



Accountants &
business advisers

Southend-on-Sea Borough Council

Annual Audit Letter 2008/09

Report to Members

December 2009



Local Public Services

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<http://www.pkf.co.uk/>

Code of Audit Practice and Statement of Responsibilities of Auditors and Audited Bodies

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission contains an explanation of the respective responsibilities of auditors and of the audited body. Reports and letters prepared by appointed auditors are addressed to members or officers. They are prepared for the sole use of the audited body and no responsibility is taken by auditors to any Member or officer in their individual capacity or to any third party.

[Local Government Code of Audit Practice](#)

[Statement of Responsibilities of Auditors and Audited Bodies](#)

1 Executive summary

- 1.1 This Annual Audit Letter (Letter) summarises the key issues arising from the work we have carried out during the year and highlights the key findings that we consider should be addressed by the Council.
- 1.2 We have already reported the detailed findings from our audit work to those charged with governance in the reports documented in the Appendix to this report. We have no additional recommendations for the Council at this time.

Key findings

- 1.3 A summary of key conclusions is included in the table below:

Area	Conclusion
Accounts	We issued an unqualified opinion on the financial statements
Value for money conclusion	We issued an unqualified value for money conclusion
Use of resources assessment	Our scored judgements for the use of resources assessment were: <ul style="list-style-type: none"> • 3 out of 4 for managing finances: performing well • 3 out of 4 for governing the business: performing well • 2 out of 4 for managing resources: performing adequately Our overall assessment is that the Council performs well in its use of resources (a score of 3 out of 4)
Performance Management Arrangements	The Council has good performance management arrangements that are assisting the Council with implementation of the change and improvement expected by services
Working with the Third Sector	The Council is engaging positively with the Third Sector, including ensuring that they are properly represented and have a key voice on the Local Strategic Partnership
Local Area Agreement	The Council has improved the arrangements that govern the local area agreement. The Local Strategic Partnership is making a positive difference through the way that it is working together to deliver the local area agreement targets
Sustainable development	The Council is working hard to improve its use of natural resources and to reduce its impact on the environment. It is implementing numerous initiatives to make progress in this area and, although these remain at a relatively early stage in terms of delivery, the Council is well placed to make notable improvements in the near future
Fees and Charges	The Council is implementing a three year programme to generate additional income through those of its activities that it is appropriate to charge for. This work will help to reduce the pressure on the Council Tax in future years
Capital programme	The Council has enhanced its arrangements in respect of the commissioning and delivery of capital projects. As a result the Council is becoming more effective at delivering the capital programme that it has set for itself
Health Inequalities	The Council continues to work with its partners in the Local Strategic Partnership to address the problem of health inequalities that are encountered in the Borough. Although problems still remain, the approach the Council and its partners are taking is contributing to reducing the inequalities gap and increasing people's life chances

Acknowledgement

- 1.4 Our aim is to deliver a high standard of audit which makes a positive and practical contribution that supports the Council's own agenda. We recognise the value of your co-operation and support and would like to take this opportunity to express our appreciation for the assistance and co-operation provided during the course of the audit.

2 Introduction

About the Council

- 2.1 The Council's vision involves "Creating a Better Southend" by "Working together to achieve a Safe, Clean, Healthy, and Prosperous Southend, and become an Excellent Council."
- 2.2 Southend is home to approximately 165,000 people in a densely populated town on the east coast of England. The borough is mainly urban, but there are a number of green spaces and some high quality beaches within the borough. The population contains a high proportion of residents over the age of 65 and in retirement and is continuing to get older. The majority of the population are of white British ethnicity but the area is becoming more diverse with communities from various ethnic backgrounds arriving and settling in the Borough.
- 2.3 There are areas of both affluence and deprivation within Southend. The health of people in Southend is broadly in line with the average for England, but there are some particular health challenges, including the inequalities between the affluent and deprived areas. Unemployment levels are relatively high, although resident earnings are above the national average largely as a result of commuting out of the town. Over 90 per cent of the workforce is employed in the services industry and tourism is a key element of the local economy.
- 2.4 Southend is part of the Thames Gateway project and this is building on the advantages the town has as a place to live, work and visit. These include relatively low crime rates, excellent leisure and cultural opportunities, being an important location for employment and shopping, having some high performing schools, working towards becoming a centre of excellence for further and higher education, good health facilities and good public transport links to London. These factors mean the Council has strong building blocks in place to deliver against its vision of "Creating a Better Southend".

