



# **Southend-on-Sea City Council**

Report to the Audit Committee on the 2022/23 audit

Issued on 27 November 2024

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## 01 Final report

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# 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 2022/23 audit. The scope of our audit was set out within our planning report presented to the committee in October 2023.

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**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.

**Status of our Value for Money audit**

Our Value for Money work is complete and will be reported to the Audit Committee in our Auditor's Annual Report for 2022/2023, planned for the next Audit Committee meeting. Based on our work, we have concluded there is a significant weakness in arrangements in respect of governance which is detailed on page 17 together with our recommendation. Our financial statement audit opinion has been modified to refer to the significant weakness in arrangements.

**Whole of Government Accounts (WGA)**

As per the NAO guidance, the group audit team has confirmed that they will not require auditors to provide any further assurances or additional procedures for the WGA 2022-23.

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# Introduction

## The key messages in this report (continued)

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### **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 assets & liabilities;
  - valuation of the long-term debtor in relation to Porters Place Southend-on-Sea LLP; and
  - valuation of infrastructure assets.
- We have not identified any significant uncorrected audit adjustments or disclosure deficiencies.
- We have summarised other corrected and uncorrected audit adjustments on page 19.
- We issued a modified audit opinion on the financial statements with no reference to any matters in respect of the Annual Governance Statement. We included reference to matters in respect of the Council's arrangements to secure economy, efficiency and effectiveness in the use of resources following the conclusion of our work.

