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Southend-on-Sea City Council

Southend-on-Sea City Council

Final Report to the Audit Committee on the 2021/22 audit

Issued on 19 December 2023

Contents

Introduction

The key messages in this report

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.

I have pleasure in presenting our final report to the Audit Committee of Southend-on-Sea City Council (the Council) for the 2021/22 audit. The scope of our audit was set out within our planning report presented to the Committee in March 2023.

Status of our Statement of Accounts audit	Our audit is now complete. We have included a section in this report providing observations arising from the work we have undertaken on the areas of significant risk and other areas of audit focus reported to you in our audit planning report. Our report presented to the Audit Committee on 25 October 2023 covered reporting on the majority of our work performed, this report serves as an update report and therefore the majority of the pages of our report are consistent with the previous report.
Status of our Value for Money audit	Our Value for Money work is complete and is reported to the Audit Committee in our Auditor's Annual Report for 2021/2022, which is being presented at this meeting. We have not identified any significant weakness in arrangements to secure economy, efficiency and effectiveness in the use of resources. We have no matters to report by exception in our financial statement audit opinion.
Whole of Government Accounts (WGA)	We are required to report our overall audit opinion and key issues from our audit to the National Audit Office (NAO) following completion of the audit. However, the NAO have not yet confirmed for 2021/22, bodies which may be subject to additional procedures for reporting to the NAO to gain comfort over the WGA. Therefore, we are not able to confirm completion of the audit in this regard.

Introduction

The key messages in this report (continued)

Conclusions from our testing	• The key judgements in the audit process related to:
	  • valuation of investment properties and Property Plant and Equipment (hereafter referred to as PPE);
	  • capitalisation of expenditure;
	  • valuation of pension liabilities.
	  • valuation of the long-term debtor in relation to Porters Place Southend-on-Sea LLP; and
	  • valuation of infrastructure assets.
	• We have identified one unadjusted misstatement noted on Page 7. All other adjustments and disclosure deficiencies noted during testing have been corrected by management in the financial statements.
	• We have issued 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.

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. • The Annual Governance Statement complies with the Delivering Good Governance guidance issued by CIPFA/SOLACE. • We have no matters to raise with you in respect of the Narrative Report.
Duties as public auditor	• We did not receive any 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.

Mohammed Ramzan
Audit lead

Responsibilities of the Audit Committee

Helping you fulfil your responsibilities

Why do we interact with the Audit Committee?

To communicate audit scope

To provide timely and relevant observations

To provide additional information to help you fulfil your broader responsibilities

As a result of regulatory change in recent years, the role of the Audit Committee has significantly expanded. We set out here a summary of the core areas of Audit Committee responsibility to provide a reference in respect of these broader responsibilities and highlight throughout the document where there is key information which helps the Audit Committee in fulfilling its remit.

Oversight of external audit

- At the start of each annual audit cycle, ensure that the scope of the external audit is appropriate.
- Make recommendations as to the auditor appointment and implement a policy on the engagement of the external auditor to supply non-audit services.

Integrity of reporting

- Impact assessment of key judgements and level of management challenge.
- Review of external audit findings, key judgements, level of misstatements.
- Assess the quality of the internal team, their incentives and the need for supplementary skillsets.
- Assess the completeness of disclosures, including consistency with disclosures on business model and strategy and, provide advice in respect of the fair, balanced and understandable statement.

Internal controls and risks

- Review the internal control and risk management systems (unless expressly addressed by separate board risk committee).
- Explain what actions have been, or are being taken to remedy any significant failings or weaknesses.

Oversight of internal audit

- Monitor and review the effectiveness of the internal audit activities.

Whistle-blowing and fraud

- Ensure that appropriate arrangements are in place for the proportionate and independent investigation of any concerns raised by staff in connection with improprieties.

Our audit explained

We tailor our audit to your organisation and your strategy

Identify changes in your business and environment

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

Scoping

Our planning report set out the scoping of our audit in line with the Code of Audit Practice. We have completed our audit in line with our audit plan.

Other findings

As well as our conclusions on the significant risks and our Value for Money work, we are required to report to you our observations on the internal control environment as well as any other findings from the audit.

Our audit report

We will be issuing an unmodified audit report.

