



ROCHFORD DISTRICT COUNCIL

FINAL REPORT TO THE AUDIT COMMITTEE

Audit for the year ended 31 March 2015

17 September 2015

CONTENTS

OVERVIEW	1
INDEPENDENCE	3
AUDIT SCOPE AND OBJECTIVES.....	4
FINANCIAL STATEMENTS.....	5
GOVERNANCE REPORTING.....	10
WHOLE OF GOVERNMENT ACCOUNTS	11
USE OF RESOURCES.....	12

APPENDIX I: DEFINITIONS.....	17
APPENDIX II: AUDIT DIFFERENCES.....	18
APPENDIX III: MATERIALITY	20
APPENDIX IV: RECOMMENDATIONS AND ACTION PLAN	21
APPENDIX V: STATUTORY AND PROFESSIONALLY REQUIRED COMMUNICATIONS	23
APPENDIX VI: DRAFT REPRESENTATION LETTER	24

OVERVIEW

Significant audit findings

This summary covers the significant findings from our audit of Rochford District Council ('the Council') for the year ended 31 March 2015. However, you should read the entirety of this report, as there may be other matters raised that you consider important.

AREA OF AUDIT	SUMMARY
Independence	We have not identified any potential threats to our independence as auditors.
Financial statements audit status	<p>We have substantially completed our work, although there are a number of outstanding items to be received and/or completed at the time of drafting this report. Further detail on the status of our work is set out on the following page.</p> <p>We have obtained sufficient, appropriate audit evidence for the significant issues and risks identified in our Audit Plan.</p> <p>Our final audit materiality is £700,000 (see Appendix III) and we have reported all non-trivial unadjusted audit differences greater than £25,000.</p> <p>One material misstatement was identified relating to the incorrect classification of investment amounts as cash. Management have agreed to correct this error.</p> <p>There is one unadjusted audit difference (see Appendix II) which is a classification error only and therefore has no impact on the draft surplus on the provision of services in the Comprehensive Income and Expenditure Statement (CIES).</p> <p>Subject to satisfactory completion of the outstanding work, we anticipate issuing an unqualified true and fair opinion on the financial statements for the year ended 31 March 2015.</p>
Control environment	We did not identify any significant deficiencies in internal controls during the course of our audit.
Governance reporting	Subject to completion of our outstanding work, we are satisfied that the annual governance statement is not inconsistent or misleading with other information we were aware of from our audit of the financial statements and complies with "Delivering Good Governance in Local Government" (CIPFA / SOLACE).
Whole of Government Accounts (WGA)	The Council is below the threshold for full assurance 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 resources	We are satisfied that, in all significant respects, the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2015. However, we have identified weaknesses relating to the monitoring of certain contracts.

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

OVERVIEW

Audit status and timetable to completion

We set out below the current status of the audit and our timetable to completion.

AUDIT STATUS

We have substantially completed our audit work in respect of the financial statements and use of resources for the year ended 31 March 2015. The following matters are outstanding at the date of this report.

- Clearance of outstanding issues raised with management regarding:
 - Identification of grant income and completeness of associated disclosures in the accounts
 - Details of the transition arrangements in place regarding waste vehicles
 - Significant issues disclosed in the annual governance statement
- Final review of our audit work at engagement partner level, and clearance of any review points arising
- Receipt of final draft statement of accounts for agreed amendments
- Subsequent events review
- Technical clearance
- Management representation letter, as attached in Appendix VI, to be approved and signed.

We will update you on their current status at the Audit Committee.

TIMETABLE TO COMPLETE

The anticipated timetable to complete is as follows:

ACTIVITY	DATE
Audit Committee meeting	23 September 2015
Completion and issue of the auditor's report	30 September 2015

INDEPENDENCE

Integrity, objectivity and independence and appropriate safeguards

Under Audit Commission Standing Guidance and Auditing and Ethical Standards, we are required as auditors to confirm our independence to ‘those charged with governance’. In our opinion, and as confirmed by you, we consider that for these purposes it is appropriate to designate the Audit Committee as those charged with governance.