### **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.

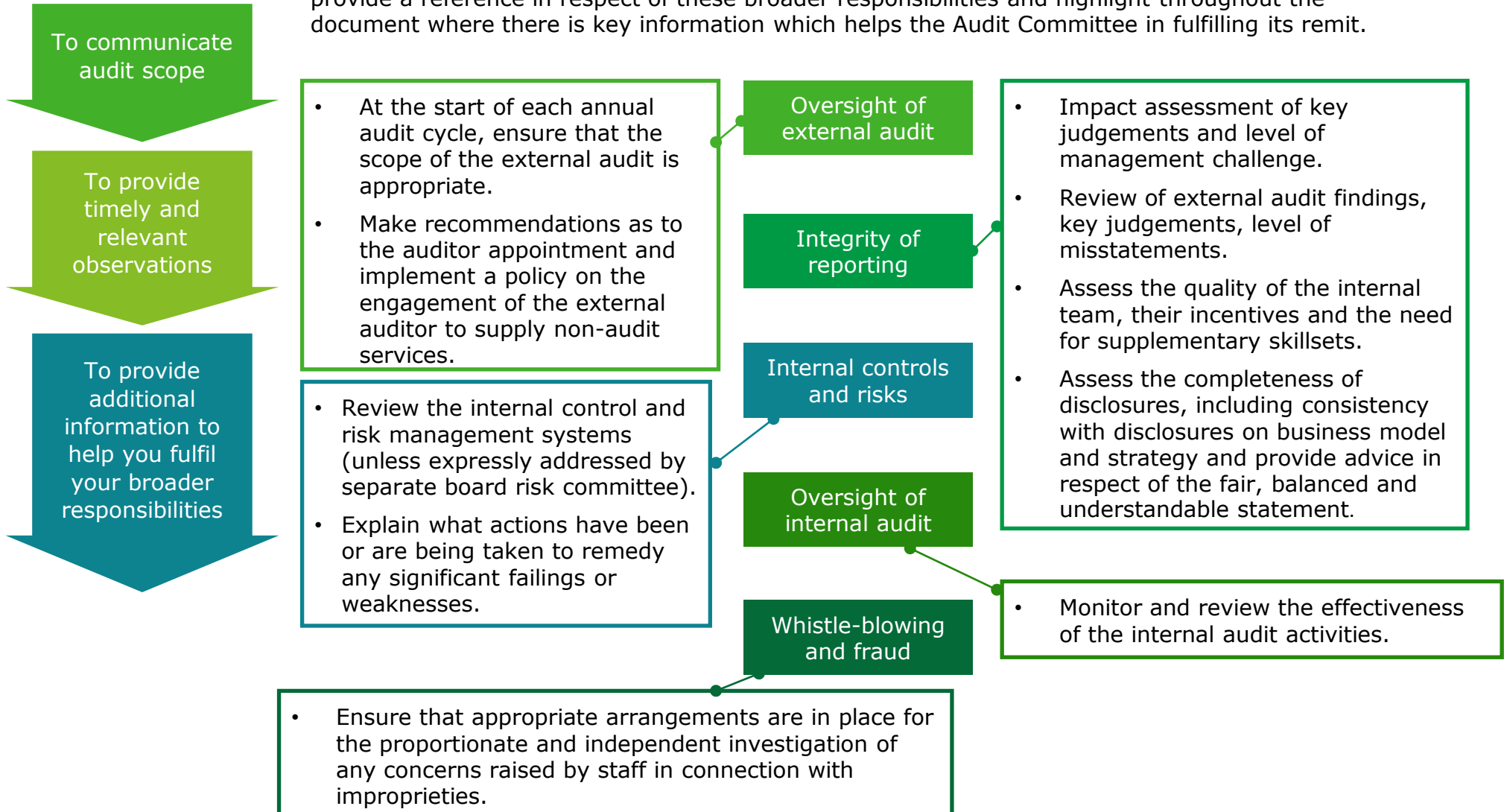
**Mohammed Ramzan**  
Audit lead

# Responsibilities of the Audit Committee

## Helping you fulfil your responsibilities

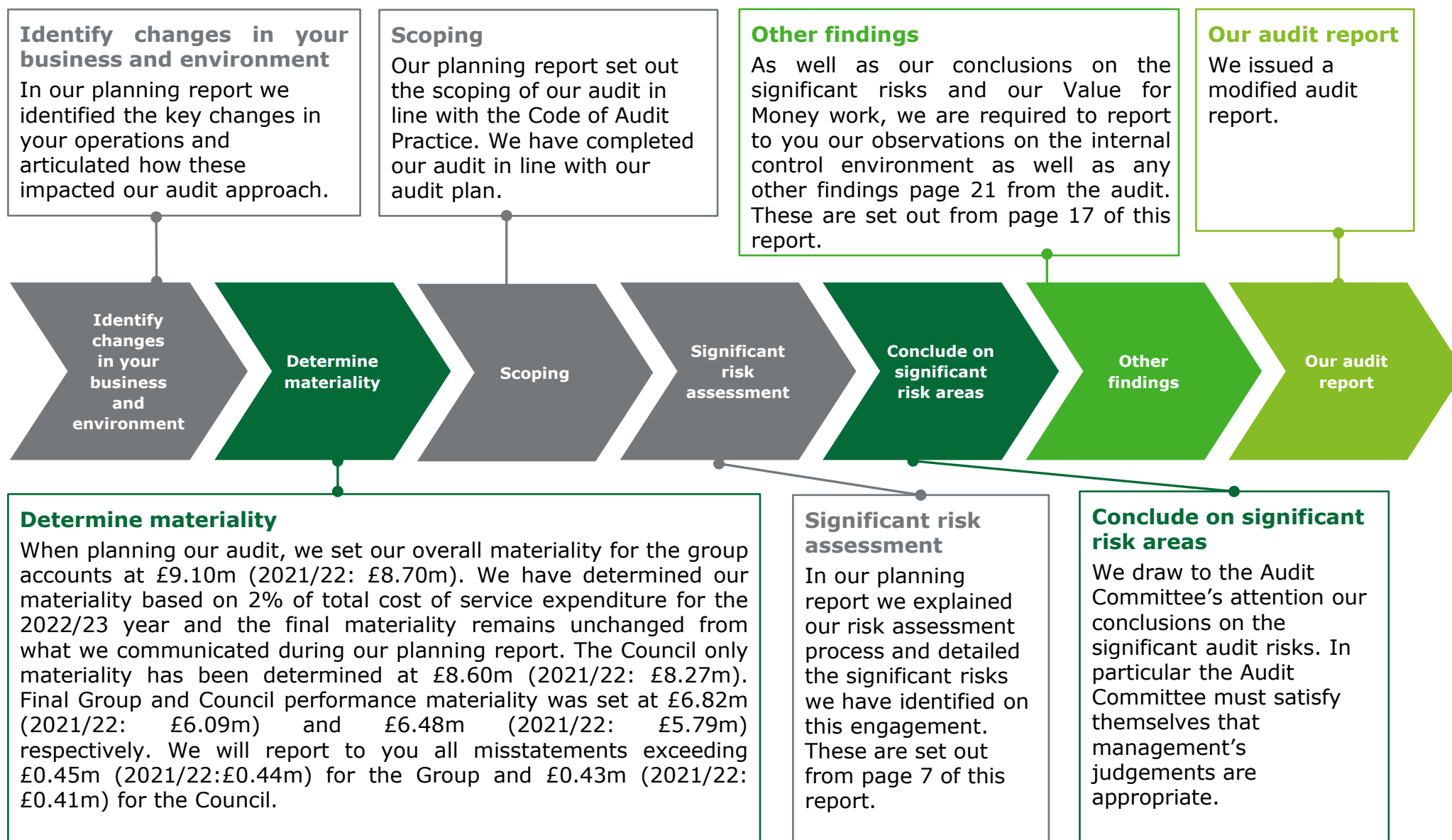
Why do we interact with the Audit Committee?