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

Determine materiality

When planning our audit, we set our overall materiality for the group accounts at £8.70m (2020/21: £7.70m). We have determined our materiality based on 2% of service expenditure for the 2021/22 year and the final materiality remains unchanged from what we communicated during our planning report. The Council only materiality has been determined at £8.27m (2020/21: £7.6m). Final Group and Council performance materiality was set at £6.09m (2020/21: £5.4m) and £5.79m (2019/20: £5.3m) respectively. We will report to you all misstatements exceeding £0.44m (2020/21:£0.38m) for the Group and £0.41m (2020/21: £0.38m) for the Council.

Significant risk assessment

In our planning report we explained our risk assessment process and detailed the significant risks we have identified on this engagement.

Conclude on significant risk areas

We draw to the Audit Committee's attention our conclusions on the significant audit risks. In particular the Audit Committee must satisfy themselves that management's judgements are appropriate.

Significant risks

Valuation of property assets

Risk identified	The Council is required to hold dwellings, other land and buildings within Property, Plant and Equipment 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. The Authority held £715m of property assets (land and buildings) at 31 March 2022 (£666m as of 31 March 2021) as per the draft accounts. This movement from the prior year is due to revaluation movements as a result of the revaluation exercise during 2022/23 (i.e. 1 April 2022), reclassifications from assets under construction and material additions and disposals during the year. The Council updates the valuation of its properties using a rolling revaluation programme. The main assets which were revalued in the year were Schools, Sports Pavilions, Park WCs, Park Messrooms, Day Centres, Marine Activity Centre and Lagoon WCs.
Deloitte response and challenge	We are in the process of completing the following procedures: • We have reviewed the design and implementation of the controls in place in relation to property valuations; • We have considered the work performed by the Council's valuer, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work; • We have engaged our valuation specialists, Deloitte Real Assets Advisory, to review and challenge the appropriateness of the assumptions used in the valuation of the Council's property assets; • We sample tested key asset information used by the Council's valuers in performing their valuation, such as gross internal areas, back to supporting documentation; • We have reviewed assets not subject to valuation in 2021/22 to confirm that the remaining asset base is not materially misstated; • Through discussions with management in the prior year, the property assets valued under the rolling valuation programme on 1 April 2022, has been updated to reflect the fair value as at 1 April 2022 to ensure these properties' valuations align to the most up to date information. We confirmed through inspection of updates to the valuation and the latest valuation report that there were no differences noted. • For assets not revaluated at 1 April 2022, we have performed an analysis of the indexation calculations applied to arrive at the valuation of property assets as at yearend to ensure the indexation adjustments were deemed reasonable; and • We have reviewed the presentation of revaluation movements, and the disclosures included in the Statement of Accounts.
Conclusion	We have identified an unadjusted misstatement of £844k in relation to the Shared Revaluation. We have been informed by the management that the new version of the RAM system implemented from 01/04/2023 will address this issue in the future reporting.

Significant risks (continued)

Capitalisation of expenditure

Risk identified	At the time of publishing the 2021/22 financial statements, it has been noted that as part of the Medium Term Financial Strategy, the Council had a substantial capital programme of £202m over the next five years. The capital programme included £69.5m spend in 2021/22. Determining whether expenditure should be capitalised can involve judgement. There is also an incentive to inappropriately capitalise expenditure as the Council has greater flexibility over its use of revenue compared to capital resources. Given this incentive to capitalise costs that are not capital in nature, we specifically identify this area as a significant risk of material misstatement and a fraud risk.
Deloitte response and challenge	We have tested the design and implementation of controls around the capitalisation of costs. We have selected a sample of additions in the year to test whether they have been appropriately capitalised in accordance with the accounting requirements. This sample included Assets Under Construction.
Conclusion	After concluding our work, we have no matters to bring to the attention of the Audit Committee.

Significant risks (continued)

Management override of controls

Risk identified	Management is in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Although management is responsible for safeguarding the assets of the Council, we planned our audit so that we had a reasonable expectation of detecting material misstatements to the Statement of Accounts.
Deloitte response and challenge	We have considered the overall sensitivity of judgements made in preparation of the Statement of Accounts, and note that: • The Council’s results throughout the year were projecting overspends in operational areas. This was closely monitored and whilst projecting overspends, the underlying reasons were well understood; and • 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. **Journals** • We have tested the design and implementation of controls in relation to journals. • We have made inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments. • We have used Spotlight data analytics tools to test a sample of journals, based upon identification of items of potential audit interest. Our analysis has covered all journals posted in the year. **Significant transactions** • We did not identify any significant transactions outside the normal course of business or any transactions where the business rationale was not clear.

