



Accountants &
business advisers

Rochford District Council

Annual Governance Report

2008/09

September 2009

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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.

1 Executive summary

- 1.1 We report to you in accordance with the provisions of International Auditing Standard 260, which requires us to report to “those charged with governance”, prior to issuing our opinion on the financial statements and giving our conclusion on the adequacy of your arrangements for securing economy, efficiency and effectiveness in your use of resources (our VFM conclusion).

Findings and conclusions

- 1.2 A summary of audit findings and conclusions is included in the table below:

Area of audit	Findings & Conclusion
Accounts	
Key financial systems	The key financial systems are adequate as a basis for preparing the financial statements and no significant control weaknesses were identified that impacted on our opinion.
Financial statements	<p>A material error of £2,630,425 was identified as a result of audit work, which related to the valuation and impairment of car parks, the correction of which reduced the Council’s reported deficit for the year by £2,573,302. There were a number of other material disclosure errors in the accounts which have been corrected but, as these only relate to the presentation of financial transactions and balances, these had no affect on the Council’s reported outturn.</p> <p>We are satisfied that the Annual Governance Statement (AGS) is not inconsistent or misleading with other information we are aware of from our audit of the financial statements.</p> <p>A number of non-trivial, but not material, errors have been identified; those which the Council has not amended in the financial statements have been detailed in Appendix C. The majority of the errors identified are connected to the accounting treatment for fixed assets.</p> <p>We issued an unqualified opinion on the financial statements on 30 September 2009.</p>
Use of resources	
Use of resources assessment	Our assessment for use of resources is that the Council is performing well in respect of governing the business and managing resources and adequately in respect of managing finances .
Data Quality	Management arrangements to ensure the quality of reported performance information are good.
VFM conclusion	We issued an unqualified value for money conclusion on 30 September 2009.

Acknowledgement

- 1.3 We would like to thank the staff of the Council for the co-operation and assistance provided to us during the audit.

2 Introduction

- 2.1 This report summarises the results of our audit work in respect of the financial statements and arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2009.
- 2.2 Our report was presented to Members in accordance with the provisions of International Auditing Standard 260 ("ISA 260") which requires us to report key findings from the audit to "those charged with governance", prior to issuing our opinion on the financial statements.

Findings

- 2.3 Detailed recommendations in response to the key findings identified by our audit are provided in the action plan at Appendix A. These recommendations have been discussed with appropriate officers and responses are included in the action plan where appropriate.
- 2.4 We would highlight that in this report we do not provide a comprehensive statement of all weaknesses that may exist in the accounting and control systems, but only those matters which have come to our attention as a result of the audit procedures performed. We have not restated recommendations already made by Internal Audit.

Independence

- 2.5 We confirm that we are not aware of any relationships that may bear on our independence and objectivity as auditor and that our independence declaration, included in the Annual Audit and Inspection Plan 2008/09, has remained valid throughout the period of the audit.

3 Accounts

Requirements

- 3.1 We are required to provide an opinion on whether your financial statements present fairly the financial position of the Council and its income and expenditure for the year, and whether they have been prepared properly in accordance with appropriate legislation.
- 3.2 We carry out procedures designed to obtain sufficient appropriate audit evidence to determine with reasonable confidence whether the accounts are free from material misstatement and evaluate the overall presentation in order to ascertain whether they have been prepared in accordance with relevant legislation and accounting standards.
- 3.3 We identify the principal areas of risk of material misstatement from our knowledge of the Council, of the environment in which it operates and from discussions with management. We address these risks by carrying out appropriate audit procedures.
- 3.4 We apply an appropriate level of materiality and as such the audit cannot be relied upon to identify all risks or potential and actual misstatements. Materiality is the expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole.
- 3.5 We set a triviality level of £16,500 for the 2008/09 accounts audit and have not reported to you any matters arising below this level.

