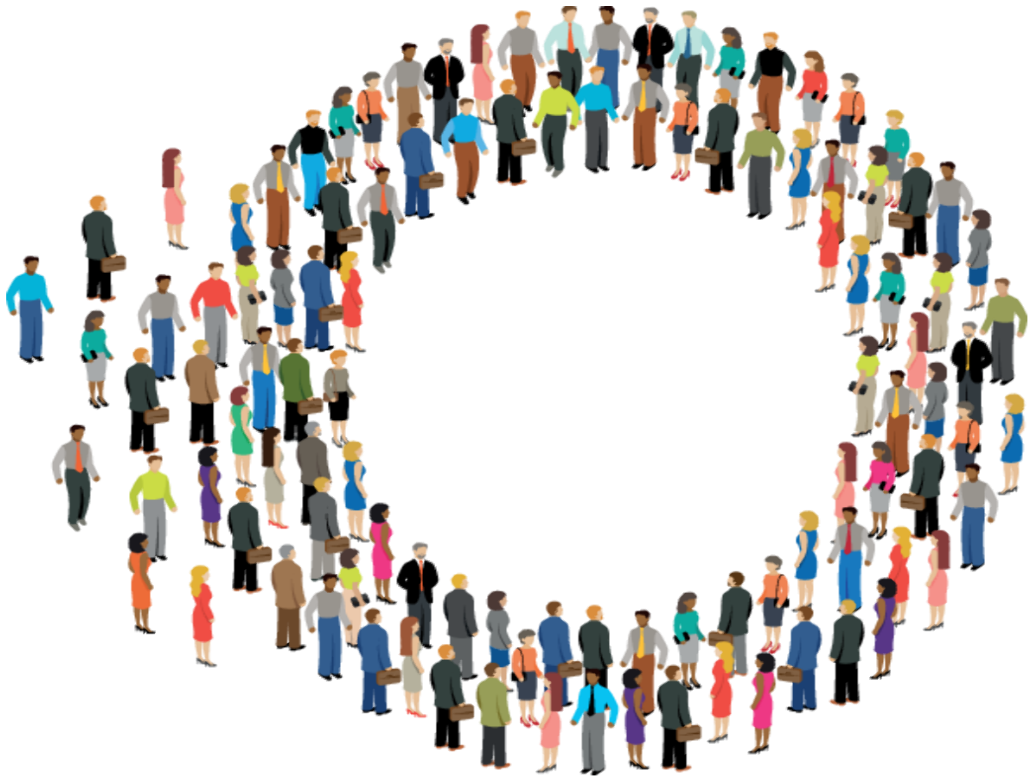

Southend-on-Sea Borough Council

Report to the Audit Committee on the audit for the year ended 31 March 2020

Issued on 13 October 2020 for the meeting on 21 October 2020

Contents

Introduction

The key messages in this report

I have pleasure in presenting our final report to the Audit Committee of Southend on Sea Borough Council (the Council) for the 2019/20 audit. The scope of our audit was set out within our planning report presented to the committee in April 2020.

Audit quality is our number one priority. We plan our audit to focus on audit quality and have set the following audit quality objectives for this audit:

- A robust challenge of the key judgements taken in the preparation of the financial statements.
- A strong understanding of your internal control environment.
- A well planned and delivered audit that raises findings early with those charged with governance.

Status of the audit	Our audit is complete apart from receipt of the signed management representation letter and confirmation regarding subsequent events to cover to the date of signing and agreeing the signed version of the accounts to the latest working version. In our last report to you we noted some key matters still outstanding: • receipt and evaluation of information from Essex Council Pension Fund auditors; • receipt and full review of final, updated financial statements; • receipt and evaluation of the impact assessment in relation to adjusting, post balance sheet events in relation to national rulings regarding local government pensions schemes (namely McCloud and Goodwin – see page 13 for detail); • completion of a limited number of normal risk procedures; • completion of internal quality assurance procedures; These matters have been resolved satisfactorily. We have included a section in this report providing observations arising from the work on the areas of significant risk and other areas of audit focus reported to you in our audit planning report. Our housing benefit subsidy assurance field work is in progress. As the reporting timeline for this is to report by 31 January, we will complete our procedures and report back to the outcome to this committee over the autumn. It is still not clear whether the later assurance requirements in the year such as Teachers' Pensions will be required, we will update you on this in later meetings.
Conclusions from our testing	• We have not identified any significant uncorrected audit adjustments or disclosure deficiencies since the version approved at the July committee meeting. • We have summarised any audit adjustments on page 20. • Based on the current status of our audit work, and apart from the emphasis of matter included in relation to property valuation – see page 11, we envisage issuing an unmodified audit opinion, with no reference to any matters in respect of the Council's arrangements to secure economy, efficiency and effectiveness in the use of resources, or the Annual Governance Statement. • We have considered the impact of the Covid-19 pandemic on our work – we include details on pages 6 and 7. Further details are included in our work on the valuation, where management's expert – Whybrow & Dodds - identified a material valuation uncertainty. This is common to 31 March 2020 valuations in the sector. This wording is reflected in our draft auditor's report. We did not identify any new financial statement or value for money significant risks as a result of the impact of the pandemic. • We do not have any significant findings or internal control deficiencies to raise.

