



Accountants &
business advisers

Rochford District Council

Annual Audit Letter 2010/11

Report to Members

December 2011



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.

<http://www.audit-commission.gov.uk/localgov/audit/auditmethodology/Pages/codelocalgov.aspx>

<http://www.audit-commission.gov.uk/localgov/audit/auditmethodology/Pages/statementresponsibilities.aspx>

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.
- 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
Financial statements	<p>There were three material misstatements of disclosures in the accounts which have been corrected. These disclosure matters related to the presentation of financial transactions on the face of the Consolidated Income and Expenditure Statement and the Cash Flow Statement but had no effect on the Council's reported outturn.</p> <p>The restatement of prior years' balances required for implementation of International Financial Reporting Standards was dealt with appropriately.</p> <p>We issued an unqualified opinion on the financial statements on 30 September 2011.</p>
Value for money conclusion	<p>We issued an unqualified value for money conclusion on 30 September 2011.</p>

Acknowledgement

- 1.4 We would like to thank staff for their co-operation and assistance during the audit and throughout the period.

2 Introduction

About the Council

- 2.1 Rochford District is in southeast Essex, between the rivers Thames and Crouch. Much of the district's 65 square miles is designated as green belt and there are many miles of coastline and nationally important areas of salt marsh, including Foulness Island and areas which are under Ministry of Defence control. There are significant Sites of Special Scientific Interest (SSSI) within the district; the Crouch and Roach estuaries, and the Foulness and Hockley Woods. About 81,100 people live in the district. Over half of the population live in Rayleigh, Hockley or Rochford. Southend Airport is part of the Thames Gateway regeneration area and is partially situated within the district.
- 2.2 The Council comprises 39 elected Members representing 14 parishes. It employs approximately 200 staff, and spends approximately £41m per annum, providing a range of public services to the residents of the District. The Council's spend is funded by Central Government Grants, Council Tax, fees and charges and other sources of income.
- 2.3 Further information on the activities of the Council is detailed in its Corporate Plan 2011-2016 which is publicly available on the Council's website at <http://www.rochford.gov.uk>.

The purpose of this Letter

- 2.4 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.rochford.gov.uk.

Responsibilities of the auditors and the Council

- 2.5 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.
- 2.6 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

- 2.7 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 (including the Whole of Government Accounts return)
 - whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources
 - certification of grant claims (as an agent of the Audit Commission).

3 Key findings

Accounts

Financial statements

- 3.1 We issued an unqualified opinion on the Council's financial statements on the 30 September 2011 and therefore within the statutory deadline. Our opinion confirms that the financial statements gave a true and fair view of Council's financial affairs as at 31 March 2011 and of its income and expenditure for the year then ended.
- 3.2 Misstatements were identified and corrected during the course of the audit, three of which were material in value but relating to disclosures, meaning that there was no impact on the Council's reported outturn position as a result of amendment. These matters, along with a number of other immaterial misstatements were reported in detail in our *Annual Governance Report*.
- 3.3 The misstatements ranged from £583,000 to £54,400,000. The largest misstatement being incorrect inclusion of investment principle in the Cash Flow statement adjustment lines and associated notes, as directed incorrectly by the CIPFA Cash Flow Toolkit which the Council used, with a nil net effect upon correction. The other amendments related to the treatment and disclosure of expenditure on the face of the Comprehensive Income and Expenditure Statement.
- 3.4 There were two uncorrected misstatements reported to Those Charged with Governance, of £29,000 and £23,000 both relating to misstatement of creditors. Members accepted that these misstatements would remain uncorrected on the basis that they were not significant to the accounts.

Whole of Government Accounts

- 3.5 The Whole of Government Accounts return did not require certification because it was below the specified de-minimis level. We were required, instead, to verify the pension disclosures made and this was done on 30 September 2011.

Internal controls

- 3.6 We were satisfied that the Annual Governance Statement was not inconsistent or misleading with other information we were aware of from our audit of the financial statements.
- 3.7 We identified some control weaknesses from our review of the Council's accounting and internal control systems, and we took account of these in our audit approach and levels of testing. These were reported in our *ISA265 Letter to Those Charged with Governance* and related to the payroll system and the creditors and expenditure system. Our additional testing confirmed that although the controls were not operating effectively this did not result in any material misstatement in the financial statements.

Use of resources

- 3.8 We were satisfied that, in all significant respects, the Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2011, and issued our conclusion on 30 September 2011.

Value for money conclusion

- 3.9 Our principal work in arriving at our value for money conclusion was comparing the Council's financial governance arrangements against characteristics specified by the Audit Commission, reviewing financial resilience and the arrangements for securing economy, efficiency and effectiveness in the use of resources.

Financial resilience

- 3.10 Along with all other Councils, Rochford District Council was notified of a reduction in central government revenue funding of 14.5% (or £720,000)¹, with further reductions in the subsequent years. Forecast spending reductions are 12.5% (or £1.7m) in 2011/12² which is a slightly higher reduction than other District Councils across the Country, which are all facing similar financial pressures.
- 3.11 Although the Council are looking at utilising some reserves to achieve savings, saving and efficiency initiatives have been identified to fund the gap in 2011/12, partly through larger savings schemes such as management restructure but also through smaller but more original schemes such as selling payroll services to a neighbouring local authority, a practice which the Council is looking to expand. The Council already outsources a number of services in order to achieve savings.
- 3.12 The Council has a track record of achieving its efficiency plans and making required savings, this remained the case in 2010/11. From review of current documentation, the Council is on track to deliver its 2011/12 objectives and targets and management are now focussing on the medium term.

Challenging economy, efficiency and effectiveness

- 3.13 2010/11 has been a period of review and consolidation in respect of VFM, the catalyst for which has been the funding reductions outlined above. This has necessitated a fundamental review of all lines in the Council's baseline budget and of levels of service provided which has, in effect, superseded the need for specific VFM focused individual projects. This has resulted in, amongst other things, some areas of service such as the handyman service, gardening service and taxi scheme being discontinued as they were not considered to provide sufficient VFM.

¹ Source: CLG – RA and SSG returns 2010/11 and 2011/12

² Source: Audit Commission Financial Resilience Survey

- 3.14 Our review did not identify any contra-indicators that would lead us to conclude that the Council's strategic and operational management arrangements had deteriorated.
- 3.15 There is evidence that arrangements for securing and challenging VFM, as previously assessed, have continued to operate as expected in the areas of strategic and financial planning and monitoring, benchmarking activity and risk and performance management.
- 3.16 In addition, the Council has continued to actively explore the potential for greater partnership working, in a variety of guises, and has progressed joint working in areas including car parking and collaborative procurement projects.

Grants

- 3.17 Our work on the 31 March 2011 grant claims was completed on 30 November 2011. Overall the arrangements for claims preparation processes remain sound and the overall control environment is low risk.
- 3.18 Of the three claims certified, only the Housing and Council Tax Benefit Subsidy claim required amendment to cells covered by our certificate, and it was also subject to qualification. Despite this qualification, fewer issues arose from our audit this year than in previous years and, in light of the claim's complexity, we continue to consider the arrangements for compiling it to be sound.
- 3.19 We will issue a detailed report on the findings from our grants work in January 2012.

Appendix: Reports issued in relation to the 2010/11 audit

Report	Date Issued
Audit Fee Letter	April 2010
Annual Audit Plan	December 2010
ISA265 Letter to Those Charged with Governance	September 2011
Annual Governance Report	September 2011
Annual Audit Letter	December 2011