

**Deloitte.**



# Southend-on-Sea City Council

Auditor's Annual Report 2021/22

**December 2023**

# Contents

## Auditor's Annual Report

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Key messages	3
Purpose of the report	4
Assurance sources for the Council	5
Opinion on the financial statements	6
Our financial statement audit approach	7
Financial statement audit significant risks	8
Auditor's work on VfM arrangements	12
VfM commentary:	
• Financial sustainability	13
• Governance	15
• Improving economy, efficiency and effectiveness	19

## Appendices

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Purpose of our report and responsibility statement	22
Council's responsibilities	23
Auditor's responsibilities	24

# Key Messages

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## Audit opinion on the financial statements

We issued an unqualified opinion on the Council's financial statements.

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## The Councils arrangements to secure Value for Money

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### Financial Sustainability

*How the body plans and manages its resources to ensure it can continue to deliver its services*

- The Council generated a deficit on the provision of services of £18.4m (2020/21:£8.4m). However, on a funding basis the Council achieved a net underspend of £0.4m compared to a net underspend of £1m in the prior year.
  - The Council produced an annual forecast as well as a rolling 5 year Medium Term Financial Forecast (MTFF) which is reviewed annually. Whilst a balanced budget was in place for 2021/22, the latest MTFF shows an accumulated budget gap of £24m to the end of 2026/27. The Council continues to implement measures as part of annual financial planning to address the budget gap for the year.
  - The Council's Financial Sustainability Strategy (FSS) has been updated for the period 2022 – 2032 to take into account uncertainty at a national level, financial pressures from rising energy prices and service demand. Work continues to develop an outcome-based approach to budgeting through a Budget Transformation Programme for 2023/24 to 2026/27.
  - Cash balances were lower at 31 March 2022, standing at £53.7m compared to £66m at the 31 March 2021. At 31 March 2022, the Council had total reserves of £641.9m (2020/21: £518.2m), with usable reserves standing at £203.1m (2020/21: £201.5m) and supporting the Council's overall financial position.
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### Governance

*How the body ensures that it makes informed decisions and properly manages its risks*

- The Council has policies in place to facilitate informed decision making. The five independent thematic overview and scrutiny committees, hold officers accountable for the decisions made. The Constitution is regularly reviewed and sets out the rules and procedures under which the Council operates. It sets out how decisions are made and the rights of citizens to obtain information and influence decisions.
  - The Council utilises an internal audit function which undertakes a risk-based programme of work. They provide an annual audit report and opinion on the framework of governance, risk management and control, highlighting any significant control weaknesses. A total of 42 audits were completed during the year with the majority being given satisfactory or high assurance.
  - The Council has a Risk Management Strategy and Toolkit. Internal Audit have commented that there is a strong understanding of risks being faced by the individual Directors and discipline in the production of the Corporate Risk register. However, arrangements are still to be fully embedded at a service level. **The Council should consider further actions necessary to embed the operation of risk management at a service level in a timely manner.**
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### Improving economy, efficiency and effectiveness

*How the body uses information about its costs and performance to improve the way it manages and delivers its services*

- The Council uses financial and performance information to identify areas for improvement, addressing any poor performance and sharing good practice at a corporate and service level. The most recent CIPFA Financial Resilience Index (published 2021) highlights that the Council is the 13th most financially resilient out of 56 unitary authorities when ranked across 16 indicators of financial stress.
  - The Council delivers its role through partnership working and wider engagement with other stakeholders. This includes partnerships with neighbouring local councils, commercial partnership arrangements and other public bodies including the third sector. Funding is awarded via SLAs with agreed outcomes monitored on a quarterly basis to Cabinet to review performance.
  - A settlement agreement is currently underway between the Council and Sanctuary Housing in relation to the Porters Place Southend-on-Sea LLP joint venture partnership to progress the Better Queensway regeneration project. **The Council will need to carefully consider the options available in respect of the Better Queensway Scheme as it seeks a way forward whilst ensuring that value for money risks are effectively recognised and managed.**
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# Purpose of this report

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Our Auditor's Annual Report sets out the key findings arising from the work we have carried out at Southend-on-Sea City Council ("the Council") for the year ended 31 March 2022.

This report is intended to bring together the results of our work over the year at the Council, including commentary on the Council's arrangements to secure economy, efficiency and effectiveness in the use of resources ("Value for Money", "VfM"). This report fulfils the requirements of the Accounts and Audit Regulations for an Annual Audit Letter.

In preparing this report, we have followed the National Audit Office's ("NAO") Code of Audit Practice and its Auditor Guidance Note ("AGN") 03, Value for Money, and AGN 07, Auditor Reporting. These are available from the NAO website.