Introduction

The key messages in this report (continued)

Financial Sustainability and Value for Money	• In the CIES, following agreed adjustments, the Council reported an accounting surplus of £3.6m for the year (2018/19: £10.7m) which included net losses of £12.3m in respect of property revaluation (2018/19: net gain of £26.1m) and gains due to remeasurement of the pension liability of £21.4m (2018/19: £31.8m). At the provision of service line the Council showed better performance with a net deficit of £5.5m (2018/19: £47.2m). At year end the Council had usable reserves of £162.2m (31 March 2019: £154.9m) and unusable reserves of £342.4m (31 March 2019: £346.1m). • Cash and cash equivalents held by the Council decreased to £42.8m from £46.4m as at 31 March 2019. However, there has been a large increase in resources held in short term investments increasing to £55.5m (31 March 2019: £20.8m). This is due to a surplus of funds received by 31 March 2020 being invested in fixed term deposits. • In the prior year, we noted a funding gap had been identified in the Medium Term Financial Plan ("MTFP") that totalled £18.6m to the end of 2023/24. This reflects ongoing budgetary pressures from reductions in funding and increasing costs of delivering services. The February 2020 iteration of the MTFP, whilst pre Covid-19, extends the outlook to 2024/25 when the funding gap is forecast to be £23.2m. We note the forecast view to 2023/24 in this latest iteration has improved slightly to a gap of £18.2m. An initial impact assessment of Covid-19 consequences has estimated additional budget pressures of £5.2m by the end of July 2020 potentially increasing to £9.5m by 31 March 2021. These budget pressures are in excess of additional forecast Covid-19 related income • Our review of arrangements has concluded that the Council's arrangements in respect of monitoring and managing this funding gap are adequate. This is discussed in further detail on page 15. • As discussed on page 15, we considered arrangements around the Council's capital schemes and its response to areas flagged by Ofsted as requiring improvement. Overall, the Council had adequate governance arrangements in these areas. • We did not identify any significant risk related to Value for Money and we do not anticipate reporting any matters within our audit report in respect of the Council's arrangements for securing the economy, efficiency and effectiveness of the use of resources.
Narrative Report & Annual Governance Statement	• We have reviewed the Council's Annual Report & Annual Governance Statement to consider whether it is misleading or inconsistent with other information known to us from our audit work. • We have no significant matters to raise with you in respect of the Narrative Report. The version reviewed in July had already been updated for our proposed adjustments to ensure appropriately detail in relation to Covid-19 has been included. We also have no significant matters in respect of the Annual Governance Statement.
Duties as public auditor	• We did not receive any formal queries or objections from local electors this year. • We have not identified any matters that would require us to issue a public interest report. We have not had to exercise any other audit powers under the Local Audit and Accountability Act 2014.
Whole of Government Accounts	• The Council continues to be below the threshold for WGA reporting.

Our audit explained

We tailor our audit to your organisation

Identify changes in your business and environment → Determine materiality → Scoping → Significant risk assessment → Conclude on significant risk areas → Other findings → Our audit report

Identify changes in your business and environment

In our planning report we identified the key changes in your business and articulated how these impacted our audit approach.

These were the impact of Covid 19 on the Council and major capital projects.

Determine materiality

When planning our audit we set our materiality for the Council audit at £7.6m (2018/19: £7.4m) based on approximately 2% of estimated gross expenditure. Materiality has not changed since our planning report. We report to you in this paper all misstatements above £0.39m (2018/19: £0.37m).

Group materiality is £7.7m (2018/19: £7.5m). Group audit considerations are summarised on page 14 of this report.

Scoping

Covid-19 consequences have impacted our work. Details are included on pages 6 and 7. There have been no other changes to the scope of our work as set out in the audit plan which is carried out in accordance with the Code of Audit Practice and supporting auditor guidance notes issued by the NAO.

Significant risk assessment

In our planning report we explained our risk assessment process and detailed the significant risks we have identified on this engagement. We report our findings and conclusions on these risks in this report. No additional risks have been identified since our Audit Plan.

Conclude on significant risk areas

We draw to the Committee's attention our observations on the significant audit risks from the work so far performed. The Committee members must satisfy themselves that management's judgements are appropriate.

Other findings

As well as our conclusions on the significant risks we are required to report to you our observations on the internal control environment as well as any other findings from the audit. For the avoidance of doubt there are no such findings arising from the audit that we wish to bring to the Audit Committee's attention. Audit adjustments arising are summarised on page 20.

Our audit report

Apart from the emphasis of matter in relation to property valuation – see page 11 -we expect to issue an otherwise unmodified audit report and unmodified value for money conclusion.

We expect to include an "emphasis of matter" paragraph in relation to material uncertainties around the property valuation.

COVID-19 pandemic and its impact on our audit.