Significant risks (continued)

Management override of controls (continued)

Deloitte response and challenge	**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 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 changes to estimates 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.
Conclusion	After concluding our work, we have no matters to bring to the attention of the Audit Committee. We have not identified any significant bias in the key judgements made by management and we have not identified any instances of management override of controls in relation to the specific transactions tested as part of our audit.

Other areas of audit focus

Pension liability valuation

Risk identified	The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme (LGPS). The Council's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Council's Balance Sheet. Per the draft financial statements at 31 March 2022, this totalled £92.4m (2020/21: £169.6m). As a result of this being an estimated balance there is a risk that inappropriate inputs and assumptions are used, which could result in the pension liability valuation being materially misstated
Deloitte response and challenge	We are in the process of completing the following procedures: • We obtained a copy of the actuarial report for the Council produced by Barnett Waddingham, the scheme actuary, and agreed the report to the Statement of Accounts pension disclosures. • We reviewed the disclosures made in the Statement of Accounts against the requirements of the Code. • We liaised with the audit team of Essex Pension Fund to obtain assurances over the information supplied to the actuary in relation to the Council. • 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 in the table on the following page through utilising our pension experts' team. • We assessed the reasonableness of the Council's share of the total assets of the scheme with the Pension Fund financial statements.

Other areas of audit focus (continued)

Pension liability valuation (continued)

Review of assumptions used by actuary

As part of our testing, we reviewed the assumptions used by the actuary and have set out below our assessment of the assumptions used in the IAS19 valuation based on our specialist's preliminary report.

Assumption	Council	Benchmark	Deloitte Assessment
Discount rate (% p.a.)	2.60%	2.60-2.85%	
Retail Price Index (RPI) Inflation rate (% p.a.)	3.85%	3.75-3.85%	
Consumer Price Index (CPI) Inflation rate (% p.a.)	3.20%	Council specific	

Assessment key

In reasonable range

Towards limit of reasonable range

Optimistic or Prudent

Conclusion	After concluding our work, there are no matters to bring to the Audit Committee's attention.

Other areas of audit focus (continued)

Porters Place Southend-on-Sea LLP

Risk identified	We have noted a long term debtor balance of £3.325m within the financial statements of the Council due to be received from Porters Place Southend-on-Sea LLP (hereafter referred to as Porters Place). Porters Place is one of the joint ventures in which the Council participates. It was a 30-year partnership with Swan Housing Association and their wholly owned subsidiary Swan BQ Limited, with the purpose to regenerate the Queensway Estate and surrounding environs. Over the last year Swan Housing Association have been in discussions with parties around a possible business combination. In February 2023 Swan joined Sanctuary housing as a subsidiary. Through discussions with management and our knowledge obtained around the possible transaction we concluded that there is a risk that balances due under the Porters Place agreement may not be recoverable.
Deloitte response and challenge	We are completing the following procedures: • We inquired of management as to the latest update on the planned business combination to understand the level of risk within the balance noted. • We inspected documentation and information available to us to substantiate the amounts at risk as well as mitigations of the risk noted. The Council has included additional disclosure in this regard within note 5 of the Statement of Accounts. • We inspected the Statement of Accounts and confirmed that the disclosures given were reasonable and in line with our expectation. • We have added a representation within the management representation letter that will need to be signed by the Council at the signing date to confirm information obtained in relation to Porters Place and any developments have been considered for any impact on the financial statements and communicated to the audit team.
Developments to date	During August 2023 we received an update on the Better Queensway scheme and noted that Sanctuary Housing Association are seeking to exit from the partnership and the Better Queensway scheme. An appropriate settlement agreement is under development that will cover the terms of Sanctuary's withdrawal. It was however noted by management that they believe the Council to still be fully committed to the Better Queensway regeneration scheme and that the Council will now explore alternative options to progress the scheme.
Conclusion	After concluding our work, there are no matters to bring to the Audit Committee's attention.