Accounts risks

- 3.6 The findings from our review of "significant" audit risks in relation to the financial statements identified in our audit planning - i.e. issues that have the potential to adversely affect the audit opinion and, therefore, require a tailored audit response - are summarised as follows:

Risk area	Overall conclusion
There is a risk that the VAT reclaim from Rochford Housing Association will be accounted for incorrectly.	We tested these receipts, which are included in Other Income in the Income and Expenditure account and found that they had been correctly accounted for as capital receipts.
Preparation of the financial statements has had to be completed one week early due to the Financial Services Manager's planned maternity leave, increasing the risk of material error in the accounts.	The appropriate independent senior staff checks had been carried out on the financial statements in line with the Council's timetable. A number of significant errors were identified during the audit but it is not possible to determine whether these stem from an early preparation of the financial statements. However, there were a number of presentational errors in the draft accounts that we would have expected to be identified and corrected during the internal review processes.
Internal Audit identified that Financial Services had not regularly evidenced, by initialling the Marketplace log, that they had checked the coding of orders placed. This reduces the audit assurance that can be taken from the effective operation of the control to mitigate the risk of material error in the classification of expenditure and creditors.	<p>Absence of evidence of the operation of a control reduces the audit assurance that can be gained that it has operated effectively during the period and necessitates a substantive audit response as the control cannot be relied upon. The need to evidence checks completed was raised as a recommendation by Internal Audit and we have not repeated it.</p> <p>To gain assurance that the control operated in practice, even though it had not been evidenced, Internal Audit substantively checked the coding of orders and did not identify any errors in the sample tested. We concluded from this work that the financial statements were not materially misstated as a result of this issue.</p>

Reporting to those charged with governance

- 3.7 In accordance with the requirements of International Standard on Auditing 260 ("ISA 260"), auditors are required to communicate relevant matters relating to the audit with those charged with governance. In particular we are required to report:
- qualitative aspects of **accounting practices and financial reporting**
 - final draft **letter of representation** to be agreed by management and those charged with governance
 - **uncorrected misstatements**
 - expected modifications to the **audit report**
 - material weaknesses in **accounting and internal control systems** identified during our work
 - **matters required to be reported by other auditing standards**
 - any **other audit matters of governance interest**.

- 3.8 Our comments in each of these areas are set out below:

Accounting practices and financial reporting

Application of accounting policies

- 3.9 The key changes introduced by the 2008 SORP were:
- the replacement of deferred charges with revenue expenditure funded from capital under statute
 - the prohibition of revaluing fixed assets on disposal
 - the clarification of Financial Reporting Standards 25, 26 and 29 relating to the accounting treatment for financial instruments
- 3.10 The Council has dealt with the implementation of these changes in an appropriate manner and assisted the audit in the review of the changes required. However, issues were identified with respect to the accounting policies for:
- Valuation of car parks
 - Depreciation.

- 3.11 These matters are explained in the following paragraphs in the order set out above:

Valuation of car parks

- 3.12 Our work identified that historically the Council's car parks have been valued at Market Value (MV). This is not in line with the SORP which states that operational, non specialised assets should be valued at Existing Use Value (EUV). Consequently, the Council requested and received revised car park valuations on the correct basis from Savills, the Council's Valuer.
- 3.13 Overall, the revaluation identified a net increase in the value of car parks as at 1 April 2008 of £130,146 (comprised of increased valuations amounting to £897,934 and decreased valuations amounting to £767,788). The net £130,146 valuation error has been amended. This amount is considered to be non-trivial but not material and so a prior period adjustment has not been made.

Depreciation

- 3.14 During the audit the Council identified that Car Parks had not been depreciated in line with its policy of depreciating the cost of surfacing and fencing the car parks on a straight line basis over 7 years. Instead the full value of car parks, including the land element, had been inappropriately depreciated by reference to the number of spaces in each car park.
- 3.15 Financial Reporting Standard 15 (FRS15) states that land should not be depreciated. Furthermore, through discussion with Savills, it was established that depreciation of the value of the non-land element would be immaterial. Consequently, and in line with the SORP, the Council has decided to amend its policy on car park depreciation so that it no longer depreciates these assets. An adjustment of £43,997 has been made to ensure all accumulated depreciation of has been written out and an amendment has been made to reduce the depreciation charge for the year by £44,001. As the amounts are not material to the accounts a prior period adjustment has not been made.
- 3.16 To ensure the accumulated depreciation remains immaterial to the financial statements, and the newly adopted depreciation policy remains appropriate, the Council will need to ensure these assets are subject to an annual desktop revaluation.
- 3.17 Our review of the fixed asset register identified that the Council had not complied with its depreciation policy for assets which had not been revalued in the year, depreciating them on a reducing balance basis rather than a straight line basis. As a result, depreciation charged on vehicles, plant, furniture and equipment was understated by £25,918 and amortisation of intangible assets was understated by £155,676. These are non-trivial but not material errors that have been amended.
- 3.18 Further issues were identified with the calculation of depreciation in year from our testing of transactions and balances. These have been detailed in that section of this report.