Our internal procedures are designed to ensure that all partners and professional staff are aware of relationships that may be considered to bear on our objectivity and independence as auditors. The principal statements of policies are set out in our firm-wide guidance. In addition, we have embedded the requirements of the Standards in our methodologies, tools and internal training programmes. The procedures require that audit engagement partners are made aware of any matters which may reasonably be thought to bear on the firm’s independence and the objectivity of the audit engagement partner and the audit staff. We have considered such matters in the context of our audit for the year ended 31 March 2015.

FEES AND NON AUDIT SERVICES

A summary of fees for audit and non-audit services for the period from 1 April 2014 to date is set out below:

	£
Audit fees	63,543
Certification fees	⁽¹⁾ 11,360
TOTAL FEES	74,903

⁽¹⁾ work remains on going on the housing benefit subsidy return and the fee shown above is current scale fee.

OTHER RELATIONSHIPS

We are not aware of any financial, business, employment or personal relationships between the audit team, BDO and the Council.

LONG ASSOCIATION THREATS

The Audit Commission’s Standing Guidance requires that the audit engagement partner should not act for more than 5 years (or 7 with the approval of PSAA) and the audit manager for 10 years.

Key audit staff	Years involved
David Eagles - Audit engagement partner	1
Barry Pryke - Audit Manager	2

INDEPENDENCE DECLARATION AND APPROPRIATE SAFEGUARDS

We have not identified any potential threats to our independence as auditors.

AUDIT SCOPE AND OBJECTIVES

Code of audit practice requirements

SCOPE AND OBJECTIVES

The audit scope is determined by the Audit Commission's Code of Audit Practice for local government (2010), International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission. This requires that we form an opinion on whether:

- 1** The financial statements give a true and fair view of the financial position as at 31 March 2015 and of the income and expenditure for the year then ended.
- 2** The financial statements have been prepared properly in accordance with statutory requirements and proper practices have been observed in their compilation.
- 3** The financial statements have been prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting.
- 4** The information given in the statement of accounts and explanatory foreword is consistent with the financial statements.
- 5** The annual governance statement is not inconsistent with our knowledge and complies with relevant guidance.
- 6** The Whole of Government Accounts return is consistent with the audited financial statements and that it is properly prepared.
- 7** The audited body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

FINANCIAL STATEMENTS

Key audit and accounting matters

SIGNIFICANT AND OTHER RISKS OF MATERIAL MISSTATEMENT

We reported our risk assessment, which brought to your attention areas that require additional or special audit consideration and are considered a significant audit risk, in the 2014/15 Audit Plan issued in June 2015. We have since undertaken a more detailed assessment of risk following our completion of the interim review of financial controls and review of the draft financial statements, and have included additional significant risks relating to the valuation of land and buildings and the pension liability.

We report below our findings of the work designed to address these significant risks, our review of significant accounting estimates and management judgements, and any other relevant audit and accounting issues arising.

Key: ■ Significant risk/issue ■ Significant accounting estimates and management judgements ■ Other relevant audit and accounting issues

SIGNIFICANT AUDIT RISK AREAS

RISK	RELATED CONTROLS / RESPONSE TO RISK	WORK PERFORMED	CONCLUSION
MANAGEMENT OVERRIDE OF CONTROLS	<p>ISA (UK&I) 240 requires us to presume that a risk of management override of controls is present and significant in all entities.</p> <p>By its nature, there are no controls in place to mitigate the risk of management override.</p>	We reviewed the appropriateness of journal entries and other adjustments made in the preparation of the financial statements. We also reviewed accounting estimates for evidence of possible bias.	<p>No issues have been identified in our review of the appropriateness of journal entries and other adjustments made in the preparation of the financial statements.</p> <p>Our work on accounting estimates has not identified any evidence of bias.</p>
REVENUE RECOGNITION	<p>Auditing standards presume that there is a risk of fraud in relation to revenue recognition. These risks may arise from the use of inappropriate accounting policies, failure to apply the Council's stated accounting policies or from an inappropriate use of estimates in calculating revenue.</p> <p>Following receipt of the draft accounts, we have considered each of the Council's income streams to determine whether or not they are susceptible to the risk of fraudulent revenue recognition. Our assessment identified that the only income stream subject to this risk is fees and charges income (excluding that associated with off-street car parking and recycling credits).</p>	We substantively tested an extended sample of fees and charges income to supporting documentation to confirm that income had been accurately recorded and earned in the year.	No issues have been identified from our testing of fees and charges income with regard to the recognition of revenue in the relevant financial year.