A key element of this report is our commentary on the Council's arrangements to secure economy, efficiency and effectiveness in the use of resources ("Value for Money", "VfM"). Our work considering these arrangements is based on our assessment of the adequacy of the arrangements the Council has put in place, based on our risk assessment. The commentary does not consider the adequacy of every arrangement the Council has in place, nor does it provide positive assurance that the Council is delivering or represents value for money.

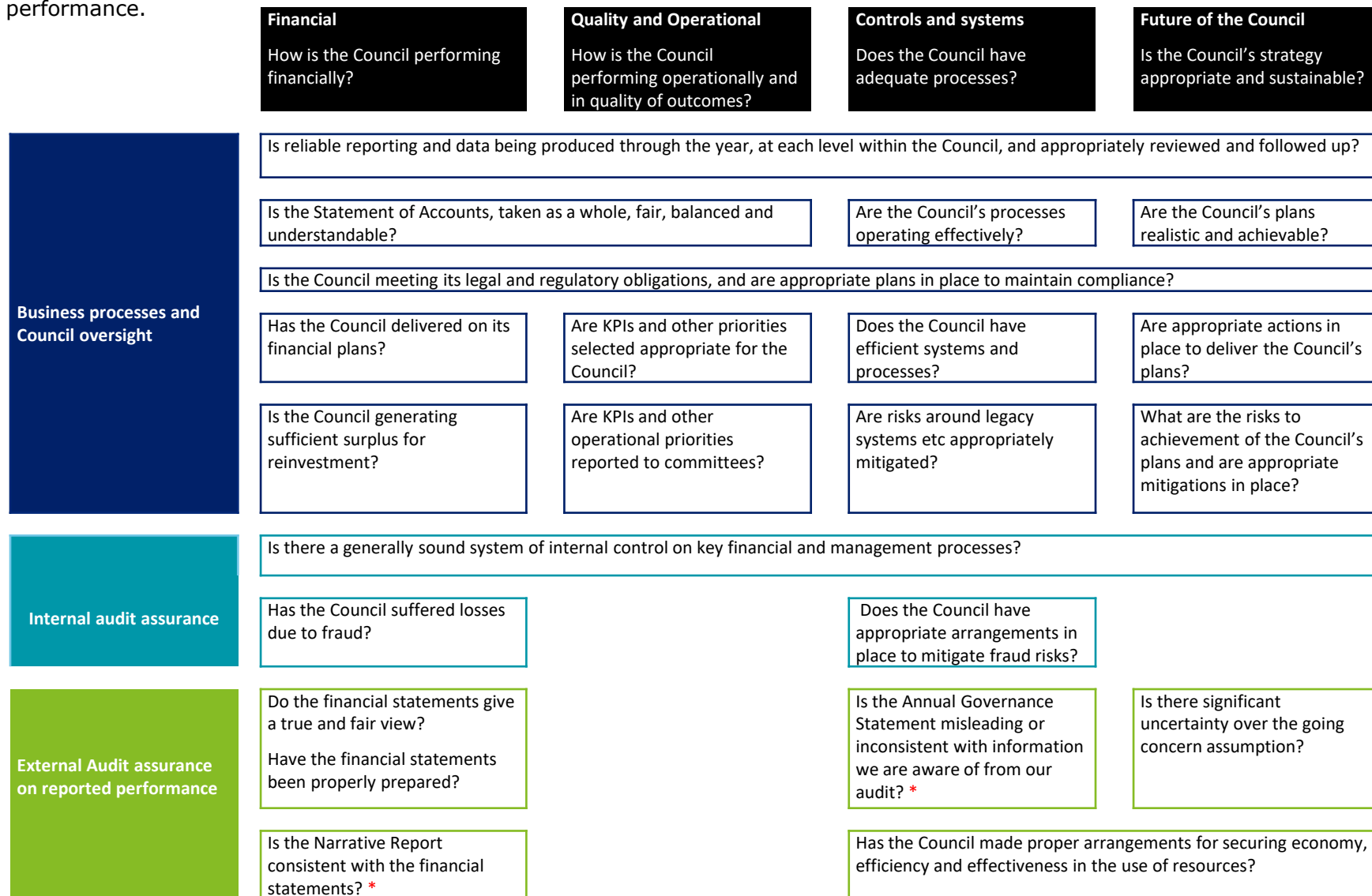
Where we find significant weaknesses in the Council's VfM arrangements or areas where arrangements could be further strengthened, we include recommendations setting out what the Council needs to do to strengthen its arrangements.

We have not identified any significant weaknesses in the Council's VfM arrangements, and so have not reported any recommendations in respect of significant weaknesses.

