



ROCHFORD DISTRICT COUNCIL

Annual Audit Letter 2014/15

21 October 2015

EXECUTIVE SUMMARY

Background

This Annual Audit Letter summarises the key issues arising from the work that we have carried out during the year. It is addressed to the Council but is also intended to communicate the significant issues we have identified to key external stakeholders and members of the public.

Responsibilities of auditors and the Council

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.

Our responsibility 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.

We are also required to review and report on the Council's Annual Governance Statement, Whole of Government Accounts (WGA) submission, whether we have exercised our statutory powers under the Audit Commission Act 1998 in any matter, and our grant claims and returns certification work.

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 audit.

BDO LLP
21 October 2015

FINANCIAL STATEMENTS

1

We issued an unqualified true and fair opinion on the financial statements on 30 September 2015.

One material misstatement was identified and corrected during the audit relating to the incorrect classification of investments worth £1.125m as cash on the balance sheet.

There is one unadjusted difference identified by our audit which related to the incorrect classification of grant income. This unadjusted difference had no impact on the reported deficit on the provision of services.

USE OF RESOURCES

2

We issued an unqualified value for money conclusion on 30 September 2015.

The Council faces challenging financial circumstances in the medium term. It must identify and achieve savings of £1.6m by March 2020 and do so alongside decreasing central government funding. However, the Council recognises the associated risks and has already taken significant steps to secure a sustainable financial position

The Council experienced significant organisational change at the beginning of 2015/16. These new arrangements are still becoming embedded and the Council will need to ensure that adequate support is provided to new senior managers as well as ensuring capacity issues are identified so that, where necessary, the impact on service delivery can be mitigated.

OTHER MATTERS (REPORT BY EXCEPTION)

3

We have not exercised our statutory powers and have no matters to report.

We issued the audit certificate to close the audit for the year ended 31 March 2015 on 30 September 2015.

GRANT CLAIMS AND RETURNS CERTIFICATION

4

Our review of grant claims and returns is in progress and the results will be reported upon completion of this work.

FINANCIAL STATEMENTS

1

OPINION

We issued an unqualified true and fair opinion on the financial statements on 30 September 2015.

Financial performance

The Council reported a deficit on the provision of services of £1.6 million.

After adjusting for items in the Movement in Reserves Statement, the Council reported a deficit on the General Fund of £0.6 million before transfers from earmarked revenue reserves of £0.4 million, resulting in a net decrease to the General Fund balance of £0.2 million.

Financial statements

The draft Statement of Accounts was prepared and provided to us for audit on 7 July 2015. A comprehensive file of audit working papers was also provided.

The statutory deadline for providing auditors with a copy of the draft financial statements authorised for issue is 30 June following the end of the financial year to which those statements relate. The Council missed this deadline.

The statements presented for audit included an incomplete cash flow statement and draft versions of some notes. There were also a number of formatting issues. During the course of our fieldwork, those elements of the draft financial statements which were incomplete were finalised and provided to us for audit. We made a recommendation regarding this matter.

One material misstatement was identified and corrected during the audit relating to the incorrect classification of investment balances of £1.125 million as cash.

There is one unadjusted difference identified by our audit which related to the incorrect classification of grant income with a value of £0.1 million

We consider that these misstatements did not have a material impact on our opinion on the financial statements.

Annual Governance Statement

We are satisfied that the Annual Governance Statement is not misleading or inconsistent with other information we were aware of from our audit and complies with Delivering Good Governance in Local Government (CIPFA / SOLACE).

Narrative reporting

Local authorities are required to include an explanatory foreword in the Statement of Accounts to provide an explanation of the financial position and to assist in the interpretation of the financial statements.

CIPFA is considering the how local authorities can develop its narrative reporting requirements, such as including management commentary or strategic reporting, but has postponed this review until the legislative requirements for the sector are resolved. However, CIPFA's consultation on 'Telling the Story' will propose introducing reconciliation from the reported outturn in the financial statements to the Council's management accounts. to the Council's management accounts.

USE OF RESOURCES

2

CONCLUSION

We issued an unqualified value for money conclusion on 30 September 2015.

Our principal work in arriving at our value for money conclusion was comparing the Council's performance against the requirements specified by the Audit Commission in its guidance:

- the organisation has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future
- the organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

Financial resilience

We reviewed the latest version of the Council's medium term financial strategy (MTFS, published in July 2015) to assess the reasonableness of assumptions and how the Council is addressing financial pressures. We were satisfied that the assumptions used were reasonable.

The MTFS shows that the Council is required to make savings of £1.6 million over the next five years. The Council has yet to identify how these savings will be achieved. Savings plans will be developed as part of the 2016/17 budget setting process, which will be based on the new Corporate Plan due to be published in autumn 2015.

Further uncertainty remains in respect of central government funding, including the new homes bonus, which the Council has included in its base line budget for the duration of the MTFS but which may not continue.

The Council intends to maintain its general fund balance at £1.2 million for the duration of the MTFS (which will require a contribution of £0.4 million in 2015/16 to bring it up to this level). This level is based on 10% of the Council's annual net budget requirement and is an increase from the £0.75m recommended previously. In prior years, this has been complemented by earmarked reserves of approximately £2m and the Council expects earmarked reserves to be maintained at a similar level for the duration of the MTFS. However, it is unclear, given the savings required, whether or not the Council will have sufficient funds to either avoid drawing on these reserves or to top them up if used.

The Council has recognised the risks associated with both the savings required and ongoing reductions in central government funding and has already taken significant steps (in the form of the reorganisation of senior management referred to under "Challenging economy, efficiency and effectiveness" to the right) to secure a sustainable financial position.

