has a good track record of achieving the annual budget and savings plans. During the year the Council paid three years' of pension fund payments in advance, totalling £14.3 million, in order to secure a reduction in future payments. The estimated saving to the Council generated by taking this approach is £1.3 million.

As part of the savings plan for 2015/16 the Council has included £0.9 million of savings in relation to significant contracts for waste, highways, leisure and transport which have been recently re-let. These savings should be on-going and should help the Council to reduce future year budget gaps.

### IMPROVING EFFICIENCY AND PRODUCTIVITY

Performance management arrangements are embedded across the Council with monthly performance reports prepared to report performance towards delivery of the Council's targets and are presented to Cabinet and Scrutiny Committees for scrutiny and challenge. Over the past three years the Council has set savings targets totalling £28.3 million which have mostly been met and allowed the Council to continue to improve its efficiency and productivity.

We reviewed the Council's year end performance report. Of the 34 corporate performance indicators 27 (79.4%) met their year-end targets. This was in the context of the majority of targets being increased, despite the resource constraints being faced by the Council. Of the 32 indicators for which data is available for the previous year, 20 have maintained or improved performance in 2014/15.

# OTHER MATTERS

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REPORT BY EXCEPTION

We have no other matters to report.

## Annual Governance Statement

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

## Whole of Government Accounts

Local authorities are required to prepare information to allow HM Treasury to prepare consolidated Whole of Government Accounts (WGA) based on the statutory financial statements.

The WGA return is audited in accordance with National Audit Office specified procedures. We provide an assurance report to the National Audit Office to confirm that the WGA return is consistent with the audited financial statements and that it is properly prepared.

Our audit of the Council's Whole of Government Accounts (WGA) return is in progress and is expected to be completed in November 2015.

## Use of statutory powers

We have not exercised our statutory powers and have no matters to report.

## Audit certificate

The audit certificate will be issued upon completion of the WGA audit.

# GRANT CLAIMS AND CERTIFICATION

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## CERTIFICATION WORK

Our review of grant claims and returns is in progress and the results will be reported upon completion of this work.

### Certification findings 2013/14

We presented our most recent Grant claims and returns certification report in January 2015, which included the results of the audited returns for 2013/14.

We completed the audit of three claims and returns with a total value of £103 million. All three claims were amended as a result of our audit. The total impact was to reduce the amount payable to grant paying bodies by £41,945.

The Housing and Council Tax Benefit Subsidy Return was qualified as a result of thirteen errors identified from our testing which required further testing. Where we could not conclude that errors were isolated these were reported to the Department for Work and Pensions in the qualification letter.

### Housing benefit subsidy claim

Public Sector Audit Appointments Ltd has a statutory duty to make arrangements for certification by the appointed auditor of the annual housing benefit subsidy claim.

Our work on the 2014/15 housing benefits subsidy claim is currently in progress and will be completed ahead of the submission deadline of 30 November 2015.

We will prepare a report on the outcome of our work in December 2015.

### Other claims and returns

A number of grant claims and returns that were previously included within the scope of the audit have since been removed, but Departments may still seek external assurance over the accuracy of the claim or return.

These assurance reviews are undertaken outside of our appointment by the Audit Commission or Public Sector Audit Appointments Ltd, and are covered by tripartite agreements between the Council, sponsoring Department and the auditor.

The Council has requested that we undertake a 'reasonable assurance' review, based on the instructions and guidance provided by the Departments, for the following returns for 2014/15:

- Pooled housing capital receipts (deadline 30 November 2015)
- Teachers' pensions return (deadline 30 November 2015)

Our work on these returns is currently in progress.

# APPENDIX

## Reports issued

We issued the following reports in respect of the 2014/15 financial year.

REPORT	DATE
Planning letter	April 2014
Grant Claims and Returns Certification Report (2013/14)	January 2015
Audit Plan	March 2015
Final Audit Report	September 2015
Annual Audit Letter	October 2015

## Fees update

We reported our original fee proposals in our Audit Plan issued in March 2015. Our fees to date and any variance to the original proposal are shown below.

AUDIT AREA	PROPOSED FEES £	FEES UPDATE £
Code audit fee	190,421	<sup>(1)</sup> 190,421
Certification of housing benefit subsidy claim	28,379	<sup>(2)</sup> 28,379
<b>Total fees for audit services</b>	<b>218,800</b>	<b>218,800</b>
Audit related services		
- Pooled housing capital receipts return	-	<sup>(2)</sup> 2,500
- Teachers' pensions return	6,950	<sup>(3)</sup> 6,950

*Note 1 - This is shown as the scale fee, the outturn position will be finalised upon completion of the WGA audit and reported separately to Audit Committee.*

*Note 2 - Our work on the assurance reviews of the grant claims and other returns for 2014/15 is in progress and we will report the findings from this work and the final fees separately.*

*Note 3 - This is the estimate included in the engagement letter that was issued in 2013/14. The actual fee will be calculated based upon the actual number of hours spent auditing this claim.*



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 organisation and may not be quoted nor copied without our prior written consent. No responsibility to any third party is accepted.

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