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# Assurance sources for the Council

The diagram below illustrates how the assurances provided by external audit around finance, quality, controls and systems and the future of the Council (in the green rows) fits with some of the other assurances available over the Council's position and performance.



# Opinion on the financial statements

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## **We provide an independent opinion on whether the Council's financial statements:**

- Give a true and fair view of the financial position of the Council at 31 March 2022 and of the Council's income and expenditure for the year then ended;
  - Have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Council Accounting in the United Kingdom in 2021/22; and
  - the full opinion is included in the Council's Statement of Accounts, which can be obtained from the Council's website.
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We conduct our audit in accordance with the NAO's Code of Audit Practice, International Standards on Auditing (UK) ("ISAs (UK)") and applicable law.

We are independent of the Council in accordance with applicable ethical requirements, including the Financial Reporting Council's Ethical Standard.

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### **Audit opinion on the financial statements:**

We issued an unqualified opinion on the Council's financial statements. We did not identify any matters where, in our opinion, proper practices had not been observed in the compilation of the financial statements.

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### **Narrative Report:**

We reported that the information given in the Narrative Report for the year ended 31 March 2022 is consistent with the financial statements.

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### **Annual Governance Statement:**

We did not identify any matters where, in our opinion, the Annual Governance Statement did not meet the disclosure requirements set out in the Code of Practice on Local Council Accounting, was misleading, or was inconsistent with information of which we are aware from our audit.

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### **Reports in the public interest and duties as public auditor:**

We did not exercise any of our additional reporting powers in respect of the year ended 31 March 2022.

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### **Audit Certificate:**

We are not able to certify completion of the audit until the Whole of Government Accounts requirements are published by the NAO and the audit procedures in relation to these are completed.

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# Our financial statement audit approach

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## **An overview of the scope of the audit**

Our audit was scoped by obtaining an understanding of the Council and the environment it operates in, including internal control, and assessing the risks of material misstatement to the financial statements. Our risk assessment procedures include considering the size, composition and qualitative factors relating to account balances, classes of transactions and disclosures. This enables us to determine the scope of further audit procedures to address identified risks of material misstatement.

Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team, led by the audit director, Mohammed Ramzan. The audit team included integrated Deloitte specialists bringing specific skills and experience in property valuations and in relation to local government pension scheme.

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## **Materiality**

Our work is planned and performed to detect material misstatements. We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the Council to be £8.27m, on the basis of 2% of total cost of service expenditure.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £410k for the council as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

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## **Procedures for auditing the financial statements**

Our audit of the financial statements included:

- developing an understanding of the Council, including its systems, processes, risks, challenges and opportunities and then using this understanding to focus audit procedures on areas where we consider there to be a higher risk of misstatement in the financial statements;
  - performing sample tests on balances in the financial statements to supporting documentary evidence, as well as other analytical procedures, to test the validity, accuracy, completeness and existence of those balances; and
  - interviewing members of the Council's management team and reviewing documentation to test the design and implementation of the Council's internal controls in certain key areas relevant to the financial statements.
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## **Approach to audit risks**

We focused our work on areas where we considered there to be a higher risk of misstatement. We refer to these areas as significant audit risks.

We provided a detailed audit plan to the Council's Audit Committee setting out what we considered to be the significant audit risks for the Council, together with our planned approach to addressing those risks. We have provided a summary of each of the significant audit risks on the following pages.

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# Significant risks

## Valuation of property assets

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<b>Risk identified</b>	<p>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.</p> <p>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. 01 April 2023), reclassifications from assets under construction and material additions and disposals during the year.</p> <p>The Council updates the valuation of its properties using a rolling revaluation programme. The main assets which were revalued in the year were be Schools, Sports Pavilions, Park WCs, Park Messrooms, Day Centres, Marine Activity Centre and Lagoon WCs.</p>
<b>Deloitte response and challenge</b>	<p>We undertook the following procedures:</p> <ul style="list-style-type: none"><li>• We have reviewed the design and implementation of the controls in place in relation to property valuations;</li><li>• 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;</li><li>• 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;</li><li>• 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;</li><li>• We have reviewed assets not subject to valuation in 2021/22 to confirm that the remaining asset base is not materially misstated;</li><li>• 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.</li><li>• 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</li><li>• We have reviewed the presentation of revaluation movements, and the disclosures included in the Statement of Accounts.</li></ul>
<b>Conclusion</b>	<p>We identified an unadjusted misstatement of £844k in relation to the Shared Revaluation. We were informed by the management that the new version of the RAM system implemented from 01/04/2023 will address this issue going forward.</p>

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# Significant risks (continued)

## Capitalisation of expenditure

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**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.

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**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.

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**Conclusion**

After concluding our work, we have no matters to bring to the attention of the Audit Committee.