Requirements

CIPFA has issued guidance highlighting the importance of considering the impact of COVID-19 in preparation of the 2019/20 financial statements, including communicating risks and governance impacts in narrative reporting. This is consistent with the Financial Reporting Council's guidance to organisations on the importance of communicating the impact of COVID-19 and related uncertainties, including their impact on resilience and going concern assessments.

Entity-specific explanations of the current and expected effects of COVID-19 and the Council's plans to mitigate those effects should be included in the narrative reporting (including where relevant the Annual Governance Statement), including in the discussion on Principal Risks and Uncertainties impacting an organisation.

As well as the effects upon reserves, financial performance and financial position, examples of areas highlighted by CIPFA include the impact on service provision, changes to the workforce and how they are deployed, impacts upon the supply chain, cash flow management, and plans for recovery. Risks highlighted include those relating to subsidiaries and investments, capital programmes, and resilience of the community including partner organisations and charities.

Actions

A thorough assessment of the current and potential future effects of the COVID-19 pandemic is required including:

- A detailed analysis across the council's operations, including on its income streams, supply chains and cost base, and the consequent impacts on financial position and reserves;
- The economic scenario or scenarios assumed in making forecasts and on the sensitivities arising should other potential scenarios materialise (including different funding scenarios);
- Any material uncertainties relating to the council's financial position, the financial sustainability of the Council, and the potential requirement for a section 114 notice; and
- The effect of events after the reporting date, including the nature of non-adjusting events and an estimate of their financial effect, where possible

Impact on the Council	Impact on annual report and financial statements	Impact on our audit
We have considered the key impacts on the business such as: • Interruptions to service provision. • Supply chain disruptions. • Unavailability of personnel. • Reductions in income. • The closure of facilities and premises.	We have considered the impact of the outbreak on the annual report and financial statements, discussed further on the next slide including: • Principal risk disclosures • Impact on property, plant and equipment • Valuation of commercial or investment properties • Impact on pension fund investment measurement and impairment • Financial sustainability assessment • Events after the reporting period and relevant disclosures • Bad debts provision policy • Narrative reporting • Impairment of non-current assets • Allowance for expected credit losses	We have considered the impact on the audit including: • Resource planning • Timetable of the audit • Impact on our risk assessment • Logistics including meetings with entity personnel.

	Potential Impact on annual report and financial statements	Audit response
Impact on property, plant and equipment	The Royal Institute of Chartered Surveyors has issued a practice alert, as a result of which valuers have identified a material valuation uncertainty at 31 March 2020 for most types of property valuation. This has impacted the Council and has required specific disclosure in the financial statements. Consequently, this has resulted in an Emphasis of Matter in our audit report.	The Council has considered its approach to the measurement of property, plant and equipment (PPE). Where property held at current value is based on market valuations the Council considered with their valuers the impact that COVID-19 has had on current value. The Council also considered whether there are any indications of impairment of assets requiring adjustment at 31 March 2020. The material uncertainty is disclosed in the Statement of Accounts and leads to an Emphasis of Matter in our audit opinion.
Valuation of commercial or investment properties	Following the COVID-19 pandemic, the fair value measurements for financial instruments and investment properties held by the Council needed to be reviewed against the conditions and assumptions at the measurement date. This presents some difficulties because of the volatility of the market at the measurement date and the potential for there to be a lack of reliable observable inputs. This required additional consideration in our work on year-end valuations.	The material uncertainty noted above also includes Investment Properties. The Council's financial instrument portfolio is wholly made up of "Level 1" investments i.e. where there is a verifiable external source for the pricing. This reduces the level of uncertainty in regard to financial instruments. Whilst the property fund assets carry a degree of uncertainty in regard to the valuation of the underlying property assets (similar to the uncertainty the Council has on its own property), this is not at a level where it gives rise to a material uncertainty to disclose in the audit opinion in respect of those property fund assets.
Impact on pension fund investment measurement	As a result of the COVID-19 pandemic pension fund investments have been subject to volatility.	We engaged early with the Essex County Council Pension Fund auditor to not only gather information for year-end measurements but to also understand any estimation techniques and any changes to those techniques that may be needed to measure the financial instruments. Where such volatility exists it may mean that the inputs used in the fair value measurement may change and may require a change of measurement technique, and consideration of the level of uncertainty in valuations where there is significantly more estimation. We have received this report back from the Essex County Council Pension Fund auditor who had no matters to report and no adjustments were required to the financial statements. The auditor concluded the control environment at Essex was satisfactory.
Expected credit losses	The Council has considered the provision for credit losses for receivables, including for expected credit losses for assets accounted for under IFRS 9.	No issues in relation to this have arisen from our audit work.