The accounts preparation process

- 3.19 The draft financial statements were approved by Members on 30 June 2009, which was the statutory deadline. As part of our planning for the audit, we prepared a detailed document request which outlined the information that we would require to complete the audit. The Council provided us with files of comprehensive working papers and draft accounts on 3 August 2009, the first day of the audit.
- 3.20 From our review of the working papers we concluded that the Council's Microsoft Excel based fixed asset register does not meet the requirements set out in the SORP guidance notes, which suggest that information should be kept on a gross basis, such as cost and accumulated depreciation. The Council's fixed asset register records this information on a net basis.

Testing of transactions and balances

- 3.21 As part of our audit approach, all material balances were subject to audit testing and agreement, on a sample basis, to supporting documentation. Issues arose in respect of the following matters, which we bring to your attention:
- Depreciation
 - Impairment.
- 3.22 These matters are explained in the following paragraphs in the order set out above:

Depreciation

- 3.23 For assets which had been revalued it was identified that the depreciation had been incorrectly calculated. The depreciation should be calculated on the current value of the asset, over its useful life, on a straight line basis. The fixed asset register was set up to calculate the depreciation on the historical cost and then adding the amount in the revaluation reserve. Consequently depreciation has been overstated by £48,122. This is included as an uncorrected misstatement in Appendix C.
- 3.24 A number of buildings were also identified as not being depreciated when they should be resulting in an understatement of the depreciation charge by £40,969. This non-trivial but not material error has been corrected.
- 3.25 Additionally, one of the assets not depreciated had a government grant attached to it which should have been amortised over its useful life. This resulted in an error of £45,332, which has been included in Appendix C as an uncorrected misstatement.

Impairment

- 3.26 The impairment charge to assets held at the end of the year was incorrect due to the impairment being calculated on the net book value of the assets before depreciation had been charged. This overstated the amount which had been charged to the Income and Expenditure account by £148,493. This non-trivial but not material error has been corrected.
- 3.27 In addition, the impairment on car parks was also found to be misstated as a result of the matters raised under application of accounting policies regarding the valuation basis of car parks (discussed above). As a result of the decision taken during the audit to change the valuation basis of car parks to EUV, the Council requested and received revised valuation figures for 1 April 2009 from the Valuer to use in the calculation of the impairment. These revised figures reduced the overall impairment on car parks by £2,630,425 which, in turn, reduced the impairment charged to the Income and Expenditure Account by £2,573,302. This is material to the Income and Expenditure account within the financial statements and has therefore been amended.

Adequacy of disclosures

- 3.28 We identified a number of departures from the expected presentation of the financial statements or where notes and other disclosures had not been presented in accordance with the SORP. All have been amended by the Council with no impact on the reported outturn position for the year. The most significant departures were in respect of:
- Pension costs
 - Benefit expenditure
 - Local authority business growth incentive grant
 - Opening cost and accumulated depreciation
 - Non operational assets
 - Revaluation of fixed assets
- 3.29 These matters are explained in the following paragraphs in the order set out above:

Pension costs

- 3.30 Included within Non-Distributed Costs gross expenditure in the Income and Expenditure Account were additional contributions made to the pension fund to reduce the deficit of £839,000. However, in line with Financial Reporting Standard 17 – Retirement benefits, these should be removed and the Past Service costs, as provided by the actuary, included. The net past service costs for the year was £49,000. The Council made an adjustment of £790,000 to reduce the contributions, but instead of netting down expenditure made the adjustment in the “income” column in the Income and Expenditure Account. This is a material disclosure error that has been corrected.

Benefit expenditure

- 3.31 The housing and council tax benefit system (Academy) nets overpayments recovered from ongoing entitlement of benefits paid to claimants. In order for benefit expenditure to be correctly shown as gross in the accounts, an annual adjustment is required to increase the benefit expenditure included within Other Housing Services to its gross value. The adjustment required for 2008/09 was £259,157. However, this was incorrectly posted to benefit subsidy income instead of to benefit expenditure. This is a non-trivial but not material disclosure error that has been corrected.

Local authority business growth incentive grant

- 3.32 This grant for £355,678 was included within Corporate and Democratic Core income in the Income and Expenditure Account. This grant is not for a specific purpose and, as such, should have been included in General Government Grants below Net Cost of Services.
- 3.33 In the Cash Flow Statement it was also identified that this grant had been included in Other Capital Grants. As this is not a capital grant, the Council has amended the cash flow to include an Other Government Grants line under Revenue Activities.
- 3.34 These are material disclosure errors that have been corrected.