Other areas of audit focus (continued)

Infrastructure Assets

Risk identified	During our FY20/21 audit there was a discussion held at national level on the accounting for subsequent expenditure on infrastructure assets (for example the cost of renewing a road surface) and specifically whether local authorities should be assessing if there is any undepreciated cost remaining on the balance sheet for the replaced components which need to be derecognised. The council held infrastructure assets of £128.7m (2020/21:£116.9m) at yearend. The CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 requires authorities to derecognize the gross cost and accumulated depreciation on infrastructure assets when a major part/component of that asset has been replaced or decommissioned. In the prior year we recognised the valuation of infrastructure assets as a significant risk however after we performed a detailed assessment on the Council's processes in relation to infrastructure assets in the prior year, we deemed the risk in relation to infrastructure assets for the current year to be a higher risk rather than a significant risk.
Deloitte response and challenge	We have completed the following procedures: • On derecognition of components: The audit team have confirmed that the Council has opted to apply the Statutory Instrument and have made the assumption that the carrying amount of any assets that have been replaced was nil. The audit team reviewed the Statement of Accounts and confirmed that this disclosure has been made. • Gross book value and accumulated depreciation: The audit team reviewed the infrastructure assets disclosure included in the Council's financial statements and compared this to the CIPFA Bulletin example to confirm that no issues have been identified. • Infrastructure Asset disaggregation: The audit team have challenged the disaggregation of infrastructure assets as reflected on the fixed asset register and concluded that the disaggregation was reasonable. • The audit team reviewed and challenged the determination of the useful economic lives applied to infrastructure assets by the Council and confirmed the rationale for the determination of the useful economic lives to be appropriately supported and reasonable in light of information reviewed. • The audit team have reviewed the accounting policy in relation to infrastructure assets and compared these to the example accounting policy included in the CIPFA Bulletin annex A and confirmed the accounting policy were in line with expectation
Conclusion	After concluding our work, we have no matters to bring to the attention of the Audit Committee.

Covid-19 pandemic

Impact on reporting and our audit

Requirements	CIPFA has issued guidance highlighting the importance of considering the impact of Covid-19 in preparation of the 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.

Covid-19 pandemic

Impact on reporting and our audit (continued)

Impact on the Council	Impact on Statement of Accounts	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 Statement of Accounts (including the financial statements), discussed further on the next page 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 • 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.

Covid-19 pandemic

Impact on reporting and our audit (continued)

	Potential Impact on Statement of Accounts	Audit response
Expected credit losses	Since 31 March 2020, there has been a significant downturn in economic activity, with many businesses and individuals significantly impacted. The Council will need to consider the provision for credit losses for receivables, including for expected credit losses for assets accounted for under IFRS 9.	For non-public sector debtors consideration is needed of the impact on the required level of provision for expected credit losses under IFRS 9. The Council reflected a decrease in debtor balances on prior year and we noted that the Council has increased level of provisioning against these balances. We have included consideration of the impact of Covid 19 on the provisioning levels against these balances and deem the provisioning to be reasonable and in line with IFRS 9.
Covid-19 grants	Our judgement is that there is a high risk at the Council relating to the recognition of grants with terms and conditions attached, specifically around the new grants received in year relating to Covid-19 where terms and conditions may be less clear and there is no historical basis for the accounting treatment. There is a risk that the Council will recognise the income before the terms and conditions of the Covid-19 grants have been met. There are also a number of grants relating to Covid-19, such as the business rates relief, where management need to determine if they are acting in the capacity of an Agent or Principal. We deemed the risk to be significant in the prior year, however given the decline in the values relating to the grants and the comfort we obtained through the prior year testing we did not deem this to be a significant risk for the current year.	We have tested the design and implementation of key controls in place around the recognition of Covid-19 grant income; We have reviewed the accounting treatment of new Covid-19-related grants for 2021/22 to confirm that they have been correctly accounted for as either an Agent or Principal arrangement; and We have tested a sample of grants including the new Covid-related grants to ensure that any terms and conditions were met prior to recognition as income.

Covid-19 pandemic

Impact on reporting and our audit (continued)

	Potential Impact on Statement of Accounts	Audit response
Narrative and other reporting issues	The following areas will need to be considered by local authorities as having been 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 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.
Impact on pension fund investment measurement	• As a result of the Covid-19 pandemic pension fund investments have been subject to volatility. At 31 March 2022, we noted that the Council's share of pension fund assets had moved by £59m.	We engaged early with the 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. Our audit work has been completed and did not identify any material misstatement.

Covid-19 pandemic

Impact on reporting and our audit (continued)

	Potential Impact on Statement of Accounts	Audit response
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 needs to be reviewed against the conditions and assumptions at the measurement date. Although volatility continues to reduce relative to 31 March 2020, there have been market movements during the year which may impact valuations.	The Council has considered its approach to the measurement of Investment property (IP). 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 2022. The is no material uncertainty disclosed in the Statement of Accounts as expected relating to IP.