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# Significant risks (continued)

## Management override of controls

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### **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.

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### **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.
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# Significant risks (continued)

## Management override of controls (continued)

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### **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.

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### **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.

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# Auditor's work on Value for Money (VfM) arrangements

**The section 151 Officer and the Council are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in the use of resources. This includes taking properly informed decisions and managing key operational and financial risks so that they can deliver their objectives and safeguard public money.**

**The section 151 Officer reports on the Council's arrangements, and the effectiveness with which the arrangements are operating as part of their Annual Governance Statement.**

Under the Local Audit and Accountability Act 2014, we are required to be satisfied that proper arrangements have been made to secure economy, efficiency and effectiveness in the use of resources. Under the National Audit Office's Auditor Guidance Note 3, we are required to assess arrangements under three areas:

<b>Financial Sustainability</b>	<i>How the body plans and manages its resources to ensure it can continue to deliver its services</i>
<b>Governance</b>	<i>How the body ensures that it makes informed decisions and properly manages its risks</i>
<b>Improving economy, efficiency and effectiveness</b>	<i>How the body uses information about its costs and performance to improve the way it manages and delivers its services</i>

In this report, we set out the findings from the work we have undertaken. Where we have found significant weaknesses in arrangements, we are required to make recommendations so that the Council can consider them and set out how it plans to make improvements. We have not identified any significant weaknesses in arrangements.

In planning and performing our work, we consider the arrangements that we expect bodies to have in place, and potential indicators of risks of significant weaknesses in those arrangements. As a result of the Covid-19 pandemic, there have been changes in nationally led processes, changes in expectations around Council's arrangements, and events occurring outside of the Council's control, which affect the relevance of some of these indicators. We have still considered whether these indicators are present, but have considered them in the context of the circumstances of 2021/22 in assessing whether they are indicative of a risk of significant weakness.

In addition to our financial statement audit, we performed a range of procedures to inform our VfM commentary, including:



Interviews with key stakeholders, including Executive Director Finance and Resources, Monitoring Officer, Director of Strategy, Head of Procurement, Head of Internal Audit and Audit Committee Chair.



Review of Council and committee reports and attendance at Audit Committee meetings.



Reviewing reports from third parties including internal audit reports.



Considering the findings from our audit work on the financial statements.



Review of the Council's Annual Governance Statement and Narrative Report.

# VfM arrangements: Financial Sustainability

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## Approach and considerations

We have considered how the Council plans and manages its resources to ensure it can continue to deliver its services, including:

- How the Council ensures it identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds these into them;
- How the Council plans to bridge its funding gaps and identifies achievable savings;
- How the Council plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities;
- How the Council ensures that its financial plan is consistent with other plans such as workforce, capital, investment, and other operational planning; and
- How the Council identifies and manages risks to financial resilience, including challenge of the assumptions underlying its plans.

## Commentary

The Council reported a deficit on the provision of services of £18.4m (2020/21: £8.4m) before adjustments between the accounting and the funding basis. The current year deficit is mainly driven by the residual impacts of COVID-19 which resulted in significant increases in expenditure for the Council in supporting residents and local businesses, partly offset by financial support from the Government, which was at reduced levels compared to 2020/21. In addition, there has been an increase in financing expenditure for the current year and there has been significant investments made in financial assets during the year.

At 31 March 2022, the Council had net asset of £641.9m (31 March 2021: £518.2m) and cash of £53.7m (31 March 2021: £66m). At 31 March 2022, the total reserves balance of £641.9m included usable reserves of £200.4 m (£201.5m in the prior year).

The Council's annual planning process and processes around identification of significant pressures were significantly impacted by the Covid-19 pandemic. We saw evidence that the Council adapted its arrangements to respond and they were in line with our expectation in the current operating environment.

There has continued to be some impact of the Covid-19 pandemic on the operations of the Council and planned delivery of its capital programme, with additional Covid-19 grant income being received during the year. The Council has reviewed the additional costs of Covid-19 and utilised Covid-19 grants to support the delivery of services during the pandemic.

The Council has a well-established annual financial planning and forecasting process. The financial plan is considered as part of the overall operational planning process and this process is led by the Executive Director Finance and Resources.

# VfM arrangements: Financial Sustainability

## Approach and considerations

We have considered how the Council plans and manages its resources to ensure it can continue to deliver its services, including:

- How the Council ensures it identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds these into them;
- How the Council plans to bridge its funding gaps and identifies achievable savings;
- How the Council plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities;
- How the Council ensures that its financial plan is consistent with other plans such as workforce, capital, investment, and other operational planning; and
- How the Council identifies and manages risks to financial resilience, including challenge of the assumptions underlying its plans.