Opening cost and accumulated depreciation

- 3.35 For vehicles, plant, furniture and equipment and intangible assets we identified that, although the net book value of the assets agreed to the fixed asset register, the opening cost and accumulated depreciation as at 1 April 2008 did not agree. The SORP states that if the historical cost of assets is not known then the carrying amount as at 1 April 2007 is to be taken as the historical cost from 1 April 2007 onwards. To correct this disclosure issue the Council has amended the opening cost and accumulated depreciation as if the value as at 1 April 2007 is taken as the historical cost. This reduces opening cost and accumulated depreciation by £473,000 on vehicles, plant, furniture and equipment and by £732,000 on intangible assets. This is a material disclosure error that has been corrected.

Non operational assets

- 3.36 In the draft set of financial statements 57 South Street, a non operational asset, was shown as transferring asset category from Available for Sale to Surplus Assets. However, neither of these are recognised asset categories as defined by the SORP, which has three categories for Non Operational assets, these being: Assets under Construction, Investment Properties and Surplus Assets Held for Sale. It was agreed with the Council that the asset should be classified as Surplus Assets Held for Sale.
- 3.37 The same asset was impaired at the beginning of the year by £135,000. However, this was incorrectly split in Note 12 to the core financial statements as a negative revaluation of £90,000 and an impairment of £45,000 when the full £135,000 should have been accounted for as an impairment. This is a non-trivial but not material error that has been corrected.

Revaluation

- 3.38 When assets are re-valued, the accumulated depreciation should be written down to £nil and the increase on the previous valuation taken to the fixed asset cost line in Note 12 to the core financial statements. Instead, the Council had erroneously included the full revaluation of £1,647,728 in the revaluation line in the gross cost and revaluation section of Note 12. This has been amended to write out the depreciation of £1,275,378 and increase cost of £372,350. This is a material disclosure error that has been corrected.

Letter of representation

- 3.39 The draft letter of representation has been attached as Appendix B. No changes were made in the final letter received on 30 September 2009.

Uncorrected misstatements

- 3.40 We set out at Appendix C all of the non-trivial misstatements which we noted during the course of our audit and which management did not intend to adjust.
- 3.41 We obtained written representation, both from the Head of Finance, Audit and Performance Management and on behalf of the Audit Committee, of the reasons for not making the amendments noted in Appendix C.

Audit report

- 3.42 We issued an unqualified audit opinion on the financial statements on 30 September 2009.

Accounting and internal control systems

- 3.43 We have reviewed the key financial systems, which contribute to the preparation of materially accurate financial statements, to assess the extent to which we can place reliance on them for this purpose. In carrying out this work we consider:
- the extent to which your accounting and internal control systems are a reliable basis from which to prepare the financial statements
 - the robustness of your accounts preparation processes.
- 3.44 In assessing the reliability of systems as a basis for providing financial information that is free from material misstatement, we prepared systems notes for each financial system and we evaluated the controls within those systems, with particular focus on assessing whether the controls in place to mitigate significant risks are suitably designed and operating as intended to meet their objective.
- 3.45 Your key financial systems are:
- Main accounting
 - Cash and bank
 - Payments and creditors
 - Non-contracting income and debtors
 - Payroll and employment costs
 - Council tax
 - Housing and council tax benefits
 - NNDR
 - Investments and investment income
 - Information technology
- 3.46 We also have a responsibility to give specific consideration to the potential risk of material misstatement of your financial statements due to fraud and error, including the risk of fraudulent financial reporting. This requires us to:
- review internal controls that are designed to prevent, or detect and correct, misstatements in the accounts
 - review the arrangements for preparing the financial statements

- select and test transactions and balances, including review of significant balances against expectations and substantiate individual items
 - assess the significant estimates and judgements made by officers in preparing the accounts
 - consider the adequacy of presentation and disclosures included in the financial statements.
- 3.47 The primary responsibility for ensuring that your internal control frameworks are robust enough to prevent and detect material fraud and corrupt practices lies with management and those charged with governance.
- 3.48 Where possible, we have placed reliance on Internal Audit's work and thereby avoided unnecessary duplication of audit effort. To ensure this approach was valid, we have undertaken the following:
- reviewed Internal Audit's working papers and reports
 - considered the robustness of the key financial systems on the evidence of this work
 - re-performed Internal Audit's evaluation of controls and a sample of their testing of the effectiveness of controls, to ensure that their conclusions are soundly based.
- 3.49 In order to identify the fraud risks, and the controls you have put in place to mitigate those risks, we have:
- discussed your anti fraud and corruption arrangements with officers, and those charged with governance
 - considered the extent to which the work of Internal Audit is designed to detect material misstatements in the accounts arising through fraud
 - made enquiries regarding instances of actual fraud you have identified.
- 3.50 We were able to place reliance on Internal Audit's work for the testing of the effectiveness of specific controls.