SIGNIFICANT AUDIT RISK AREAS

RISK	RELATED CONTROLS / RESPONSE TO RISK	WORK PERFORMED	CONCLUSION
<p>VALUATION OF LAND AND BUILDINGS</p>	<p>The property valuations are subject to a number of assumptions which involve a high level of estimation uncertainty. Our initial review of the draft financial statements identified that the revaluation movements were not consistent with our expectations. These factors could be indicative of a material misstatement of the value of land and buildings.</p>	<p>We have substantively tested an increased sample of property revaluation movements recognised in the balance sheet to confirm that they are consistent with the re-valued amounts reported by the Council’s external valuer.</p> <p>We have confirmed that the information provided to the external valuer by the Council was complete and accurate.</p>	<p>No issues have been identified during the course of our work.</p>
<p>PENSION LIABILITY</p>	<p>The valuation of the pension liability is subject to complex assumptions which involve a high degree of estimation uncertainty. Our initial review of the draft financial statements has identified a material increase in the value of the pension liability recognised in the Council’s balance sheet. These factors could be indicative of a material misstatement of the value of the pension liability.</p>	<p>We have confirmed that the valuation of the pension liability is consistent with information provided to the Council by the actuary.</p> <p>We have confirmed that information provided to the actuary by the Council for the purposes of the calculating the pension liability was complete and accurate, and that this information is supported by records held in the payroll and other relevant systems.</p>	<p>No issues have been identified during the course of our work.</p>

FINANCIAL STATEMENTS

Key audit and accounting matters

SIGNIFICANT ACCOUNTING ESTIMATES AND MANAGEMENT JUDGEMENTS		
ESTIMATE	WORK PERFORMED	CONCLUSION
VALUATION OF PROPERTY	<p>Land and buildings are required to be carried at fair value which is either existing use value, depreciated replacement cost for specialised properties or open market value. The Council re-values its other land and buildings over a five year rolling programme and does not adjust for price indices between formal valuations unless there is indication of material changes.</p> <p>Management makes valuation adjustments to land and buildings based on valuation reports and useful economic lives provided by an independent firm of valuers with specialist knowledge and experience valuing local authority estates, which has regard to local prices and building tender indices in the public sector.</p> <p>We have considered the independence, objectivity and competence of the valuer engaged by management to undertake valuations of property. We have reviewed the accuracy of the information provided to the valuer by management and have confirmed that the valuations provided by the valuer are correctly reflected in the Council's financial statements. We have utilised price index information to determine the reasonableness of the valuations provided by the valuer.</p>	<p>We are satisfied that the valuer is suitably independent of the Council, objective and experienced in undertaking this work. Our review of the valuations provided, when compared to other price index information available, and useful economic lives allocated to buildings and significant components showed that they are not unreasonable.</p>
ESTIMATED PENSION LIABILITY	<p>The net pension liability of the Council comprises its share of the market value of assets held in the Essex Pension Fund and the estimated future liability to pay pensions for its current, deferred and retired members of the pension scheme.</p> <p>An actuarial estimate of the pension fund liability is calculated by an independent firm of actuaries with specialist knowledge and experience. Their estimate has regard to local factors such as mortality rates and expected pay rises along with other assumptions around inflation. Management has agreed the assumptions made by the actuary to support the estimate and these are disclosed in the financial statements.</p> <p>We have assessed the independence, objectivity and competence of the actuary. We have confirmed that the values recognised in the Council's statement of accounts in relation to pension costs and liabilities are consistent with the information provided by the actuary. We have used an auditor's expert to independently consider the reasonableness of the assumptions made by the actuary. We have requested written representations from the Council to confirm that the assumptions applied by the actuary are reasonable and consistent with its knowledge of the business of the Council.</p>	<p>We are satisfied that the actuary is suitably independent of the Council, objective and experienced in undertaking this work. Our review of the assumptions applied in estimating the pension liability suggest that these are generally not significantly different from those being applied by the actuaries of other local authorities. We are satisfied that the information included in the statement of accounts in respect of pensions is consistent with that provided by the actuary.</p>
PROVISION FOR BAD AND DOUBTFUL DEBTS	<p>We have reviewed the methodology applied by the Council in estimating the allowance for doubtful debts across all categories of debtor. There has been no change to the method applied when compared to the prior year</p>	<p>We are satisfied that the methods employed by the Council to calculate the provision for bad and doubtful debts is not unreasonable.</p>