Challenging economy, efficiency, effectiveness

We considered the Council's arrangements for improving efficiency and productivity, with specific consideration of the organisational change implemented in the second half of 2014/15. We also reviewed the Council's operations during the year for evidence which demonstrates that it is taking action to prioritise its resources, including consideration of internal audit capacity and contract management arrangements.

During 2014/15, the Council began a significant reorganisation of its senior management structure to both reduce costs and ensure the Council is better placed to deliver the vision outlined in the Corporate Plan published in 2014. The new structure was implemented from 1 April 2015. Although the restructure has resulted in a significant one-off redundancy cost (which has been recognised in the 2014/15 financial statements), the Council expects the exercise to achieve savings of approximately £0.7 million per annum going forward (the £1.6 million of savings required per the MTFS are in addition to those achieved as a result of the reorganisation).

Our review of internal audit capacity benchmarked the number of days included in the Council's 2015/16 internal audit plan against those of other district council's in Essex. This shows that the Council's plan for 2015/16 includes 119 days less than the average of 438 days. Whilst no issues have arisen during 2014/15, this position, and the sufficiency of depth of coverage for 2015/16, should be closely monitored by the Council and the Audit Committee in particular.

Our review of contract management arrangements did not identify any significant issues with the procurement process and we noted that the Council provides high-level, generic guidance on how to monitor contracts. However, it is left to individual officers to determine what procedures they implement to manage contracts for which they are responsible, and our sample reviews identified shortcomings with arrangements actually in place. Given the absence of evidence to suggest any significant failure to deliver contracted outcomes, we did not consider that these shortcomings warranted any modification of our conclusion in respect of use of resources. However, we did make a recommendation regarding this matter.

OTHER MATTERS

3

REPORT BY EXCEPTION

We have no other matters to report.

Whole of Government Accounts

Auditors are required to review Whole of Government Account (WGA) information prepared by component bodies that are over the prescribed threshold of £350 million in any of: assets (excluding property, plant and equipment); liabilities (excluding pension liabilities); income or expenditure.

The Council falls below the threshold for review and there is no requirement for further work other than to submit the section on the WGA Assurance Statement to the WGA audit team with the total values for assets, liabilities, income and expenditure.

Use of statutory powers

We have not exercised our statutory powers and have no matters to report.

Audit certificate

We issued the audit certificate to close the audit for the year ended 31 March 2015 on 30 September 2015.

GRANT CLAIMS AND CERTIFICATION

4

CERTIFICATION WORK

Our review of grant claims and returns is in progress and the results will be reported upon completion of this work.

Housing benefit subsidy claim

Public Sector Audit Appointments Ltd has a statutory duty to make arrangements for certification by the appointed auditor of the annual housing benefit subsidy claim.

Our audit of the 2013/14 housing benefits subsidy claim found a number of errors in relation to the following:

- **Non-HRA rent rebate expenditure below the cap:** We identified one error where, due to property details being entered incorrectly on the system, expenditure below the cap applied to this type of benefit was understated.
- **Non-HRA rent rebate underpaid benefit:** We identified the following errors which resulted in benefit being underpaid:
 - Failure to apply an earnings disregard to which the claimant was entitled
 - Failure to pay benefit for two weeks of an extended payment period
 - Failure to action an email from the housing department regarding continuation of the claimant's placement at the property
 - Incorrect application of "Monday-following" rule
- **Non-HRA rent rebate ineligible heating costs:** We identified six cases where ineligible heating costs had been deducted from the eligible rent at the wrong rate.
- **Rent allowances underpaid benefit:** We identified one case where benefit had been underpaid due to the Local Housing Allowance (LHA) used in the benefit calculation not being subject to the annual uprating.
- **Rent allowances child tax credit income:** We identified seven cases where benefit had been underpaid due to a change in child tax credit being applied from the incorrect date.

- **Rent allowances new claim start dates:** We identified one case where benefit had been underpaid due to an incorrect start date being applied to a new claim. A similar error was identified in the prior year. Additional testing did not identify any further errors.
- **Modified schemes - evidence to support state retirement pension:** We identified that there was no evidence held to support the state retirement pension (SRP) value used in the benefit calculation for the cases selected for review. There was no impact on benefit expenditure as the claimant's income was below their applicable amount. All remaining modified scheme claims were reviewed and no further errors were identified.

Our work on the 2014/15 housing benefits subsidy claim is currently in progress and will be completed ahead of the submission deadline of 30 November 2015.

APPENDIX

Reports issued

We issued the following reports in respect of the 2014/15 financial year.

REPORT	DATE
Planning letter	April 2014
Grant Claims and Returns Certification Report (2013/14)	February 2015
Audit Plan	June 2015
Final Audit Report	September 2015
Annual Audit Letter	October 2015

Fees update

We reported our original fee proposals in our Audit Plan issued in June 2015. Our fees to date and any variance to the original proposal are shown below.

AUDIT AREA	PROPOSED FEES £	FEES UPDATE £
Code audit fee	63,543	63,543
Certification of housing benefit subsidy claim	11,360	⁽¹⁾ 11,360
Total fees for audit services	74,903	74,903
Non audit services fees	£nil	£nil

Note 1 - Our work on the certification of the housing benefit subsidy claims for 2014/15 is in progress and we will report the findings from this work and the final fees separately.



The matters raised in our report prepared in connection with the audit are those we believe should be brought to your attention. They do not purport to be a complete record of all matters arising. This report is prepared solely for the use of the organisation and may not be quoted nor copied without our prior written consent. No responsibility to any third party is accepted.

BDO LLP is a corporate establishment under the Limited Liability Partnership Act 2000 and a UK Member Firm of BDO International. BDO LLP is separately authorised and regulated by the Financial Conduct Authority to conduct investment business.

Copyright ©2015 BDO LLP. All rights reserved.

www.bdo.co.uk