## Commentary

In line with the national picture, during 2021/22 the Council continued to face challenges relating to the covid pandemic coupled with the impact of inflationary pressures in the latter part of the year. Whilst there were variances in the income and expenditure profiles compared to the plan, the Council has managed its resources for 2021/22 within the approved budget.

The Council remained financially resilient in managing both the impact of Covid-19 and the range of local demand and spending pressures, at the end of 2021/22 the Council was predicting a cumulative budget gap of £24m to the end of 2026/27. Continued uncertainty at a national level, financial pressures from rising energy prices and service demands are all impacting on the Council's approved financial plans for 2022/23 and forecasts for future years.

As a result, the Council's Financial Sustainability Strategy (FSS) has been updated for the period 2022 - 2032, as well as the Medium-Term Financial Strategy (MTFS) for 2022/23-2026/27. This outlines the Council's desire and commitment to plan effectively for the future and invest in local priorities.

During the year the Council continued to work to make progress towards fulfilment of the jointly owned ambition for Southend in 2050. A new Corporate Plan for the period 2022-2026 provides additional focus to support the Council in achieving this ambition.

**Work continues on developing an outcome-based approach to budgeting through a Budget Transformation Programme for 2023/24 to 2026/27.** The areas identified are to be scoped and developed further during 2022/23 so that resources become more aligned to delivery of the 2050 desired outcomes and, the priorities within the Corporate Plan. Areas of focus identified by the Council include on-going budget reviews; implementation of outcome-based budgeting; better linking of business planning and budgeting to service outcomes; effective and creative management of service demand; review of major contractual arrangements; further implementation of the Commissioning Framework; exploring new commercial opportunities; a range of income generation initiatives and continuing to enhance systems, processes and internal business transformation arrangements.

# VfM arrangements: Governance

## Approach and considerations

We have considered how the Council ensures that it makes informed decisions and properly manages its risks, including:

- How the body monitors and assesses risk and how the body gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud;
- How the body approaches and carries out its annual budget setting process;
- How the body ensures effective processes and systems are in place to ensure budgetary control; to communicate relevant, accurate and timely management information (including non-financial information); supports its statutory financial reporting requirements; and ensures corrective action is taken where needed;
- How the body ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency; and
- How the body monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of officer behaviour.

## Commentary

The Council has a Risk Management Strategy and Toolkit in place which outlines the arrangements for identifying, recording and monitoring corporate risks. The Trust's Head of Internal Audit Opinion for 21/22 highlights that there is a strong understanding of risks being faced by the individual Directors and discipline in the production of the Corporate Risk register. However, these arrangements need embedding so that risks below the corporate risk register are effectively captured and managed at a service level. Whilst recognising progress, the Head of Internal Audit Opinion for 22/23 identified the need for further embedding of risk management operations to deliver the Council's corporate and service plans going into 23/24. **The Council should consider further actions necessary to embed the operation of risk management at a service level in a timely manner.**

The Council has a Counter Fraud and Investigations Team that has a work plan to enhance awareness of the risk of fraud, to prevent and detect fraud and that also receives and investigates allegations of fraud or impropriety. The Counter Fraud and Investigation Team reports the delivery of that plan and an outline of the investigations that have been undertaken to the Audit Committee on a quarterly basis.

The Audit Committee reviews the adequacy of risk management arrangements and has oversight of the Council's system of internal control, including arrangements to prevent and detect fraud. The Council has a series of policies covering internal controls, including a whistleblowing and anti-money laundering policy. These policies are readily available for all staff to review on the Council's website. The Audit Committee approves the annual Internal Audit Plan and receives updates at committee meetings through the year.

The internal audit function is required to provide independent, objective assurance and designed to add value to and improve operations. The Head of Internal Audit opinion for the year provided "Satisfactory Assurance", whilst there is a largely sound system of control, there are some weaknesses, which may put a limited number of the system objectives at risk. A total of 42 audits were completed and overall the audits were positive with the majority being given satisfactory or high assurance. There were no qualified reports and no audit received minimal assurance. Management have an action plan in place to address the risks identified. Where follow-up audits were undertaken, the Council has demonstrated progress in implementing recommendations.

# VfM arrangements: Governance

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## Approach and considerations

We have considered how the Council ensures that it makes informed decisions and properly manages its risks, including:

- How the body monitors and assesses risk and how the body gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud;
- How the body approaches and carries out its annual budget setting process;
- How the body ensures effective processes and systems are in place to ensure budgetary control; to communicate relevant, accurate and timely management information (including non-financial information); supports its statutory financial reporting requirements; and ensures corrective action is taken where needed;
- How the body ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency; and
- How the body monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of officer behaviour.