FINANCIAL STATEMENTS

Key audit and accounting matters

OTHER RELEVANT AUDIT AND ACCOUNTING ISSUES		
ISSUE	WORK PERFORMED AND FINDINGS	CONCLUSION
PREPARATION OF FINANCIAL STATEMENTS PRESENTED FOR AUDIT	<p>Officers highlighted two financial misstatements when presenting us with the draft financial statements for audit. These included a misclassification of short term investments as cash and the omission of a final adjustment relating to general fund reserves.</p> <p>Although management were aware of these issues, their presence in the draft financial statements presented for audit is indicative of both capacity and process issues experienced by the Council during the closedown process. This is considered in further detail in the Governance Reporting section of this report on page 13.</p>	<p>We are satisfied that all errors of which officers informed us upon presenting the draft financial statements for audit have been corrected in the final version of the financial statements.</p> <p>We have raised a recommendation regarding this matter.</p>
COLLECTION FUND ACCOUNTING AND NON-DOMESTIC RATES	<p>We have reviewed the presentation of the collection fund and the accounting treatment applied to amounts recognised in respect of prior year surpluses and deficits. We have also verified that the amounts included in the Council's comprehensive income and expenditure statement and balance sheet are materially correct.</p> <p>This work on the collection fund identified that, in 2013/14, the Council brought forward a creditor to central government with a value of £218,243 which had arisen under previous national non-domestic rate arrangements (which were replaced by the business rate retention scheme from 1 April 2013). Our expectation is that the liability represented by this creditor should now have been settled.</p>	<p>Although we are satisfied that this amount does not have a material impact on either the financial statements or the collection fund, the Council have been unable to provide an explanation regarding the nature of this liability and why it continues to be recognised.</p> <p>We have also noted that the nature of the working papers used by the Council to calculate amounts to be recognised in respect of the collection fund have not been adequately updated to reflect the new arrangements implemented in from 1 April 2013.</p> <p>We have raised a recommendation regarding this matter.</p>

OTHER RELEVANT AUDIT AND ACCOUNTING ISSUES

ISSUE	WORK PERFORMED AND FINDINGS	CONCLUSION
GRANT INCOME	<p>Our testing of a sample of income identified an amount relating to a grant with conditions attached which had not been met at the balance sheet date. In such circumstances, the grant income should be credited to the balance sheet as a liability, reflecting the fact that an outlay of resources will be required to meet these conditions (with the income released to the CIES in future years to off-set expenditure incurred in meeting the grant conditions in future years). However, the Council incorrectly recognised the income in the net cost of services in the CIES. We also noted that this grant was not disclosed in the grant income note.</p> <p>Further investigation highlighted that the Council do not have a robust method for identifying all grant income received in the year, and instead rely on the knowledge of officers to ensure that the required disclosures are complete.</p> <p>We also identified income relating to two non-ring fenced grants which had been incorrectly recognised in net cost of services in the CIES rather than taxation and non-specific grant income.</p>	<p>Our work regarding the recognition of grants with conditions attached remains ongoing.</p> <p>The two grants (combined value £140,000) which have been incorrectly recognised in the net cost of services rather than taxation and non-specific grant income are shown in our unadjusted misstatements schedule at Appendix II.</p> <p>We have raised recommendations regarding these matters.</p>
GRANTS ACCOUNTING POLICY	<p>The Government Grants policy reported in the financial statements states that the un-ring fenced grants received by the Authority will be recognised in the period to which it relates rather than when it is received. This does not comply with the requirements of the Code, which requires that where a grant is received, and there are no conditions attached to the grant, the amount should be recognised immediately.</p> <p>The main justification provided by officers is that complying with the Code would result in differences between the financial statements and the figures published by the Government. This is not a sufficient reason for a departure from the Code.</p>	<p>We have completed testing of un-ring-fenced grants and application of the policy has not led to a material misstatement in the financial statements in the current year.</p>

FINANCIAL STATEMENTS OPINION

Subject to satisfactory completion of the outstanding work, we anticipate issuing an unqualified true and fair opinion on the financial statements for the year ended 31 March 2015.