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.



# Our audit explained

## We tailor our audit to your organisation and your strategy



# Significant risks

## Valuation of property assets

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### **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 £739m of property assets (land and buildings) at 31 March 2023 (£715m as of 31 March 2022) as per the revised accounts. This movement from the prior year is due to revaluation movements as a result of the revaluation exercise during 2022/23 and 2023/24 (i.e. 1 April 2022 & 1 April 2023), 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 at 1 April 2022 were Schools, Sports Pavilions, Park WCs, Park Messrooms, Day Centres, Marine Activity Centre, Lagoon WCs and at 1 April 2023 were Parks, pier assets, Southend adult community college, Council administrative & cemetery buildings, nursery schools.

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### **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 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 2022/23 to confirm that the remaining asset base is not materially misstated;
  - The property assets valued under the rolling valuation programme on 1 April 2022, have been updated to reflect the fair value as at 31 March 2023 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 revalued 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
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# Significant risks (continued)

## Valuation of property assets (continued)

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**Deloitte  
response  
and  
challenge  
(continued)**

- Upon receipt of the 1<sup>st</sup> April 2023 valuation, the Council has updated the latest financials to reflect the fair value of properties to the most up to date information. This has resulted in an overall decrease of £2.5m in PPE. We have assessed the basis for this adjustment and considered it within the reasonable range for valuation purposes.
  - We have reviewed the presentation of revaluation movements, and the disclosures included in the Statement of Accounts.
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**Conclusion**

We have finalised our work on revaluation. We noted that the Cumberledge Centre value has been understated by £1.4m as at 31/03/2023 due to an incorrect valuation approach applied. Further details on this finding are set out on page 21.

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# Significant risks (continued)

## Revenue expenditure incorrectly capitalised

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<b>Risk identified</b>	<p>As part of the Medium-Term Financial Strategy 2022/23 to 2026/27, the Council has a substantial capital programme of £176.9m over the next five years. The capital programme for 2022/23 had an actual spend of £52.1m.</p> <p>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 the use of revenue compared to capital resources. Given this incentive to capitalise costs that are not capital in nature, we specifically identified this area as a significant risk of material misstatement and a fraud risk.</p>
<b>Deloitte response and challenge</b>	<p>We have tested the design and implementation of controls around the capitalisation of costs.</p> <p>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.</p>
<b>Conclusion</b>	<p>We have no matters to bring to the attention of the Audit Committee.</p>

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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**

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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# Other areas of audit focus

## Pension valuation

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**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/gain is a material estimated balance and the Code requires that this liability/asset be disclosed on the Council's Balance Sheet. Per the financial statements at 31 March 2023, the asset totalled £122.5m (2021/22: £92.4m liability). 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.