## Commentary

The Council undertakes detailed budget monitoring on a monthly basis and provides reports to Cabinet and Corporate Leadership Team (CLT) on a quarterly basis which includes a review of the actual outturn position against the budget, and details any significant variances.

National and local guidance is assessed and used to form the basis of a number of assumptions in the budget. Current year performance is evaluated with notable variances explained to determine any ongoing impact. The budget seeks to explain year on year movements and any pressures are identified. There is a clear process in place to set the annual budget and this is approved by the Council on a timely basis.

The Council produces a quarterly performance report which includes a review of the actual outturn position against the budget, and details any significant variances. This is reported to the Authority quarterly, which ensures there is sufficient oversight of the budget monitoring process. The report also includes non financial information and reports on how the Authority is achieving against the Councils strategic objectives.

The Council received OFSTED Findings from the HM Inspector which indicates improvement are required in Children's Services. Based on the procedures performed, we confirmed that measures were in place and action was being taken to address these findings and are satisfied that no significant weakness in arrangements exist. A Children Services Improvement Board was adopted by the Council to address the OFSTED findings, the HM Inspector was satisfied with the progress on the findings as confirmed in his letter 27 June 2022. **The Council should continue to focus on ensuring planned actions fully address the findings and improvements are embedded.**



# VfM arrangements: Governance

## Approach and considerations

We have considered how the Council ensures that it makes informed decisions and properly manages its risks, including:

- How the body monitors and assesses risk and how the body gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud;
- How the body approaches and carries out its annual budget setting process;
- How the body ensures effective processes and systems are in place to ensure budgetary control; to communicate relevant, accurate and timely management information (including non-financial information); supports its statutory financial reporting requirements; and ensures corrective action is taken where needed;
- How the body ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency; and
- How the body monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of officer behaviour.

## Commentary

The Authority has an approved decision making methodology for investment and divestment decisions, which includes approval by the Investment Board and Council. Where necessary, decisions will be reviewed by Cabinet for comment and to determine if the proposal should be approved. Business cases with supporting information are submitted to the relevant committee for approval. This allows for challenge and transparency before decisions are approved.

We have reviewed the Annual Governance Statement and confirmed that no significant control weaknesses were identified which is consistent with our work performed.

The Council has a number of staff policies in place including a code of conduct. These are all contained within the Constitution and are readily available for all staff. Declarations of interest are maintained for all senior members of staff and decision making officers.

The Council has a Monitoring Officer in place, assisted by a team of lawyers to deal with complaints and in certain instances external providers are used for drawing up major contracts. The legal team is currently reviewing the Whistle-blower policy, Constitution and complaints process against members. The complaints process is reported to the Scrutiny committee. The Council has confirmed it is not involved in legal proceedings that may impact on financial sustainability nor has it been subject to any external investigations

During 2021/22, the Council continued to play a central role as part of Association of South Essex Local Authorities (ASELA). The Growth & Recovery Prospectus published by ASELA outlines the investment programmes and projects required for the area. In October 2021, the governance arrangements to oversee the work of ASELA and its associated programmes was formalised with the establishment of a Joint Committee with other councils under Section 101 of the Local Government Act 1972.

The Council was awarded over £1m funding for two projects under the UK Community Renewal Fund to help the local drive to invest in recovery and support the community. As part of the shortlisting process to identify which bids would be put forward in the funding proposal to government, the Council recruited an Assessment Panel made up of local partners representing various groups in Southend. Panel members included representatives from the Department of Work and Pensions, South East Local Enterprise Partnership (SELEP), and local charities and community groups.

# VfM arrangements: Governance

## Approach and considerations

We have considered how the Council ensures that it makes informed decisions and properly manages its risks, including:

- How the body monitors and assesses risk and how the body gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud;
- How the body approaches and carries out its annual budget setting process;
- How the body ensures effective processes and systems are in place to ensure budgetary control; to communicate relevant, accurate and timely management information (including non-financial information); supports its statutory financial reporting requirements; and ensures corrective action is taken where needed;
- How the body ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency; and
- How the body monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of officer behaviour.

## Commentary

The Council has continued to be an active partner in SELEP, with representation by the Deputy Leader at the main (Strategic) Board and Accountability Board, and by the Portfolio Holder or Deputy Leader at the South Essex sub-board Opportunity South Essex.

The Council has an established Shareholder Board which oversees the governance of the Council's companies and joint ventures. During the year, it received the accounts and business plans of South Essex Homes; Southend-on-Sea Forum Management Ltd, PSP Southend LLP, Southend Care and Porters Place Southend LLP.