GOVERNANCE REPORTING

Governance matters and quality of reporting

FINANCIAL STATEMENTS PREPARATION

The draft financial statements, within the statement of accounts, was prepared and provided to us for audit on 7 July 2015.

As part of our planning for the audit, we prepared a detailed document request which outlined the information we would require to complete the audit. As in previous years, a file of audit working papers has been provided to us on the first day of the audit.

CONCLUSIONS AND AUDIT ISSUES

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.

In prior years, the Principal Accountant has been responsible for the preparation of the financial statements which have then been subject to independent review by the Head of Finance. Due to changes implemented at the start of 2015/16, both of these roles were undertaken by the same individual, meaning that there was no independent review process prior to submission of the draft accounts for audit.

The deadline for preparing and authorising for issue a draft Statement of Accounts will come forward from 30 June to 31 May from the 2017/18 financial year (with audit sign off required by 31 July). The Council will need to ensure that it has adequate capacity and appropriate processes to enable it to prepare a robust set of draft financial statements in future years for submission to the auditors by the earlier deadlines.

We have raised a recommendation regarding this matter.

GOVERNANCE STATEMENT

We are required to review the Annual Governance Statement and to be satisfied that it is not inconsistent or misleading with other information we are aware of from our audit of the financial statements, the evidence provided in the Councils review of effectiveness and our knowledge of the Council.

CONCLUSIONS AND AUDIT ISSUES

Subject to receipt of an updated version of the Annual Governance Statement, we are satisfied that the governance statement is not misleading or inconsistent with other information we were aware of from our audit of the financial statements and complies with “Delivering Good Governance in Local Government” (CIPFA / SOLACE).

STATEMENT OF ACCOUNTS

We are required to read all the financial and non-financial information in the Explanatory Foreword to the financial statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit.

CONCLUSIONS AND AUDIT ISSUES

We are satisfied that the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

WHOLE OF GOVERNMENT ACCOUNTS

Consistency of the Data Collection Tool

REVIEW OF THE DATA COLLECTION TOOL

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.

ASSURANCE STATEMENT

We will submit the WGA Assurance Statement by the deadline of 2 October 2015.

USE OF RESOURCES

Scope of the review

We are required to be satisfied that proper arrangements have been made to secure economy, efficiency and effectiveness in the use of resources (value for money). This is based on the following two reporting criteria:

- The organisation has proper arrangements in place for securing financial resilience (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 has proper arrangements for challenging how it secures economy, efficiency and effectiveness (prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity).

APPROACH

We draw sources of assurance relating to value for money responsibilities from:

- the Council's system of internal control as reported on in its governance statement
- the results of the work of inspectorates and review agencies
- any other locally determined risk-based value for money work that auditors consider necessary to discharge their responsibilities.

We also consider the findings from the following sources:

- value for money profiles tool and financial ratios analysis tool
- risk indicators
- key issues facing the sector

USE OF RESOURCES

Financial resilience

SIGNIFICANT AND OTHER RISKS OF MATERIAL MISSTATEMENT

We reported our risk assessment, which included use of resources risks, in the 2014/15 Audit Plan issued in June 2015. We have since undertaken a more detailed assessment of risk following completion of the interim review of financial controls, review of the draft financial statements and review of operational performance for the year, and we have not included any additional significant risks.

We report below our findings of the work designed to address these significant risks and any other relevant use of resources work undertaken.

Key: ■ Significant risk/issue ■ Other relevant use of resources work

RISK	RISK DETAIL	WORK PERFORMED	AUDIT ISSUES AND IMPACT ON CONCLUSION
FINANCIAL RESILIENCE	<p>The Council's medium term financial strategy (MTFS) issued in January 2015 indicates that savings of £1.3m are required by 2019/20, comprising £100k in 2015/16 and £300k in each of the remaining four years. This reflects continuing reductions in central government funding and, when combined with additional pressures arising from demographic and other changes, the Council faces a challenging financial environment in the medium term.</p>	<p>We have reviewed the latest version of the Council's MTFS (published in July 2015) to assess the reasonableness of assumptions and how the Council is addressing financial pressures. We are satisfied that the assumptions used are reasonable.</p> <p>The MTFS published in July 2015 shows that the Council is required to make savings of £1.6m over the next five years (this is in addition to those savings already realised following the restructuring of senior management, which is considered in further detail in the following section). This has increased from £1.3m of required savings forecast in January 2015. 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.</p> <p>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 (NHB is expected to represent £1.5m of income by 2019/20 should it continue in its current form).</p> <p>The Council has also revisited its minimum level of general fund reserves. The Council previously intended to increase its General Fund balance to £2.4m by 2019/20. However, the intention now is to maintain it at £1.2m for the duration of the MTFS (which will require a contribution of £0.4m 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.</p>	<p>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.</p> <p>However, the Council recognises the associated risks and has already taken significant steps to secure a sustainable financial position.</p> <p>No issues noted.</p>