Issues arising

- 3.51 A control weakness was identified within the creditors and payments system which had the potential to generate material error in the financial statements and, as such, was considered "significant" to the audit opinion. This weakness is outlined in the table at paragraph 3.6 above. In response, additional substantive testing was undertaken to gain assurance that material error had not occurred. We were able to place reliance on the work of Internal Audit, who completed the additional testing, in ensuring that the risks had been mitigated.

Conclusions

- 3.52 As a result of our work, we have concluded that the key financial systems are generally adequate as a basis for preparing the financial statements. All control weaknesses identified were previously reported by Internal Audit and recommendations have not, therefore, been repeated in Appendix A.
- 3.53 We did not identify any significant fraud risks that affected our audit programme for the financial statements.

Matters required to be reported by other auditing standards

- 3.54 There are no other matters arising from our work that we are required by other auditing standards to bring to the attention of those charged with governance.

Other audit matters of governance interest

Annual governance statement

- 3.55 The Council has a responsibility to publish a Governance Statement, including the outcome of a review of its effectiveness, with its 2008/09 financial statements.
- 3.56 We have reviewed the Annual Governance Statement and the supporting review of effectiveness that has been undertaken and we are satisfied that the Statement is not inconsistent with the evidence provided in the review of effectiveness and our knowledge of the Council.
- 3.57 All the information required in the Annual Governance Statement has been included. However, we would recommend that the Council review the structure of the statement to make it easier for the reader to understand what forms the governance arrangements and how assurances are taken from these arrangements.

International financial reporting standards

- 3.58 International Financial Reporting Standards (IFRSs) will be adopted in local government from 2010/11 and will require transitional arrangements to be put in place by the Council. Entities adopting IFRSs need to commence work to restate the balance sheet two years prior to the first year of reporting, that being a restatement of the balance sheet as at 31 March 2009.
- 3.59 Management should prepare for the adoption of IFRSs based on the Treasury timescales and ensure that staff have sufficient knowledge of IFRSs to restate the current financial statements. The Council have begun to review the potential impact of the change to IFRSs on their accounts and should now develop a formal timetable and detailed implementation plan.

4 Use of resources

- 4.1 The Audit Commission's Code of Audit Practice ('the Code') requires us to be satisfied that proper arrangements have been made to secure economy, efficiency and effectiveness in the use of resources (value for money).
- 4.2 We are also required by the Code to undertake a use of resources assessment, the results of which are used to inform our VFM conclusion. The conclusion also draws on the results of local risk based audit, as well as consideration of the Council's processes underpinning its review of the effectiveness of its controls as described in the Annual Governance Statement.

Use of resources risks

- 4.3 The findings from our review of use of resources risks identified in our audit plan are summarised as follows:

Risk area	Findings and Conclusion
Health inequalities	<p>Following the issue of our joint Audit Commission and PKF report in March 2008, the Essex Chief Executives Forum collated an Essex-wide response to the Action Plan included in that report. We have undertaken a short review of local action-planning at Local Strategic Partnership (LSP) level, taking the Essex-wide Plan as a starting point and obtaining an understanding of how certain aspects, for example performance management, cascade from Local Area Agreement level through LSP working of the District Council with South East Essex PCT and other partners, to the individual contribution to targets of Rochford District Council.</p> <p>Our review considered a number of structural and other arrangements, changes already achieved and also other development plans being progressed. We concluded that the Council and the LSP are making good progress in this area. We intend to revisit Health Inequalities by way of a more in-depth follow-up review in 2009/10.</p>

Use of resources assessment

- 4.4 The Audit Commission have specified that auditors review the arrangements to secure economy, efficiency and effectiveness against their "Specified Key Lines of Enquiry for 2008/09" contained with the use of resources framework. This assessment comprises three themes that focus on:
- sound and strategic financial management
 - strategic commissioning and good governance
 - the management of natural resources, assets and people.