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**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.
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# Other areas of audit focus (continued)




## Pension 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.)	4.80%	4.65–4.90%	
Salary increase (% p.a.) (over CPI inflation)	3.90%	Council specific, represents real salary increase of 1% above CPI	
Consumer Price Index (CPI) Inflation rate (% p.a.)	2.90%	2.70-2.95%	

#### Assessment key

-  In reasonable range
-  Towards limit of reasonable range
-  Optimistic or Prudent

**Conclusion** We have nothing to bring to the Audit Committee's attention.

# Other areas of audit focus (continued)

## Porters Place Southend-on-Sea LLP

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**Risk identified** We have noted a long-term debtor balance of £3.775m 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. 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. 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.

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 would be exploring alternative options to progress the scheme.

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**Deloitte response and challenge** We completed the following procedures:

- We inquired of management as to the latest update on the planned business combination and search for a new partner to understand the level of risk within the balances 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.

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**Recent update** Following the signing of the settlement agreement by all relevant parties, Swan BQ Limited exited as a member of Porters Place Southend-on-Sea LLP on 28 November 2023; the LLP repaid its loan of £3.775m to the Council on 16 February 2024.

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**Conclusion** We have nothing to bring to the Audit Committee's attention.

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# Value for money

## Our conclusions are reported in our Auditor's Annual Report for 2022/23

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### **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.
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### **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 2022/23.
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# Value for money

Our conclusions are reported in our Auditor's Annual Report for 2022/23  
(continued)

## **Findings of our work**

Our Value for Money work is complete and will be reported in full in our Auditor's Annual Report at the next Audit Committee meeting. As part of our planning work for Value for Money, areas identified as 'Risks of Significant Weakness in Arrangements' were as follows:

- Financial sustainability – given the reported financial performance for the year, overspends in certain areas and sector wide challenges;
- Governance – Leadership, governance and decision making were identified as areas for focus in the Corporate Peer Challenge in October 2022 and actions are ongoing to address areas of concern; and
- Governance – The ongoing improvement actions to address findings from the last full inspection of Childrens Services in 2019 (which received a 'Requires Improvement' rating from OFSTED) and more recent focused visits.

Based on our work, we have concluded there is a significant weakness in arrangements in respect of governance together with our recommendation on page 17.

Our financial statement audit opinion will refer to the significant weakness in arrangements which we qualified.

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# Appendix 1: Significant weaknesses in VfM arrangements

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## **Nature of the significant weakness identified**

We have concluded that there is a significant weakness in relation to the governance VfM criteria, specifically with regards to the Council's leadership, governance and decision making which was also noted in the LGA Corporate Peer Challenge in October 2022.

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## **Evidence on which our judgement is based**

The Council received an LGA Peer Challenge in October 2022, which provided nine key recommendations including: completing and implementing the Council's constitutional review and ensuring there is an organisational commitment to behaviour change to support more effective councillor /officer working relationships; considering changing the election cycle; re-engaging partners across public, private and voluntary sectors on Southend 2050 to provide more clarity between strategic priorities and delivery; modernising the council operating model; systems and processes; addressing inequalities and disparities across the city; and strengthening the Council's voice and influence in the wider regional agenda.

Since the LGA Peer review, there have been a number of changes in relation to political and corporate leadership. The Council remains in No Overall Control with a number of changes in leadership in quick succession. Our work has identified that this instability and the concerns noted regarding effectiveness of councillor/officer working relationships may have contributed to other important decisions not being made in a timely manner, in particular, the decision to go out to tender for the original waste contract and agreeing on the service specification. It should be noted that whilst a number of options were put forward with regards to the waste contract, a change in political control and subsequent revisiting of the service specification resulted in the original contract not being put out to tender within sufficient timescales to ensure a seamless transition to a new provider prior to the existing contract coming to an end. The original contract was extended and a new contract let during the extension period to facilitate the transition to a new provider.

An LGA Peer Challenge follow-up visit in December 2023 noted mixed views about the degree of impact the changes may have had on organisational culture and behaviours to date, all agreed that progress is being made, ways of working are improving and the direction of travel is positive. It was also noted that there is recognition within the Council that there is still more work to do and a clear commitment to continue this work.