The Council also acts as the accountable body for a number of externally funded projects operating across Southend, South Essex and the wider South East. These include the South East Business Boost (SEBB) European Regional Development Fund programme (although funding for this has now come to an end), the Enterprise Advisor Network provision in Southend and the Construction Industry Training Board funded South Essex Construction Training Academy (SECTA).

The Council has been impacted by the national issue with Reinforced Autoclaved Aerated Concrete (RAAC). Kingsdown School was forced to close prior to the new 23/24 academic year as a result of a Department for Education (DfE) warning on 31st August. Structural assessments were undertaken and mitigations put in place that enabled the school to open on 11th September with the cost of the mitigations being covered by DfE. Due to the heightened concerns over the use of RAAC, the Council's property team subsequently carried out risk assessments to identify any potential areas within council-owned buildings where there is a presence of RAAC. Through this process, The Dixon Studio (an extension of the Palace Theatre) was discovered to contain RAAC. Remedial works are currently underway with consideration being given to the long-term solution.

# VfM arrangements: Improving economy, efficiency and effectiveness

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## Approach and considerations    Commentary

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We have considered how the body uses information about its costs and performance to improve the way it manages and delivers its services, including:

- How financial and performance information has been used to assess performance to identify areas for improvement;
- How the Council evaluates the services it provides to assess performance and identify areas for improvement;
- How the Council ensures it delivers its role within significant partnerships, engages with stakeholders it has identified, monitors performance against expectations, and ensures action is taken where necessary to improve; and
- Where the Council commissions or procures services, how the Council ensures that this is done in accordance with relevant legislation, professional standards and internal policies, and how the body assesses whether it is realising the expected benefits.

The Council assesses its performance through quarterly Performance and Finance Monitoring Reports which are reported to Cabinet. There is also a Quarterly Budget Monitoring process in place which ensures that both revenue and capital net spending is controlled and reported through a rolling forecast that goes through scrutiny and Cabinet process.

The Cabinet committee is also the basis for challenging management as well as identifying emerging risks; this allows financial plans to align as smoothly as possible with emerging financial challenges and therefore maintain financial sustainability and identify areas for improvement.

Outcome Success Measure Reports outlining progress against the key areas of delivery of the Southend 2050 Roadmap are reviewed by the Corporate Leadership Team, Cabinet and Scrutiny Committees. This process is being further developed through the move to a four yearly Corporate Plan 2022-2026. The new Performance Management Framework outlined within the Corporate Plan presented to Cabinet in July 2022 is aligned with the Council's financial reporting and risk management. Key performance indicators are aligned to each of the Corporate Priorities. In turn, all council employees will have performance and development conversations, connecting them to the delivery of the Council's outcomes.

As highlighted on pages 17 & 18, the Council delivers its role through partnership working and through wider engagement with other stakeholders. This includes commercial partnership arrangements with the private sector for the delivery and discharging its responsibilities in areas such as Housing, Health and Wellbeing with other public bodies, including the third sector. Funding is awarded via SLAs with agreed outcomes monitored on a quarterly basis to Cabinet to ensure VfM and effective performance.

Porters Place Southend-on-Sea LLP was established in April 2019 as a joint venture partnership to progress the Better Queensway regeneration project. However, a settlement agreement is currently underway between the Council and Sanctuary Housing (who merged with the original partner Swan Housing in February 2023). Whilst Sanctuary has subsequently chosen to withdraw from the joint venture, the Council is currently exploring alternative options to progress the scheme. **The Council will need to carefully consider the options available in respect of the Better Queensway Scheme as it seeks a way forward whilst ensuring that value for money risks are effectively recognised and managed.**

# VfM arrangements: Improving economy, efficiency and effectiveness

## Approach and considerations

## Commentary

We have considered how the body uses information about its costs and performance to improve the way it manages and delivers its services, including:

- How financial and performance information has been used to assess performance to identify areas for improvement;
- How the Council evaluates the services it provides to assess performance and identify areas for improvement;
- How the Council ensures it delivers its role within significant partnerships, engages with stakeholders it has identified, monitors performance against expectations, and ensures action is taken where necessary to improve; and
- Where the Council commissions or procures services, how the Council ensures that this is done in accordance with relevant legislation, professional standards and internal policies, and how the body assesses whether it is realising the expected benefits.

The most recent CIPFA Financial Resilience Index (published 2021) highlights that the Council is the 13th most financially resilient out of 56 unitary authorities when ranked across 16 indicators of financial stress.

As part of its focus on financial resilience, the Council launched a 'Getting to Know Your Business' programme in 2020. The first phase of the programme helped to establish a baseline for all council services on costs, income generation potential, value for money and relative performance. This programme, aimed at service managers continues to be embedded with the ambition that all service managers in the Council will have a comprehensive understanding of their business areas in terms of benchmarked operational and financial performance, key demand and cost drivers, income levels, commercial opportunities and customer insight that helps to secure value for money and an outcomes-based approach to investment.