USE OF RESOURCES

Challenging economy, efficiency and effectiveness

The economy, efficiency and effectiveness criterion has two aspects: prioritising resources and improving efficiency and productivity.

Key: ■ Significant risk/issue ■ Other relevant use of resources work

RISK	WORK PERFORMED	AUDIT ISSUES AND IMPACT ON CONCLUSION
<p>CHALLENGING ECONOMY, EFFICIENCY AND EFFECTIVENESS</p>	<p>We have 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 have 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.</p> <p>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 £0.65m per annum going forward.</p> <p>Further organisational change is likely as the newly appointed assistant directors complete service reviews of their respective areas to establish resource requirements.</p> <p>The impact on the organisation’s performance is less clear at the time of writing this report, as the new structure has only been in place for six months. We note that the Council has struggled to make a permanent appointment to the Assistant Director - Resource Services post, although arrangements are now in place with another local authority to provide cover for the role.</p> <p>Level of Internal Audit resource</p> <p>The Council’s Internal Audit department is currently staffed by one full time individual and a second individual providing cover for maternity leave. The risks associated with the current level of resource was highlighted to the Audit Committee by the former Audit and Performance Manager towards the end of 2014/15 and has been considered further by the Committee since, which has noted that should one of the members of staff leave or be unable to work the team would struggle to deliver an adequate level of work to provide assurance over the Council’s internal control arrangements.</p> <p>As part of our work, we have 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.</p> <p>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.</p>	<p>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.</p> <p>No issues for 2014/15 noted.</p>

RISK**WORK PERFORMED****AUDIT ISSUES AND IMPACT ON CONCLUSION****Contract management arrangements**

The Council is party to a number of contracts which play an important part in the delivery of services. We have considered the arrangements in place for both procuring contracted services and monitoring the performance of contractors.

Whilst we did not identify any significant issues with the procurement process, and 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.

We have reviewed a sample of contracts in place during 2014/15 and identified areas for improvement in relation to contract management, particularly with regard to documenting the management process for individual contracts and ensuring that measures of performance are clearly defined and monitored. For example, in one case a decision had apparently been taken to not set up contract key performance indicators, meaning there was no basis in place to determine whether or not the contract was being delivered, and there were no records retained of any contract management having been undertaken (and the responsible officer had left the Council by the time our review was undertaken, so there was no retained knowledge at all).

Although these weaknesses were identified in contracts which individually did not have a material monetary value, and we have no evidence to suggest significant shortcomings in the delivery or outcomes of the contracts, failure to consistently implement robust contract monitoring arrangements increases the risk that poor contractor performance will not be identified and addressed.

Our sampled review of larger contracts showed more developed and robust contract management arrangements.

Given the absence of evidence to suggest any significant failure to deliver contracted outcomes, we do not consider that these shortcomings warrant any modification of our conclusion in respect of use of resources. However, we have raised a recommendation regarding this matter.

USE OF RESOURCES CONCLUSION

We are satisfied that, in all significant respects, the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2015. We anticipate issuing an unqualified value for money conclusion.