Our review has also identified the need to ensure governance arrangements are strengthened over the monitoring and holding to account in respect of the implementation of OFSTED action plans and internal audit and counter fraud recommendations.

Therefore, based on the procedures performed, we have concluded that for the period 2022-23, the arrangements in place surrounding leadership, governance and decision making indicated a significant weakness at the Authority. We note that the Council has acted to address many of these concerns during 2023/24 and there is a clear commitment to continue with this work (albeit recognising the limitations of the electoral cycle) going forward.

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# Appendix 1: Significant weaknesses in VfM arrangements (continued)

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## **Recommendation**

The Council must continue to fully implement and embed the actions from the LGA Peer Review, including improving the effectiveness of Councillor/Officer working relations, timeliness of decision making and ensuring governance processes exercise appropriate scrutiny and holding to account in respect of recommendations and action plans in the areas highlighted above.

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## **Management response**

The Council will continue to fully implement and embed all the actions from the LGA Peer Review that are within the control of management to implement. The LGA Corporate Peer Challenge only took place in October 2022, and following receipt of the report in early 2023, Cabinet accepted the nine recommendations and agreed the steps to address them at its meeting on 21 February 2023. The reality of the timing of the visit and report resulted in only a matter of weeks during the rest of 2022/23 to respond to the concerns raised and to formulate appropriate actions to address them. This is the reason why our response and implementation programme predominantly took place during 2023/24. Peers returned on 7th December 2023, as per their standard procedure, to review progress and provide ongoing support for improvement. The LGA's report acknowledged good progress across all the recommendations with particular emphasis on building a more engaging leadership style through strengthened communications and engagement alongside greater cross-party workings. A lot of work has been done to improve officer/member relationships and this work will continue. The democratic requirements to move to 'all-out' local elections every four years is also a political decision. The change requires time to consult and requires a 2/3rd's majority in favour from all Council Members to introduce. This change is not within the control of management to implement.

A revised approach to the recording of Internal Audit and Counter Fraud Investigation Team recommendations using the Pentana system is being developed with the system administrators, so that the system functionality can be used to provide increased oversight on progress, and reporting, of the implementation of recommendations.

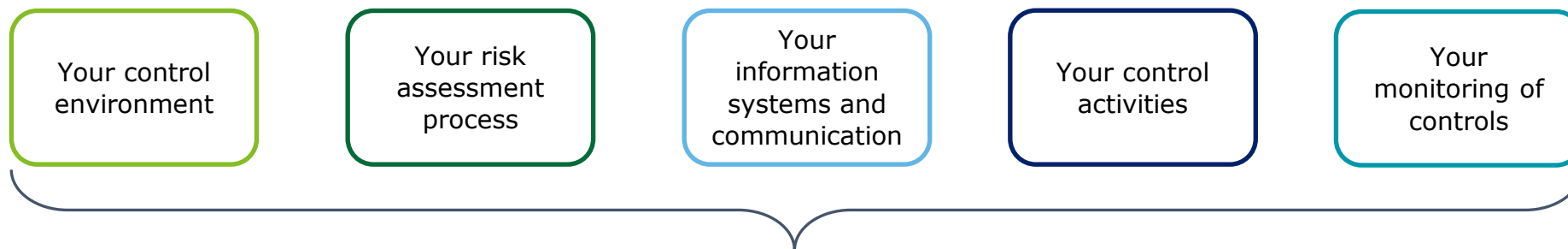
The Council is committed to ensuring that planned improvements for Children's Services continue to be developed and embedded at pace. Self-assessment of improvement has continued and progress has been regularly reported to the Improvement Board. The Service believe that the arrangements that are currently in place are the strongest they have been since the 'Requires Improvement' judgement was originally issued. The formal Ofsted Inspection of Children's Services is currently underway and the Council will await the outcome of this and respond accordingly to any recommendations for further improvements.

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# 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.