The purpose of this Letter

- 2.5 The purpose of this Letter is to summarise the key issues arising from the work that we have carried out during the year. Although this Letter is addressed to Members, it is also intended to communicate the significant issues we have identified, in an accessible format, to key external stakeholders, including members of the public. The Letter will be published on the Audit Commission's website at www.audit-commission.gov.uk and also on the Council's website at www.southend.gov.uk.

Responsibilities of the auditors and the Council

- 2.6 We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing auditors to local public bodies in England.
- 2.7 As the Council's external auditors, we have a broad remit covering financial and governance matters. We target our work on areas which involve significant amounts of public money and on the basis of our assessment of the key risks to the Council achieving its objectives. It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

The scope of our work

- 2.8 Our main responsibility as the appointed auditor is to plan and carry out an audit that meets the requirements of the Audit Commission's Code of Audit Practice (the Code). Under the Code, we are required to review and report on:
- the Council's financial statements
 - whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

3 Key findings

Accounts

- 3.1 We issued an unqualified opinion on the Council's financial statements on 30 September 2009. Our opinion confirms that the financial statements presented fairly the financial position of the Council as at 31 March 2009 and its income and expenditure for the year then ended.
- 3.2 We did not identify any significant issues from our review of the Council's accounting and internal control systems that could materially impact on the financial statements.

Key issues arising from the audit

- 3.3 We identified a small number of non-trivial but not material issues with the accounts subject to audit, specifically issues relating to: classification of schools balances between cash and investments; cut-off of Council Tax and Business Rates debtors; analysis of a VAT receipt between income disclosure categories; asset verification; and completeness of related party disclosures.
- 3.4 There were also a handful of issues arising with certain key controls within the key financial systems used to prepare the statement of accounts, where improvements to control arrangements would provide additional assurance over the information reported by those key financial systems. Further audit testing enabled us to conclude that these had not resulted in material misstatement of the accounts.
- 3.5 These issues were reported to the Audit Committee in the Annual Governance Report in September 2009.

Use of resources

- 3.6 The Code requires us to be satisfied that proper arrangements have been made to secure economy, efficiency and effectiveness in the use of resources. This is known as the value for money conclusion and draws on the results of specific risk based audit work as well as the results of our use of resources assessment.

Specific risk-based work

- 3.7 We carried out a number of specific pieces of work based on our assessment of the key risks facing the Council, and our overall conclusions on these is outlined in the following paragraphs:

Performance Management Arrangements

- 3.8 The Council has good performance management arrangements that are assisting the Council with implementation of the change and improvement expected by services. Three quarters of targets were achieved in 2008/09. Educational attainment is good and children's services continue to deliver improved outcomes. The Council has improved the cleanliness of streets, parks and open spaces. Recycling is increasing and the amount of waste collected has reduced. There has been a steady reduction in crime over a sustained period of time. The Council's management structure is strong and the alignment of targets and resources with priorities is good.

Local Area Agreement

- 3.9 The Council has improved the arrangements that govern the local area agreement. The Local Strategic Partnership is making a positive difference through the way that it is working together to deliver the local area agreement targets. The performance management arrangements that have been implemented to deliver the local area agreement targets are robust.

Working with the “Third Sector”

- 3.10 The Third Sector refers to bodies that are neither state nor private sector, and are typically charities and other voluntary organisations. The Council is engaging positively with the Third Sector, including the establishment of a Compact in 2006 covering how the Council and Third Sector bodies interact, principles and standards; and ensuring that the Third Sector is properly represented and have a key voice on the Local Strategic Partnership.
- 3.11 In terms of commissioning and procurement, the Council has made efforts to ensure that the Third Sector has the information that it needs to give it the opportunity to work alongside the Council wherever possible, although there is scope to clarify strategic priority and improve some of the contract setting and management criteria.

Sustainable development

- 3.12 The Council is working hard to improve its use of natural resources and to reduce its impact on the environment. It is implementing numerous initiatives to make progress in this area and, although these remain at a relatively early stage in terms of delivery, the Council is well-placed to make notable improvements in the near future.

Fees and Charges

- 3.13 The Council has undertaken, in conjunction with external consultants, a review of the aspects of its activities that generates income. As a result of this, it is implementing a three-year programme to generate additional income through chargeable activities, with the aim of improving links between charging structures and strategic priorities. This will also help to reduce the pressure on the Council Tax in future years.

Capital programme

- 3.14 The Council has enhanced its arrangements in respect of the commissioning and delivery of capital projects. This has helped to ensure that the resources planned into capital programme are properly aligned with the Council's priorities, so that the programme is impacting on the most important areas. Additional scrutiny of the capital programme has also assisted in making it more achievable and, as a result, the Council is becoming more effective at delivering the capital programme and in reducing programme slippage.