The Council has procurement procedures and policies to ensure that the Council operates in an open and transparent manner, achieves value for money and sustainable quality through a proactive commercial approach to procurement and commissioning for the communities of Southend.

The Procurement Plan and Contract Procedure Rules are reviewed annually by Cabinet. The Council has also been working to embed the commissioning framework to move towards an outcome-based commissioning organisation, aimed at ensuring alignment with the 2050 outcomes, the Corporate Plan, the annual procurement plan, contract procedure rules and market position statements going forward.

The Council received an LGA Corporate Peer Challenge (CPC) in October 2022. Following the peer challenge, the LGA provided the Council with a report based on its findings. The report included nine recommendations relating to: Constitutional Review; Organisational commitment to behaviour change; election cycle; partnership working; strategic priorities; communication; operating model, systems and processes; equality; and influencing the devolution agenda. The Council has put an action plan in place to respond to the recommendations.

The Council has recognised the need to change the way that it works and has a transformation programme in place, to help achieve its ambitions. This has been complemented by a leadership development programme and member development programme.



# Appendices

# Appendix 1: Purpose of our report and responsibility statement

## What we report

Our report fulfils our obligations under the Code of Audit Practice to issue an Auditor's Annual Report that brings together all of our work over the year, including our commentary on arrangements to secure value for money, and recommendations in respect of identified significant weaknesses in the Council's arrangements.

## What we don't report

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.

## 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.



# Appendix 2: Council's responsibilities

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**Public bodies spending taxpayers' money are accountable for their stewardship of the resources entrusted to them. They should account properly for their use of resources and manage themselves well so that the public can be confident.**

**Financial statements are the main way in which local public bodies account for how they use their resources. Local public bodies are required to prepare and publish financial statements setting out their financial performance for the year. To do this, bodies need to maintain proper accounting records and ensure they have effective systems of internal control.**

**All local public bodies are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness from their resources. This includes taking properly informed decisions and managing key operational and financial risks so that they can deliver their objectives and safeguard public money. Local public bodies report on their arrangements, and the effectiveness with which the arrangements are operating, as part of their annual governance statement.**

The section 151 Officer of the Council, is responsible for the preparation of the Council's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Council Accounting.

In preparing the Statement of Accounts the section 151 Officer is required to select suitable accounting policies and make judgements and estimates that are reasonable and prudent. The section 151 Officer is required to confirm that the Statement of Accounts, taken as a whole, is fair, balanced, and understandable, and provides the information necessary for Council Tax payers, regulators and stakeholders to assess the Council's performance, business model and strategy.

The section 151 Officer is required to comply with the CIPFA Code of Practice and prepare the financial statements on a going concern basis, unless the Council is informed of the intention for dissolution without transfer of services or function to another entity. In applying the going concern basis of accounting, the section 151 Officer has applied the 'continuing provision of services' approach set out in the CIPFA code of practice as it is anticipated that the services the Council provides will continue into the future.

The section 151 Officer and Council are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in the use of the Council's resources, for ensuring that the use of public funds complies with the relevant legislation, delegated authorities and guidance, for safeguarding the assets of the Council, and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

# Appendix 3: Auditor's responsibilities

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## **Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

## **Auditor's responsibilities relating to the Council's arrangements for securing economy, efficiency and effectiveness in the use of resources**

We are required under the Code of Audit Practice and the Local Audit and Accountability Act 2014 to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

We are not required to consider, nor have we considered, whether all aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We undertake our work in accordance with the Code of Audit Practice, having regard to the guidance, published by the Comptroller & Auditor General in April 2021, as to whether the Council has proper arrangements for securing economy, efficiency and effectiveness in the use of resources against the specified criteria of financial sustainability, governance, and improving economy, efficiency and effectiveness.

The Comptroller & Auditor General has determined that under the Code of Audit Practice, we discharge this responsibility by reporting by exception if we have reported to the Council a significant weakness in arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2022. Other findings from our work, including our commentary on the Council's arrangements, are reported in our Auditor's Annual Report.

## **Auditor's other responsibilities**

We are also required to report to you if we exercise any of our additional reporting powers under the Local Audit and Accountability Act 2014 to:

- make a written recommendation to the Council, copied to the Secretary of State;
- make a referral to the Secretary of State if we believe that the Council or an officer of the Council is:
  - about to make, or has made, a decision which involves or would involve the Council incurring unlawful expenditure; or
  - about to take, or has begun to take a course of action which, if pursued to its conclusion, would be unlawful and likely to cause a loss or deficiency; and
- consider whether to issue a report in the public interest.





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