Value for money

Our conclusions are reported in our Auditor's Annual Report for 2021/2022

Value for Money requirements

We are required to consider the Council's arrangements for securing economy, efficiency and effectiveness in the use of resources. Under the revised requirements of the Code of Audit Practice 2020 and related Auditor Guidance Note 03 ('AGN03'), we are required to:

- Perform work to understand the Council's arrangements to secure economy, efficiency and effectiveness in the use of resources against each of the three reporting criteria (financial sustainability, governance, and improving economy, efficiency and effectiveness);
- Undertake a risk assessment to identify whether there are any risks of significant weaknesses in arrangements;
- If any risks of significant weaknesses are identified, perform procedures to determine whether there is in fact a significant weakness in arrangements, and if so to make recommendations for improvement;
- Issue a narrative commentary in the Auditor's Annual Report, setting out the work undertaken in respect of the reporting criteria and our findings, including any explanation needed in respect of judgements or local context for findings. If significant weaknesses are identified, the weaknesses and recommendations will be included in the reporting, together with follow-up of previous recommendations and whether they have been implemented. Where relevant, we may include reporting on any other matters arising we consider relevant to Value for Money arrangements, which might include emerging risks or issues arising; and
- Where significant weaknesses are identified, report this by exception within our financial statement audit opinion.

Work performed to obtain an understanding of the Council's arrangements to secure economy, efficiency and effectiveness in the use of resources

As part of our risk assessment, we have reviewed the summary of Value for Money arrangements prepared by the Council, reviewed supporting documentation on arrangements, and held follow-up interviews on areas where additional information was required.

In addition, we have:

- reviewed of the Council's draft Annual Governance Statement;
- reviewed internal audit reports through the year and the Head of Internal Audit Opinion
- considered issues identified through our other audit and assurance work; and
- considered the Council's financial performance and management throughout 2021/22.

Value for money

Our conclusions are reported in our Auditor’s Annual Report for 2021/2022 (continued)

Work performed to obtain an understanding of the Council’s arrangements to secure economy, efficiency and effectiveness in the use of resources (continued)

We have also obtained an understanding of:

- The changes in governance processes as a result of Covid-19;
- The changes to control processes as a result of Covid-19; and
- The processes and controls put in place in order to deal with the Covid-19 business support schemes.

Findings of our work

Our Value for Money work is complete and is reported in full in our Auditor’s Annual Report.

We have not identified any significant weakness in arrangements to secure economy, efficiency and effectiveness in the use of resources.

We have no matters to report by exception in our financial statement audit opinion.

Your control environment and findings

High-level impact on our approach

ISA (UK) 315 requires we obtain an understanding of internal control relevant to the audit. It is a matter of the auditor’s professional judgment whether a control, individually or in combination with others, is relevant to the audit. We do not test those controls we do not consider relevant to the audit. Below we provide a view, based on our audit procedures, on the effectiveness of your system of internal control relevant to the audit risks that we have identified.

Your control environment	Your risk assessment process	Your information systems and communication	Your control activities	Your monitoring of controls

Area	Deloitte comment	Maturity CY/PY
Valuation of property assets	No deficiency was identified in the design and implementation of the controls in the process.	
Management override of controls	No deficiency was identified in the design and implementation of the controls in the process	
Capitalisation of expenditure	No deficiency was identified in the design and implementation of the controls in the process	

Key: Mature Developing Lagging

Your control environment and findings

Control deficiency

Observation	Year first communicated, severity, component of internal control	Deloitte recommendation	Management response and remediation plan
During our testing of the key controls in relation to covid-19 grants we have noted that the Council do not maintain a revenue grant register. We acknowledge that tracking of grants has been done by individual service lines, however without a central revenue grant register, the Council cannot monitor grants received; track expenditure against the amount awarded; and ensure any conditions have been met.	2021, medium, control activities	We recommend that management maintain a central revenue grant register – both for covid-19 and non-covid grants.	Management has agreed and have prepared a revenue grant register to be maintained centrally going forward.

Your control environment and findings

Area for management focus

Observation	Deloitte recommendation	Management response and remediation plan
During our infrastructure assets testing we noted that most capitalised costs to infrastructure assets are reflected as enhancements with limited additions. Given the aging of the initial assets that has been enhanced there is a risk that capital costs are incorrectly capitalised and depreciated as enhancements rather than additions. Although we have not noted a material error within the current year statement of accounts there is a risk that this can result in a material error in depreciation and subsequently the valuation of the assets in future years.	It is recommended that management confirms that amounts capitalised to infrastructure assets in future is accurately reflected as enhancements or additions. Supporting documentation needs to be retained in the instances where capital costs are reflected as enhancements rather than additions.	This has been agreed. It was noted that this will be put in place for future year end closedowns, starting with the 2022/23 financial year.