	Potential Impact on annual report and financial statements	Audit response
Covid related income received pre year end	• There were 2 main receipts of income related to Covid-19 that were received pre 31 March 2020 • **Covid-19 LA Support grant.** This was the first tranche of £1.6bn passed out to Councils by MCHLG on March 27 2020. Southend received £5.4m. This grant was unringfenced and without conditions and therefore should be recognised in income with any unspent amounts carried in reserves. • **S31 Business Rates relief grant.** This brought forward the receipt of business rate reliefs to ease cash flow pressures that would otherwise have been distributed over the course of 2020/21. The Council received £4.9m. The Council is required to report on this matter and the government can reclaim overpaid sums. It is correct to recognise this grant in receipts in advance (creditors) to release the income over the course of 2020/21.	• We note that after discussion and reference to guidance these have been treated correctly in the updated statement of accounts. • The remaining Covid related income receipts received after the year end will be considered as part of the 2020/21 audit.
Narrative and other reporting issues	The following areas need to be considered by local authorities as having being impacted on by the COVID-19 pandemic. • Narrative reporting as well as the usual reporting requirements will need to cover the effects of the pandemic on services, operations, performance, strategic direction, resources and financial sustainability. • Reporting judgements and estimation uncertainty, the Council will need to report the impact on material transactions including decisions made on the measurements of assets and liabilities	We note that the updated narrative report adequately discloses matters related to Covid-19, including risks, potential impacts and other issues. The report is compliant with the guidance in this area.

Significant risks

Management override of controls

Risk identified

In accordance with ISA 240 (UK) management override is a significant risk. This risk area includes the potential for management to use their judgement to influence the financial statements as well as the potential to override the Council's controls for specific transactions.

Deloitte response

We have considered the overall sensitivity of judgements made in preparation of the financial statements, and note that:

- The Council's results throughout the year did project both positive and negative divergences from budgets in operational areas. This was closely monitored and whilst some areas projected overspends, the underlying reasons were understood. We do note that earmarked reserves were drawn down at a greater level than planned – a £1.8m actual contribution against a planned £147k. There are adequate reserves to support this with earmarked reserves carried forward of £107.4m (31 March 2019: £106.7m)
- Senior management's remuneration is not tied to particular financial results.

We have considered these factors and other potential sensitivities in evaluating the judgements made in the preparation of the financial statements.

Significant and unusual transactions

We did not identify any significant transactions outside the normal course of business or any transactions where the business rationale was not clear.

Journals

We have performed design and implementation testing of the controls in place for journal approval.

We have used Spotlight data analytics to risk assess journals and select items for detailed follow up testing. The journal entries were selected using computer-assisted profiling based on areas which we consider to be of increased interest.

We have tested the appropriateness of journal entries recorded in the general ledger, and other adjustments made in the preparation of financial reporting. No issues were noted.

Accounting estimates

We have performed design and implementation testing of the controls over key accounting estimates and judgements.

The key judgements in the financial statements are those selected as significant audit risks and other areas of audit interest: valuation of the Council's estate, correct treatment of capital spend and the valuation of the pension liability, as discussed elsewhere in this report.

We reviewed accounting estimates for biases that could result in material misstatements due to fraud. We note that overall the areas more subject to estimation in the period were balanced and did not indicate a bias to achieve a particular result.

We tested accounting estimates and judgements, focusing on the areas of greatest judgement and value. Our procedures included comparing amounts recorded or inputs to estimates to relevant supporting information from third party sources.

Deloitte view

We have not identified any significant bias in the key judgements made by management based on work performed.

We have not identified any instances of management override of controls in relation to the specific transactions tested based on work performed.

Significant risks (continued)

Valuation of property assets

Risk identified

The Council is required to hold property assets within Property, Plant and Equipment (“PPE”), Heritage Assets and Investment Properties at valuation. The valuations are by nature significant estimates which are based on specialist and management assumptions and which can be subject to material changes in value.

Key judgements and our challenge of them

The Council held total assets across PPE, Heritage Assets and Investment Property of £854.1m at year end (31 March 2019: 851.4m). In PPE, the Council held £641.6m of property assets in Other Land a Buildings and Council Dwellings at 31 March 2020, a slight increase from the £640.9m held at 31 March 2019.

This increase of £0.7m is the net impact of several factors principally:

Increasing factors – TOTAL: +£19.4m

- Additions of £16.5m
- Transfers from Assets Under Construction of £2.9m

Decreasing factors– TOTAL: -£18.7m

- Net revaluation impact of £4.6m
- Disposals impact of £1.3m
- Depreciation of £12.8m

Investment properties had immaterial movements due to disposals of -£0.9m, transfers in of +£0.2m and a revaluation increase of +£0.4m giving a carried forward valuation of £41m (31 March 2018: £41.3m).

The financial year to 31 March 2020 represented one year of the five year rolling programme in which 20% of the total asset portfolio was revalued at 1 April 2019. The main section revalued this year was Heritage Assets with a net impairment to carrying values of £11m.

In addition, the Council commissioned its valuer to perform a market review providing information on market changes across 2019/20. On the basis of information in this report, the Council elected to adjust the valuation of properties to account for market changes during 2019/20.