- 4.5 The use of resources assessment scoring mechanism is defined as follows:

Score	Judgement	Conclusion
1	Failure to meet minimum requirements	Performing inadequately
2	Meets only minimum requirements	Performing adequately
3	Exceeds minimum requirements	Performing well
4	Significantly exceeds minimum requirements	Performing excellently

4.6 The results of this work are used in forming our overall conclusion on VFM, as the KLOE for the scored use of resources assessment also form the criteria for the VFM conclusion.

4.7 The results of our work are set out in the table below:

Managing Finances	The organisation plans its finances effectively to deliver its strategic priorities and secure sound financial health	Yes	3
	The organisation has a sound understanding of its costs and performance and achieves efficiencies in its activities	Yes	2
	The organisation's financial reporting is timely, reliable and meets the needs of internal users, stakeholders and local people	Yes	2
	Weighted score		2
Governing the business	The organisation commissions and procures quality services and supplies, tailored to local needs, to deliver sustainable outcomes and value for money	Yes	2
	The organisation produces relevant and reliable data and information to support decision making and manage performance	Yes	3
	The organisation promotes and demonstrates the principles and values of good governance	Yes	3
	The organisation manages its risks and maintains a sound system of internal control	Yes	2
	Weighted score		3
Managing Resources	The organisation is making effective use of natural resources	N/A	N/A
	The organisation manages its assets effectively to help deliver its strategic priorities and service needs	N/A	N/A
	The organisation plans, organises and develops its workforce effectively to support the achievement of its strategic priorities	Yes	3
	Weighted score		3

4.8 We will issue a separate report on the detailed findings from our use of resources assessment.

Value for money conclusion

4.9 Our conclusion is that adequate arrangements are in place to secure value for money.

Appendix A: Action plan

Conclusions from work	Recommendations	Priority	Management response	Responsibility	Timing
FINANCIAL STATEMENTS					
Fixed assets					
The fixed asset register does not collate the information required as per the SORP guidance notes. This will make accounting for capital transactions in the future more difficult.	1. Amend the current Microsoft Excel based fixed asset register to ensure it keeps all the gross accounting information required to produce accurate accounts, or consider implementing an IT software solution.	High	Accepted. The Council will consider an IT software solution which will also address the new IFRS requirements. The current register has been amended during the course of the audit to comply with the SORP guidance.	Financial Services Manager	February 2010
Nominal ledger					
The Council has had Dimensions (the main accounting system) in place since 2006/07. However, its full capability is not currently being utilised. Instead the Council is using a number of Microsoft Excel spreadsheets to manually amend the output from Dimensions at year end, increasing the risk of material misstatement due to human error.	2. Use Dimensions to its full capability to produce the financial statements.	High	Accepted. This had been the intention for 2008/09 but with the pressure to get the Accounts prepared before maternity leave commenced, it was necessary to continue with the current arrangements. Considerably more use was made of the Dimensions system for the preparation of the accounts this year than in previous years and this will continue to be developed for next year.	Financial Services Manager	April 2010

Conclusions from work	Recommendations	Priority	Management response	Responsibility	Timing
Annual governance statement					
The Annual Governance Statement does not clearly show the parts which form the Governance Framework and the arrangements in place to monitor the Governance Framework. Clearly defining these different parts of the arrangements will make it easier for the reader to understand the processes in place and their purpose.	3. Review the structure and content of the Annual Governance Statement to ensure it clearly defines the Governance Framework and the arrangements in place to monitor the effective operation of the framework.	High	The Statement is reviewed annually and this recommendation will be considered for the 2009/10 Statement.	Audit & Performance Manager	June 2010
International Financial Reporting Standards					
The Council has begun to prepare for the adoption of International Financial Reporting Standards but does not yet have a comprehensive implementation plan in place. Good preparation will help ensure that the restated financial statements in 2010/11 are free from material misstatement.	4. Prepare and monitor a formal timetable and action plan for implementing International Financial Reporting Standards.	High	The implications of IFRS for the Council have been identified and we have received feedback from PKF. A report on the timetable and action plan will be reported in to December's Audit Committee.	Financial Services Manager	December 2009