The purpose of the audit was for us to express an opinion on the financial statements. The audit included consideration of internal control relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters being reported are limited to those deficiencies that we have identified during the audit and that we have concluded are of sufficient importance to merit being reported to you.

Audit adjustments
Uncorrected misstatements

The following uncorrected misstatements were identified in relation to the current year audit:

		Credit/(Charge) to the income statement £'m	Increase/ (Decrease) in net assets £'m	Increase/ (Decrease) in retained earnings £'m
Factual misstatements				
Other Expenses	[1]	(3.6)		
Equity	[1]			3.6
PPE	[2]		0.8	
Equity	[2]			0.8

(1) Shared Revaluation Reserve Error: Deloitte identified several instances where the revaluation reserve and impairment reserve balances for land and building components were combined together and treated as one balance in FY22.

(2) Assets Not Indexed in FY22: Deloitte were unable to tie the NBV of properties indexed to the FAR. This issue was raised in FY21 in March 2023, which explains why it's still an issue for FY22. Southend have confirmed that the implementation of their new PPE system has fixed this issue for the FY23 audit.

Written representations have been obtained from the Board of Directors confirming that after considering the uncorrected items, no adjustments were required.

Our audit report

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 audit is now complete. We have issued an unmodified audit opinion.

Emphasis of matter and other matter paragraphs

There are no 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.

Value for Money reporting by exception

Our opinion notes that our Value for Money work is complete and will be reported in our Auditor's Annual Report.

We have no matters to report by exception in our financial statement audit opinion.

Irregularities and fraud

We explain the extent to which we considered the audit to be capable of detecting irregularities, including fraud.

In doing so, we describe the procedures we performed in understanding the legal and regulatory framework and assessing compliance with relevant laws and regulations. We will discuss the areas identified where fraud may occur and any identified key audit matters relating to fraud.

Recent changes to ISAs (UK) mean this requirement will apply to **all** entities for periods commencing on or after 15 December 2019.

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: • Organisational overview and external environment; • Governance; • Operational Model; • Risks and opportunities; • Strategy and resource allocation; • Performance; • Outlook; and • Basis of preparation	We have assessed whether the Narrative Report has been prepared in accordance with CIPFA guidance. We have also read the Narrative Report for consistency with the annual accounts and our knowledge acquired during the course of performing the audit, and is not otherwise misleading. We note that the Narrative Report was updated for the implications of Covid-19.
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 CIPFA/SOLACE guidance, is misleading, or is inconsistent with other information from our audit. No issues were noted from our review.

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 (UK) 260 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 quality of your Annual Report.
- Our internal control observations.
- Other insights we have identified from our audit.

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.

Use of this report

This report has been prepared for the 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.

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 Audit Committee.

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 work under the Code of Audit Practice in respect of Value for Money arrangements.

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

Deloitte LLP

Deloitte LLP

Birmingham | 19 December 2023

Appendices

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 the audit engagement team, and others in the firm as appropriate, Deloitte LLP and, where applicable, all Deloitte network firms are independent of the Council.
Fees	There are no non-audit fees.
Non-audit services	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 have no other relationships with the Authority, its members, officers and affiliates, and have not supplied any services to other known connected parties.

The professional fees expected to be charged by Deloitte, as per our Audit Plan for the period from 01 April 2021 to 31 March 2022 are as follows:

	2021/22 £k (exc VAT)	2020/21 £k (exc VAT)
Financial statement audit including Whole of Government and procedures in respect of Value for Money assessment	110*	159*
Total audit	**TBC**	**159**
Other assurance services	TBC	6
Total assurance services	**TBC**	**6**
Total fees	**TBC**	**165**

* In line with PSAA correspondence that scale fees should be negotiated by individual s151 officers based on the individual circumstances of each body, we will be discussing the final position with the Council on completion of the 2020/21 audit. We will subsequently provide an estimate of fees for the 2021/22 audit.

All additional fees are subject to agreement with PSAA.

Our other responsibilities explained

Fraud responsibilities and representations

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.

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 the risk of fraud in the accounting for capital expenditure and management override of controls as a significant audit risk.

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