Deloitte response

- We tested the design and implementation of key controls in place around the property valuation.
- We obtained an understanding of approach adopted to the valuation, including assessing the valuer’s qualifications, objectivity and independence and reviewing the methodology used.
- We tested a sample of inputs to the valuation.
- We used our valuation specialists, Deloitte Real Estate, to review and challenge the appropriateness of the assumptions used in the valuation of the Council’s property assets including considering the assumptions made of movements between the valuation being performed at earlier stages in the year and the year-end.
- We tested a sample of revalued assets and reperformed the calculation of the movement to be recorded in the financial statements to check correctly recorded.
- We considered the impact of uncertainties relating to Covid 19 and the UK’s exit from the EU upon property valuations in evaluating the property valuations and related disclosures.

Pier valuation

We note that there was increased judgement required in relation to Southend Pier. The asset was impaired by £10.1m from a brought forward valuation of £32.8m to a carried forward valuation at 31 March 2020 of £22.7m.

This is driven by evidence of increasing costs of maintaining the structure of the pier. In accounting terms, the need for heavy maintenance shortens the economic life of this asset as it stands. This shortening of its life plus factoring in the repair and maintenance costs the Council plans to spend have the overall impact of decreasing the valuation of the asset.

This was agreed with the Council’s valuer and the Deloitte Real Estate specialist. It was also noted that similar obsolescence (economic life shortening) assumption increases were applied to other older assets appraised as part of the valuation.

We note the Pier is an unusual asset that is difficult to value and is the only one of its kind in the portfolio.

The conclusion to this matter and its presentation in the accounts is satisfactory.

Significant risks (continued)

Valuation of property assets – Material Uncertainty due to Covid-19

Material Uncertainty due to Covid 19

The Council's valuer has included disclosures in relation to Covid 19 in their report including the extracts below:

The outbreak of the novel Coronavirus (COVID-19), declared by the World Health Organisation as a "Global Pandemic" on 11th March 2020, has impacted global financial markets. Travel restrictions have been implemented by many countries.

Market activity is being impacted in many sectors. As at the valuation date, we consider that we can attach less weight to previous market evidence for comparison purposes, to inform opinions of value. Indeed, the current response to COVID-19 means that we are faced with an unprecedented set of circumstances on which to base a judgement.

Our valuation is therefore reported on the basis of 'material valuation uncertainty' as per VPS 3 and VPGA 10 of the RICS Red Book Global. Consequently, less certainty – and a higher degree of caution – should be attached to our valuation than would normally be the case. Given the unknown future impact that COVID-19 might have on the real estate market, we recommend that you keep the valuation of this property under frequent review.

This is a common feature of valuation reports prepared to 31 March 2020

Impact on Statement of Accounts

The Council is required to disclose the existence of this material uncertainty in the Statement of Accounts. This can be seen in Note 4 to the accounts, an extract of which is included below:

"[Covid 19] presented an unprecedented set of circumstances on which to base valuation judgements at the balance sheet date.

Asset valuations at 31 March 2020 are included on the basis of 'material valuation uncertainty' so a higher degree of caution should be attached to these valuations. However, they have been based on the best information available and are therefore a valid basis of valuation for this Statement of Accounts.

These include Property, Plant and Equipment, Investment Property valuations and indexation adjustments because of the market review undertaken by the external valuers."

Impact on Audit Opinion

An "emphasis of matter" is required to be included in our audit opinion to draw attention to management's disclosure:

"*We draw attention to note 4, which describes the effects of the uncertainties created by the coronavirus (COVID-19) pandemic on the valuation of the Council's property portfolio. As noted by the Council's external valuer, the pandemic has caused extensive disruptions to businesses and economic activities and the uncertainties created have increased the estimation uncertainty over the valuation of the property portfolio at the balance sheet date. Our opinion is not modified in respect of this matter*."

Deloitte view

Overall, we have concluded that the net book value of property assets is not materially misstated. The Council's valuation assumptions are generally reasonable and fall within the expected range highlighted by Deloitte Real Estate.

Significant risks (continued)

Capital expenditure

Risk identified

The Council has a substantial capital programme of £233m over the next five years. The capital programme included £59.7m spend in 2019/20.

Determining whether or not expenditure should be capitalised can involve judgement as to whether costs should be capitalised under International Financial Reporting Standards.

The Council has greater flexibility over the use of revenue resource compared to capital resource. There is also, therefore, an possible incentive for officers to misclassify revenue expenditure as capital.

Deloitte response

- We tested the design and implementation of controls around the capitalisation of costs.
- We selected a sample of capital items (including REFCUS) in the year to test whether they have been appropriately capitalised in accordance with the accounting requirements.

Deloitte view

Our work in this area has been completed satisfactorily with no issues noted.

Other matters
Defined benefits pension scheme

Background

The Council participates in the Essex Local Government Pension Scheme, administered by Essex County Council.

The net pension liability has decreased from £151.8m at 31 March 2019 to £144.5m at 31 March 2020 primarily as a result of movements in asset values and some changes in discount rate and inflation assumptions. This total includes the impact of the McCloud adjustments.

The Council's pension liability continues to be affected by the McCloud legal case in respect of potential discrimination in the implementation of transitional protections following changes in public sector pension schemes in 2015. The 31 March 2020 position as currently calculated, including the impact of McCloud, is stated as a £5.3m additional liability and has not moved materially in the year from its £4.7m opening position as at 1 April 2019.