Conclusions from work	Recommendations	Priority	Management response	Responsibility	Timing
Debtors					
<p>Our review of benefit overpayments found that several debtors had repayment plans lasting an unfeasible length of time. For example, one debtor currently aged 67 has had a repayment plan agreed that lasts for 60 years.</p> <p>We considered the adequacy of the bad debt provision for benefit overpayments and overall are satisfied that this has no significant impact on the accounts. However, the Council should review its policy on the agreement of repayment plans and agree to write off uncollectable debt and place a maximum limit on the period over which repayment plans can be agreed.</p>	<p>5. Review the policy on agreement of repayment plans for benefit overpayments and set a maximum limit on the period of time over which repayment plans can be agreed.</p> <p>6. Consider each debt for which a repayment plan is being agreed and write off any amounts likely to be uncollectable.</p> <p>7. Review the policy for bad debt provision for benefit overpayments to identify whether a more detailed provision is appropriate, taking into consideration the payment plans rather than a set percentage for those within 1 year and those over 1 year.</p>	Medium	The policy will be reviewed and the recommendations will be considered as part of that review.	Revenues & Benefits Manager and Financial Services Manager	March 2010

Appendix B: Draft letter of representation

PKF (UK) LLP
16 The Havens
Ransomes Europark
Ipswich
Suffolk
IP3 9SJ

30 September 2009

Dear Sirs

Financial statements of Rochford District Council for the year ended 31 March 2009

Representations of the Head of Finance, Audit and Performance Management

I confirm to the best of my knowledge and belief, and having made appropriate enquiries of other officers and members of the Council, the following representations given to you in connection with your audit of the Council's financial statements for the year ended 31 March 2009.

Responsibility for the financial statements

I acknowledge as the Head of Finance, Audit and Performance Management and s151 Officer my responsibilities for the financial statements.

Completeness of information

All the accounting records have been made available to you for the purpose of your audit and all the transactions undertaken by the Council have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of all management and committee meetings (held during the year and up to the date of this letter) have been made available to you.

Internal control

I acknowledge my responsibility for the design, implementation and maintenance of internal control relevant to the preparation and presentation of the financial statements that are free from misstatement, whether arising from fraud or error.

Fraud

I have disclosed to you the results of my assessment of the risk that the financial statements could be materially misstated as a result of fraud.

I am not aware of any fraud or suspected fraud affecting the financial statements, nor have any allegations of fraud or suspected fraud affecting the financial statements been communicated to me by employees, former employees, councillors, regulators or others.

Compliance with law and regulations

I am not aware of any possible or actual instances of non-compliance with laws or regulations whose effects should be considered when preparing financial statements of the Council.

Transactions with related parties

I confirm that I have put in place appropriate arrangements to identify related party transactions.

I am satisfied that the disclosure in the financial statements of related party transactions is appropriate and complete and contains all the elements necessary for an understanding of the financial statements.

Contingent liabilities

I am not aware of any significant contingent liabilities, including pending claims, proceedings or litigation involving the Council that have not already been disclosed in the financial statements.

Pension fund assumptions

I confirm that the actuarial assumptions underlying the valuation of the Local Government Pension Scheme (LGPS) scheme liabilities, as applied by the scheme actuary, are reasonable and consistent with my knowledge of the business. These assumptions include:

- | | |
|--|------|
| • Rate of inflation | 3.3% |
| • Rate of increase in salaries | 4.8% |
| • Rate of increase in pensions | 3.3% |
| • Rate for discounting scheme liabilities | 7.1% |
| • Take up option to convert the annual pension into retirement grant | 50% |

I also confirm that the actuary has applied up-to-date mortality tables for life expectancy of scheme members in calculating scheme liabilities and that the obligation profile for the Council is not out of line with the profile of the bonds used to determine the discount rate.

Uncorrected misstatements

You have brought to my attention uncorrected misstatements in the financial statements as listed in Appendix 1 to this letter. I do not wish to correct these misstatements as I consider them to be immaterial to the view given by the financial statements.

Asset valuations

I confirm that the impairment percentages applied to the Council's fixed assets are reasonable and consistent with my knowledge.

Subsequent events

There have been no events since the balance sheet date which necessitate revision of the figures included in the financial statements or inclusion of a note thereto. Should any material events occur, which may necessitate revision of the figures included in the financial statements or inclusion of a note thereto, I will advise you accordingly.

Yours faithfully

Yvonne Woodward

Head of Finance, Audit and Performance Management

Representations of the Council

We confirm to the best of our knowledge and belief, and having made appropriate enquiries of other officers and members of the Council, the following representations given to you in connection with your audit of the Council's financial statements.

Responsibility for the financial statements

We acknowledge our responsibilities to make arrangements for the proper administration of the Council's financial affairs and to approve the financial statements.