Health inequalities

- 3.15 The Council continues to work with its partners in the Local Strategic Partnership to address the problem of health inequalities that are encountered in the Borough. Our work in 2008/09 focused on LSP-level progress in implementing the recommendations arising from our Essex-wide substantive review in 2007/08. Whilst the Council and its partners are making progress on addressing this issue, inequalities persist and the number of children living in poverty is still high. We will be undertaking a full-scale follow-up review, again Essex-wide, as part of our 2009/10 audit.

Use of resources assessment

3.16 We are required to assess how well local authorities manage and use their financial resources by providing scored judgements on the Council's arrangements in three specific areas. Our assessment forms part of the Audit Commission's new Comprehensive Area Assessment (CAA) for 2008/09 and is not comparable with 2007/08 or earlier years' scores.

3.17 Our scores for each key line of enquiry are shown below:

Theme	2008/09
Managing Finances	
• Planning for financial health	3
• Understanding costs and achieving efficiencies	3
• Financial reporting	3
Theme score	3
Governing the business	
• Commissioning and procurement	3
• Use of information	3
• Good governance	3
• Risk management and internal control	3
Theme score	3
Managing resources	
• Natural resources	2
• Strategic asset management	2
• Workforce	N/A
Theme score	2
OVERALL SCORE	3

3.18 The Council has done well to achieve an overall score of 3 under the new assessment regime and should now seek to achieve minimum scores of 3 for all assessment areas and aim towards scores of 4. This means that we concluded that the Council has good arrangements in place in respect of managing finances and governing the business and that the arrangements for managing resources are adequate.

3.19 The Council's financial planning is fully integrated and resources are focussed on priority areas. The Council has a good track record of delivering against budgets. It has a reserves strategy based on a prudent assumption of risk. Finances are monitored on a monthly basis to ensure action is taken against variances arising. Members are involved at all stages, providing political leadership for financial planning and delivery of budgets. There is a sound understanding of costs and performance. Savings achieved have been reinvested in priority services. Financial reporting takes place on a timely basis and is appropriately reliable and accurate.

3.20 The Council commissions and procures good quality services and supplies. These are meeting local needs, delivering some good outcomes and value for money. The Council consults with and involves local people and uses this to redesign services so that they better meet local needs. The Council produces reliable information to support decision making and manage performance. The governance and risk management arrangements are good.

- 3.21 The Council manages its resources in an appropriate manner. It has made a clear commitment to managing natural resources and tackling climate change. Work is in progress to deliver outcomes and improvements, but this is at an early stage. The Council's approach to asset management improved significantly over the last two years but some aspects of the arrangements are still being developed.
- 3.22 The results of our use of resources assessment have been shared with the Audit Commission as part of the integrated approach to developing CAA. The results of CAA will be reported separately by the Audit Commission.

Value for money conclusion

- 3.23 Taking into account our work on use of resources, we concluded that adequate arrangements were in place to secure value for money and have provided an unqualified value for money conclusion for the year ended 31 March 2009.

Grants

- 3.24 The Council's arrangements for preparing grant claims and returns for audit are sound, although there were some additional grants added to the original list provided to us that the Council had not originally made us aware required certification.
- 3.25 The audit work undertaken on grants indicated that the Council understands the requirements of the grant regimes and difficulties were only experienced in respect of the audit of the National Non-Domestic Rates Return.

Emerging issues

Current economic climate

- 3.26 In view of the potential impact of the recession on property values the Council undertook a reviews of asset values during 2008/09. As a result of this the Council's asset values were adjusted downward by £32.8m to better reflect the value of them under the revised economic situation.
- 3.27 In response to the continued economic downturn, the Council also carried out a review of its position and the impact of the recession on all aspects of its operation. This has identified a number of risk areas that are being managed and monitored through the Council's risk management arrangements.

Treasury management

- 3.28 Following the collapse of the Icelandic banks in October 2008 the Audit Commission conducted a study to examine treasury management arrangements in local authorities. The resulting report *Risk and Return* was published in March 2009 and in this report the Audit Commission committed to asking auditors to follow up the lessons from the report as part of their use of resources work.
- 3.29 We concluded from this work that the Council's treasury management arrangements are satisfactory and the Council has taken action to strengthen its arrangements in light of the collapse of the Icelandic banks. The Council did not suffer any loss as a result of the collapse of the Icelandic banks.

Appendix: Reports issued in relation to the 2008/09 audit

Report	Date Issued
Annual audit plan	June 2008
Local Area Agreement	March 2009
Annual governance report	September 2009
Use of resources assessment	December 2009