In our July report to you, we noted ongoing discussions with the actuary regarding a potential amendment to this figure and that we were reviewing the response from the actuary. This matter has been concluded satisfactorily and there are no adjustments to raise as the actuary has adequately accounted for recent changes in its original calculation to give an outcome that is within the materially acceptable range.

In the current year there was an additional legal case - the Goodwin judgement - that has an impact on the scheme. The judgement is in respect of a Teacher's Pension case where there was deemed to be discrimination in spousal transfer on death of the member (where a male widower was deemed to be discriminated against through receiving a different level of benefits than a female widow).

In our July report, we noted we were reviewing the response from the actuary in relation to this matter. Overall, the conclusion is that an expected 0.2% impact to the liability would not lead to a materially incorrect calculation of the liability. This matter has been concluded satisfactorily with no adjustment required.

Deloitte response

We obtained a copy of the actuarial report produced by Barnett Waddingham, the scheme actuary, and agreed in the disclosures to notes in the accounts.

- We assessed the independence and expertise of the actuary supporting the basis of reliance upon their work.
- We reviewed and challenged the assumptions made by Barnett Waddingham, including benchmarking as shown the table opposite.
- We obtained assurance from the auditor of the pension fund over the controls for providing accurate membership data to the actuary.
- We assessed the reasonableness of the Council's share of the total assets of the scheme with the Pension Fund financial statements for the year.
- We have reviewed and challenged the calculation of the impact of the McCloud case on pension liabilities.
- We reviewed the disclosures within the accounts against the Code.

	Council	Benchmark	Comments
Discount rate (% p.a.)	2.35	2.63	Reasonable, slightly prudent
Consumer Price Index (CPI) Inflation rate (% p.a.)	1.90	2.15	Reasonable, slightly optimistic
Salary increase (% p.a.) (over CPI inflation)	1.00	Council specific	Reasonable
Pension increase in payment (% p.a.)	1.90	2.15	Reasonable, slightly optimistic (in line with CPI)
Pension increase in deferment (% p.a.)	1.90	2.15	Reasonable, slightly optimistic (in line with CPI)
Mortality - Life expectancy of a male pensioner from age 65 (currently aged 65)	21.80	21.80	Reasonable
Mortality - Life expectancy of a male pensioner from age 65 (currently aged 45)	23.2	23.20	Reasonable

Deloitte view

Our work in this area has been completed satisfactorily with no issues noted.

Other matters (continued)

Group Accounts

Audit considerations regarding the Group Accounts

We have not been appointed the auditor of the material subsidiary trusts and companies within the group. In order to gain sufficient assurance over significant account balances in the group accounts, we have performed further audit procedures of the material components. The key components for audit procedures are shown in the table below. Porters Place LLP with expenditure/net assets of £5k has been disregarded.

Components	Expenditure (Cost of Services) 2019/20 £m	Net Assets 31/3/20 £m	%age of total Group Expenditure	%age of group Net Assets	Summary of work to be performed
Council	383.2	505	95%	97.1%	The Deloitte group audit team has performed full-scope audit procedures under the Code on this component. Matters arising are noted throughout this report
Trust Funds	1.3	23	0.32%	4.42%	The Trust Funds are audited separately by a different firm on a longer timeline. For the purpose of the group audit opinion, material Trust funds will have specified tests performed by the group team focused on assets held. Our work in this area has been completed satisfactorily with no issues noted.
South Essex Homes Limited	10.5	(3.1)	2.6%	(0.6%)	SEHL is audited separately by a different firm on a longer timeline. For the purpose of the group audit opinion, SEHL will have specified tests performed by the group team. Our work in this area has been completed satisfactorily with no issues noted.
Southend Care Limited	8.4	(4.6)	2.08%	(0.88%)	SCL is audited separately by a different firm on a longer timeline. For the purpose of the group audit opinion, SCL will have specified tests performed by the group team. Our work in this area has been completed satisfactorily with no issues noted.

Group Materiality

Materiality for the group is £7.7m with the Council stand alone materiality level set at £7.6m. In order to apply meaningful specified procedures to the non-Council, in-scope group entities, component materiality has been reduced accordingly based on the percentage of the group represented by each subsidiary and will be no more than 40% of the group materiality figure of £7.7m.

Conclusion on arrangements to secure economy, efficiency and effectiveness from the Council's use of resources

Background

Under the National Audit Office's Code of Audit Practice, we are required to report whether, in our opinion, the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

The Code and supporting Auditor Guidance Notes require us to perform a risk assessment to identify any risks that have the potential to cause us to reach an inappropriate conclusion on the audited body's arrangements. We are required to carry out further work where we identify a significant risk - if we do not identify any significant risks, there is no requirement to carry out further work. We note that the NAO guidance indicates a low likelihood that Covid-19 forms a risk area impacting the assessment of arrangements for 2019/20. Rather this will form part of the risk assessment and evaluation for 2020/21. The response to Covid-19 is described as an "emerging risk" in this guidance (rather than a significant risk) unless clear evidence comes to the auditor's attention of a significant failure in arrangements as a result of Covid-19 during the 2019/20 financial year.