Uncorrected misstatements

We have considered the uncorrected misstatements in the financial statements as listed in Appendix 1 to this letter together with the explanations provided by the Head of Finance, Audit and Performance management for not correcting these misstatements, and we consider them to be immaterial to the view given by the financial statements.

Annual Governance Statement

We confirm that the Council has conducted a review during the year of the effectiveness of its system of internal control. We are satisfied that the Annual Governance Statement appropriately reflects the circumstances of the Council and includes an outline of the actions taken, or proposed, to deal with significant internal control issues.

Yours faithfully

Cllr Mrs J Mockford
Audit Committee Chair

Signed on behalf of the Council

Note: Appendix 1 referred to in this letter relates to Appendix C in this report

Appendix C: Uncorrected misstatements

The table below details the potential differences recorded during the audit that have not been adjusted for within the financial statements:

Uncorrected misstatements	Income Over/ (Under) £'000	Expenses (Over)/ Under £'000	Assets (Over)/ Under £'000	Liabilities Over/ (Under) £'000	Reserves Over/ (Under) £'000
Misstatements of fact (specific misstatements)					
Being the correction of the overstatement of depreciation charged on revalued assets.		(48)	48		(48)
Being the correction of the understatement of amortisation on government grants deferred.	(45)			45	(45)
Being the correction of errors identified in cut off testing of creditors and expenditure.		20	(62)	42	20
Misstatements of subjective decisions (estimates or application of accounting policy)					
None					
Likely misstatements (extrapolation of errors)					
None					
Total net misstatements	(45)	(28)	(14)	87	(73)
- Net overstatement of costs		(73)			
- Net overstatement of net assets			0		

Appendix D: Draft audit report

Independent auditors' report to the Members of Rochford District Council

Opinion on the financial statements

We have audited the accounting statements and related notes of Rochford District Council for the year ended 31 March 2009 under the Audit Commission Act 1998. The accounting statements comprise the Income and Expenditure Account, the Statement of Movement on the General Fund Balance, the Balance Sheet, the Statement of Total Recognised Gains and Losses, the Cash Flow Statement, the Housing Revenue Account, the Collection Fund and the related notes. These accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of Rochford District Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 49 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission.

Respective responsibilities of the Head of Finance, Audit and Performance Management and auditors

The Head of Finance, Audit and Performance Management responsibilities for preparing the financial statements in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2008 are set out in the Statement of Responsibilities for the Statement of Accounts.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the accounting statements present fairly, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008 the financial position of the Authority and its income and expenditure for the year.

We review whether the governance statement reflects compliance with 'Delivering Good Governance in Local Government: A Framework' published by CIPFA/SOLACE in June 2007. We report if it does not comply with proper practices specified by CIPFA/SOLACE or if the Statement is misleading or inconsistent with other information we are aware of from our audit of the financial statements. We are not required to consider, nor have we considered, whether the governance statement covers all risks and controls. Neither are we required to form an opinion on the effectiveness of the Authority's corporate governance procedures or its risk and control procedures.

We read other information published with the accounting statements, and consider whether it is consistent with the audited accounting statements. This other information comprises the Explanatory Foreword. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the accounting statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounting statements and related notes. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the accounting statements and related notes, and of whether the accounting policies are appropriate to the Authority's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the accounting statements and related notes are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounting statements and related notes.

Opinion

In our opinion the financial statements present fairly, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008, the financial position of the Authority as at 31 March 2009 and its income and expenditure for the year then ended.

[signature] _____

[date] _____

David Eagles

Partner, for and on behalf of PKF (UK) LLP
Ipswich, UK

Conclusion on arrangements for securing economy, efficiency and effectiveness in the use of resources

Authority's Responsibilities

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance and regularly to review the adequacy and effectiveness of these arrangements.

Auditors' Responsibilities

We are required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the Authority for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion in relation to proper arrangements, having regard to relevant criteria specified by the Audit Commission for principal local authorities. We report if significant matters have come to our attention which prevent us from concluding that the Authority has made such proper arrangements. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Conclusion

We have undertaken our audit in accordance with the Code of Audit Practice and having regard to the criteria for principal local authorities specified by the Audit Commission and published in May 2008 and updated in February 2009, and the supporting guidance, we are satisfied that, in all significant respects, Rochford District Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2009.

Certificate

We certify that we have completed the audit of the accounts in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

[signature] _____

[date] _____

David Eagles

Partner, for and on behalf of PKF (UK) LLP
Ipswich, UK