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 observations

Area	Observation	Deloitte recommendation	Management response and remediation plan
Capital Grant	During our testing of grants, we noted that the process to identify amounts to be deferred by checking grants received against grant letters was not applied for the 'High Needs Provision' grant resulting in an inappropriate treatment of grant recognition. Per paragraph 2.3.1.2 of CIPFA – grant income should be recognised immediately unless conditions are not met. Corrected adjustment of £1.4m has been included on page 21.	We recommend management to assess grant conditions of each grant and recognise income per the applicable CIPFA guidance.	This has been noted for future years.
Asset – Disposals	As part of AUC testing, we noted that some assets were not recorded as disposals during the period relating to asset category of 'Vehicle, Plant, Furniture & Equipment' with total value of £289k.	Currently, the finance manager sends a list of all VPF&E assets to the budget holder at year-end to confirm whether or not an asset is still in use. We recommend management to implement a quarterly process with a completeness check at year end.	This finding has been noted. Error with disposal was an oversight.
Leases	During our testing of leases, we identified an issue where an existing lease was omitted from the lease disclosure calculation.	A lease register reconciliation should be performed against the lease agreement to ensure the completeness and accuracy of disclosures within financial statement.	This finding has been noted.

# Your control environment and findings

## Control observations (continued)

Area	Observation	Deloitte recommendation	Management response and remediation plan
Bank reconciliation	Year end bank reconciliation data only contains transaction date per the bank statement and does not specify general ledger posting date. As such, it was not clear how transactions were true reconciling items.	The Authority should specify the posting date as per the general ledger to easily identify reconciling items.	The process for producing bank reconciliation working paper has been reviewed and updated in 2023/24.
Preparation of Valuation reports	Our real estate specialist team have identified areas for improvement to enhance reporting on the Councils valuation of assets: - The valuers do not appear to engage in detailed discussions with the Council with regard to Modern Equivalent Asset (MEA) assumptions relating to Specialised Operational properties.	These discussions should be undertaken each year to ensure that the assumed MEA, if different to the existing property, reflect the same service provision as the existing property and are capable of being constructed.	The Council's capital finance team will be part of any future instructions to the valuer regarding Specialised Operation properties. This will include the requirement for discussions with regards to MEA assumptions. This will be put in place from the 2023/24 valuation instructions.

# Your control environment and findings

## Control observation & areas for management focus – Prior period audit

Area	Observation	Deloitte recommendation	Management response and remediation plan	Status
Infrastructure assets	<p>During our infrastructure assets testing we noted that most capitalised costs to infrastructure assets are reflected as enhancements with limited additions.</p> <p>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.</p>	<p>It was 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.</p>	<p>It was noted that this will be put in place for future year end closedowns, starting with the 2022/23 financial year.</p>	Implemented
Grant	<p>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.</p>	<p>We recommended that management maintain a central revenue grant register – both for covid-19 and non-covid grants.</p>	<p>Management has agreed and have prepared a revenue grant register to be maintained centrally going forward.</p>	Implemented

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

Under UK auditing standards (ISA (UK) 260) we are required to provide a summary of unadjusted audit differences (including disclosure misstatements) identified during the course of our audit, other than those which are 'clearly trivial' which are not reflected in the financial statements. In line with ISA (UK) 450 we request that you correct uncorrected misstatements. However, they will have no effect on the opinion in our auditor's report, individually or in aggregate. As mentioned earlier within the report, details of all adjustments greater than £455k are shown below:

		Debit/(credit) CIES	Debit/(credit) in net assets	Debit/(credit) reserves	Is control deficiency identified
<b>Uncorrected audit differences</b>		<b>£m</b>	<b>£m</b>	<b>£m</b>	
In relation to Cumberledge Centre asset, Valuer discounted the DRC value for 12 years, reducing the value to £0.573m which is considered incorrect and should be £1.956m, an understated asset of £1.383m. (Judgemental error-prior year)	[1]		1.383	(1.383)	No
In Note 2c of the group accounts, we note a difference of £500k on the prior year. On Beecroft Art Trust signed accounts for 2022/23, the income for year ending March 2022 was £981K and as per Southend Council statements comparative, the income for Beecroft Art Trust for year ending March 2022 was £1,481k. This is a prior period error of £500K. This will not have an impact on the current year balance. ( Factual error- prior year)			(0.5)	0.5	No
<b>Total</b>			<b>0.883</b>	<b>(0.883)</b>	
<b>Corrected misstatements</b>					
Household support fund grant received from DWP in relation to the period October to December 2022 recorded as receipt in advance resulted in overstatement of creditors. (Factual error)			(Creditor) 0.736		No
			(RIA) (0.736)		
Allocated High Needs Capital grant of £4.770m partially recognised as an income of £3.356m and the remaining balance of £1.414m incorrectly treated as deferred income. (Projected error)		(1.414)	1.414		Yes
A debtor and receipt in advance recognised in relation to amounts due from the sale of two assets. The sale was completed in the subsequent year, therefore receivable and payables overstated by at yearend. (Factual error)			(2.616)	2.616	No
Correction of overstated amortisation charges on software licenses from period of FY13 to FY23. (Judgemental error)	[2]	(0.675)		0.675	Yes
<b>Total</b>		<b>(2.089)</b>	<b>1.414</b>	<b>0.675</b>	

# Audit adjustments (continued)

## Disclosure misstatements

[1] Assuming that the service potential of the asset is a required function of the Council, it is not appropriate to defer the DRC value for the length of the existing lease as this would suggest that property is not providing a service at a valuation date.

[2] Some of the software licenses when added to the register in FY13 were assigned UEL of 10 years. However, most licenses had a UEL for a period of one year and should have been fully amortised following year of acquisition. Management recalculated what amortisation charges should have been and we concluded amortisation was potentially understated in the years from FY13 to FY20 and overstated from FY21 to FY23. The overall amortisation charges would not change, and the differences were not material individually or cumulatively and therefore a correction made in FY23 for historical differences by charging 100% amortisation against remaining NBV of the assets.

### **The uncorrected misstatements are not material and do not have a material impact on the accounts**

The following disclosure misstatements have been identified and corrected up to the date of this report.

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#### Disclosure misstatements

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1. Lease disclosure: One of the lease with an annual amount of £65k p.a. for ending in February 2028 was excluded from Note 33 of financial statements.
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# 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 complete. We issued a modified 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 will note that our Value for Money work is completed and will be reported in our Auditor's Annual Report.

Our financial statement audit opinion will refer to the significant weakness in arrangements which we qualified



### **Irregularities and fraud**

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

In doing so, we will 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	<p>The Narrative Report is expected to address:</p> <ul style="list-style-type: none"><li>• Organisational overview and external environment;</li><li>• Governance;</li><li>• Operational Model;</li><li>• Risks and opportunities;</li><li>• Strategy and resource allocation;</li><li>• Performance;</li><li>• Outlook; and</li><li>• Basis of preparation</li></ul>	<p>We have assessed whether the Narrative Report has been prepared in accordance with CIPFA guidance.</p> <p>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.</p>
Annual Governance Statement	<p>The Annual Governance Statement reports that governance arrangements provide assurance, are adequate and are operating effectively.</p>	<p>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.</p>

# 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.**



# 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:

<b>Independence confirmation</b>	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.
<b>Fees</b>	There are no non-audit fees.
<b>Non-audit services</b>	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.
<b>Relationships</b>	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 2022 to 31 March 2023 are as follows:

	2022/23	2021/22
	£	£
Financial statement audit [1]	109,968	109,968
Additional fees – previously proposed [2]	54,037	54,037
Additional fee following completion [3]	60,686	65,743
<b>Total audit fees</b>	<b>224,691</b>	<b>229,748</b>

[1] The fee reflected here is the scale fee.

[2] Additional fees proposed (letter 31 July 2020) to reflect increased costs for the Authority’s audit, change in scope for Value for Money, Impact of Covid-19.

[3] 2021/22 – Following completion of our audit, additional input has been required in a range of areas including Pension valuation, PPE valuation and Infrastructure work, VFM, Quality preparation challenges, ISA540, Covid-19 impact, increased FRC challenge, litigation & fraud inquiries. 2022/23 – Additional input will be confirmed following completion of the audit.

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 discuss the final position with the Council on completion of the 2022/23 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 revenue expenditure incorrectly capitalised 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



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