Our risk assessment

We set out the risk assessment procedures we had performed and our further planned procedures in our audit planning report including discussion with relevant officers and review of Council documentation including internal audit reports. We did not identify any further significant risks from our remaining risk assessment procedures. Our areas of focus included the below:

- **Financial Sustainability:** The 2020/21 budget is balanced i.e. there is sufficient funding for the £130.4m budget requirement for general fund net expenditure. This includes a £8.5m use of reserves. In the subsequent years however, a funding gap has been identified in the Medium Term Financial Plan that totals £23.2m to the end of 2024/25 as shown in the table below. As noted earlier, this is a pre-Covid assessment. This reflects ongoing budgetary pressures from reductions in funding and increasing costs of delivering services. Based on our further risk assessment procedures, including developing an understanding of the arrangements for measuring and closing budget gaps, we concluded that this was not a significant risk to our conclusion.
- ***Funding gaps per the MTFS:***

2021/22	2022/23	2023/24	2024/25
£7.8m	£4.7m	£5.7m	£5.0m

- **Capital Plans:** There are significant capital projects planned in the medium term. Our review of the Council's arrangements in respect of monitoring these schemes and mitigating associate risks did not give rise to a significant risk to our conclusion.
- **Ofsted reports:** We noted areas where the authority was identified as requiring improvement (as well as areas of strong practice) in recent Ofsted reports. Our review of the Council's action plan to manage the required improvements, including working with other parties, did not give rise to a significant risk to our conclusion.

Deloitte view

Based on the current status of our audit work, we envisage issuing an unqualified "value for money conclusion".

The expected form of our conclusion is as follows:
On the basis of our work, having regard to the guidance issued by the Comptroller and Auditor General in April 2020 we are satisfied that, in all significant respects, Southend on Sea Borough Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

Our audit report

Matters relating to the form and content of our report

Here we discuss how the results of the audit impact on other significant sections of our audit report.

Our opinion on the financial statements

Our opinion on the financial statements is unmodified.

Material uncertainty related to going concern

We have not identified a material uncertainty related to going concern and will report by exception regarding the appropriateness of the use of the going concern basis of accounting.

Emphasis of matter and other matter paragraphs

We include details on the other matter paragraph in relation to property valuations on page 11 of this report.

There are no other matters we judge to be of fundamental importance in the financial statements that we consider it necessary to draw attention to in an emphasis of matter paragraph.

There are no matters relevant to users' understanding of the audit that we consider necessary to communicate in an other matter paragraph.

Our value for money conclusion

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

Our conclusion on the Council's arrangements is unmodified.

Other reporting responsibilities

The Annual Report is reviewed in its entirety for material consistency with the financial statements and the audit work performed and to ensure that they are fair, balanced and reasonable.

Our conclusion in this area is satisfactory.

Your annual report

We are required to report by exception on any issues identified in respect of the Annual Governance Statement.

	Requirement	Deloitte response
Narrative Report	The Narrative Report is expected to address (as relevant to the Council): - Organisational overview and external environment; - Governance; - Operational Model; - Risks and opportunities; - Strategy and resource allocation; - Performance; - Outlook; and - Basis of preparation - Future sustainability and risks to this posed by Covid-19.	We have assessed whether the information given in the Narrative Report meets the disclosure requirements set out in guidance, is misleading, or is inconsistent with other information from our audit. We fed back some improvements that could me made in relation to the links between the numbers quoted in the narrative report and the financial statements, adding further details on risks to value for money/use of resources and the Covid-19 commentary. We have considered the sustainability narrative including the requirement to discuss and evaluate the impact of Covid-19 within this assessment. We have concluded satisfactorily on this matter. Our assessment of the impact of Covid-19 can be seen from page 6. In our last report, we noted that we were reviewing an updated version of this report. We have checked that the updated report complies with all the relevant requirements and we discussed some areas for potential enhancement going forwards. Overall we concluded satisfactorily in this matter.
Annual Governance Statement	The Annual Governance Statement reports that governance arrangements provide assurance, are adequate and are operating effectively.	We have assessed whether the information given in the Annual Governance Statement meets the disclosure requirements set out in guidance, is misleading, or is inconsistent with other information from our audit. In our last report, we noted that we were reviewing an updated version of this report. We have checked that the updated report complies with all the relevant requirements. Overall we concluded satisfactorily in this matter.

Purpose of our report and responsibility statement

Our report is designed to help you meet your governance duties

What we report

Our report is designed to help the Audit Committee and the Council discharge their governance duties. It also represents one way in which we fulfil our obligations under ISA 260 (UK) to communicate with you regarding your oversight of the financial reporting process and your governance requirements. Our report includes:

- Results of our work on key audit judgements and our observations on the Narrative Report.

What we don't report

As you will be aware, our audit was not designed to identify all matters that may be relevant to the Council.

Also, there will be further information you need to discharge your governance responsibilities, such as matters reported on by management or by other specialist advisers.

Finally, our views on internal controls and business risk assessment should not be taken as comprehensive or as an opinion on effectiveness since they have been based solely on the audit procedures performed in the audit of the financial statements and the other procedures performed in fulfilling our audit plan.

The scope of our work

Our observations are developed in the context of our audit of the financial statements. We described the scope of our work in our audit plan and again in this report.

This report has been prepared for the Audit Committee and Council, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose.

We welcome the opportunity to discuss our report with you and receive your feedback.

Deloitte LLP

for and on behalf of Deloitte LLP
13 October 2020

Appendices

Audit adjustments

Unadjusted misstatements related to the prior year

The following misstatements in the current year and related to the prior year identified by the Council has been corrected by management in the 2019/20 accounts. We nonetheless communicate this to you to assist you in fulfilling your governance responsibilities, including reviewing the effectiveness of the system of internal control.

		Debit/ (credit) income statement £m	Debit/ (credit) in net assets £m	Debit/ (credit) prior year retained earnings £m	Debit/ (credit) OCI/Equity £m
Better Queensway costs in Assets Under Construction adjusted from Property Plant and Equipment to REFFCUS (Revenue expenditure funded from capital under statute)	[1]	1.4	(1.4)		

[1] The Council's capital spend on Better Queensway is part of an overall Joint Venture project with Swan Housing. The Council identified the following issue regarding the related costs incurred in the prior year. It was determined that, whilst the project planning and management costs were capital in nature, it was incorrect to capitalise them as Assets Under Construction (AUC) as the asset being created will be owned by the Joint Venture rather than the Council. This makes it an item that cannot be capitalised under accounting standards. As it was capital in nature, this does qualify as REFFCUS – expenditure items that can be funded by capital resource under statute. The spend recognised as capital as at 31 March 2019 of £1.4m has therefore been reclassified. This remains however an error in the prior year accounts identified in the current year.

Disclosures

Disclosure misstatements

No uncorrected disclosure misstatements have been identified up to the date of this report.

Other disclosure recommendations

No such matters have been identified up to the date of this report.

Fraud responsibilities and representations

Responsibilities explained

Responsibilities:

The primary responsibility for the prevention and detection of fraud rests with management and those charged with governance, including establishing and maintaining internal controls over the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations. As auditors, we obtain reasonable, but not absolute, assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error.

Required representations:

We have asked the Council to confirm in writing that you have disclosed to us the results of your own assessment of the risk that the financial statements may be materially misstated as a result of fraud and that you have disclosed to us all information in relation to fraud or suspected fraud that you are aware of and that affects the Council and its group.

We have also asked the Council to confirm in writing their responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

Audit work performed:

In our planning we identified capitalisation of expenditure and management override of controls as key audit risks for your organisation.

During course of our audit, we have had discussions with management and those charged with governance including the Head of Internal Audit.

In addition, we have reviewed management's own documented procedures regarding fraud and error in the financial statements.

We have reviewed the paper prepared by management for the on the process for identifying, evaluating and managing the system of internal financial control.

Concerns:

No significant concerns have been identified from our work

Independence and fees

As part of our obligations under International Standards on Auditing (UK), we are required to report to you on the matters listed below:

Independence confirmation	We confirm that we comply with APB Ethical Standards for Auditors and that, in our professional judgement, we and, where applicable, all Deloitte network firms are independent and our objectivity is not compromised.
Fees	The audit scale fee for 2019/20, in line with the scale fee provided PSAA, is £110k as broken down below. As a result of additional work due to Covid-19 and other matters there is an additional fee of £9k. Our fee for reporting on the housing benefit subsidy claim was reported at the planning stage as £21k and our fee for the Teachers' Pension Return is expected to be £6k. No other non-audit fees have been charged by Deloitte in the period.
Non-audit services	In our opinion there are no inconsistencies between APB Ethical Standards for Auditors and the Council's policy for the supply of non-audit services or any apparent breach of that policy. We continue to review our independence and ensure that appropriate safeguards are in place including, but not limited to, the rotation of senior partners and professional staff and the involvement of additional partners and professional staff to carry out reviews of the work performed and to otherwise advise as necessary.
Relationships	We are required to provide written details of all relationships (including the provision of non-audit services) between us and the organisation, its board and senior management and its affiliates, including all services provided by us and the DTTL network to the Council, its members and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on our objectivity and independence. We are not aware of any relationships which are required to be disclosed.

	Proposed £ (exc VAT)	Planned £ (exc VAT)
Code audit fee	110k	110k
Additional costs due to Covid-19	9k	-
Total audit*	**119k**	**110k**
Housing Benefit Assurance Work	21k	21k
Total fees	**140k**	**131k**

*the additional fee of £9k due to covid-19 and other matters is subject to approval by PSAA

It is not yet clear what the reporting requirements will be in relation to other assurance work performed such as the Teachers' Pension Return due to the impact of Covid-19. This is usually submitted in November. We will update the Audit Committee accordingly as soon as the scope of this work is known. For this and other similar certification work, as routine attest work with relatively low fee levels and often performed by the auditor, the work is not deemed to impact auditor independence.

Deloitte.