APPENDICES



APPENDIX I: DEFINITIONS

TERM	MEANING
The Council	Rochford District Council
Management	<p>The person(s) responsible for achieving the objectives of the Council and who have the authority to establish policies and make decisions by which those objectives are to be pursued. Management is responsible for:</p> <ul style="list-style-type: none"> the financial statements (including designing, implementing, and maintaining effective internal control over financial reporting) putting in place proper arrangements to secure economy, efficiency and effectiveness in the use of resources and to ensure proper stewardship and governance, and regularly to review the adequacy and effectiveness of them.
Those charged with governance	<p>The persons with responsibility for assurance and the Council’s arrangements for governance, managing risk, maintaining an effective control environment, and reporting on financial and non-financial performance. This includes overseeing the financial reporting process.</p> <p>Those charged with governance for the Council are the Audit Committee.</p>
ISAs (UK & Ireland)	International Standards on Auditing (UK & Ireland)
IAS	International Accounting Standards
IFRS	International Financial Reporting Standards as adopted by the European Union
Materiality	The size or nature of a misstatement that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable user of the financial statements would have been changed or influenced as a result of the misstatement.
Code	Code of Practice on Local Authority Accounting in the United Kingdom issued by CIPFA / LASAAC(Chartered Institute of Public Finance and Accountancy / Local Authority Scotland Accounts Advisory Committee)
SeRCOP	Service Reporting Code of Practice for Local Authorities issued by CIPFA / LASAAC
SOLACE	Society of Local Authority Chief Executives
CIES	Comprehensive Income and Expenditure Statement

APPENDIX II: AUDIT DIFFERENCES

We are required to bring to your attention audit differences identified during the audit, except for those that are clearly trivial, that the Audit Committee is required to consider. This includes: audit differences that have been corrected by management; and those that remain uncorrected along with the effect that they have individually, or in aggregate, on the opinion in the auditor's report.

CORRECTED AUDIT DIFFERENCES

There were no differences that have been corrected in the revised draft financial statements that affect the reported surplus for the year. However, a number of amendments to classifications have been made, as detailed in the 'Key Audit and Accounting Matters' section of this report.

UNADJUSTED AUDIT DIFFERENCES

Subject to completion of our outstanding work, there is one unadjusted audit difference identified by our audit work. This is a classification adjustment only and therefore has no impact on the draft surplus on the provision of services in the CIES.

A schedule of uncorrected audit differences is included on the following pages, with misstatements recorded as factual misstatements, judgemental / estimation misstatements, or projected misstatements. We request that you correct these misstatements. Deliberate misstatement of known issues is not acceptable and identified misstatements should, where practicable, be corrected even if not material.

Management has stated that it considers these identified misstatements to be immaterial in the context of the financial statements taken as a whole.

We have also separately reported the impact of brought forward prior year uncorrected misstatements and their impact on the current year performance. These amounts remain misstatements with regard to reporting in year financial performance, but are not misstatements at the year end and cannot be corrected as these relate to previous years. Overall, the impact of prior year misstatements on current year performance would decrease the reported underlying deficit for the current year by £54,000.

APPENDIX II: AUDIT DIFFERENCES

Unadjusted audit differences

UNADJUSTED AUDIT DIFFERENCES	£'000	CURRENT YEAR INCOME AND EXPENDITURE		PRIOR YEAR INCOME AND EXPENDITURE		BALANCE SHEET	
		Dr £'000	(Cr) £'000	Dr £'000	(Cr) £'000	Dr £'000	(Cr) £'000
CIES (surplus) or deficit on the provision of services before adjustment	1,569						
Prior year misstatements							
Dr Prior year net cost of services				54			
Cr Current year net cost of services	(54)		(54)				
<i>Impairment of South Street depot which should have been recognised in 2013/14 (prior year factual misstatement)</i>							
Current year misstatements							
Dr Central Services to the Public (Income)		140					
Cr Taxation and non-specific grant income - non-ring fenced grants			(140)				
<i>The transfer of non-ring-fenced grants from specific service line to taxation and non-specific grant income to comply with requirements of the Code (factual misstatement) This is a classification issue only and has no impact on either the reported surplus or deficit on the provision of services or the general fund balance.</i>							
TOTAL UNADJUSTED AUDIT DIFFERENCES	(54)	140	(194)	54	-	-	-
CIES (surplus) or deficit on the provision of services after adjustment	1,515						

IMPACT ON GENERAL FUND AND HRA BALANCES	GENERAL FUND BALANCE £'000
Balances before adjustments	806
Adjustments to CIES above	(-)
Balances after adjustments	806

UNADJUSTED DISCLOSURE MATTERS

The Code requires that the note to the financial statements which covers assumptions made about the future and other major sources of estimation uncertainty should include a sensitivity analysis showing the impact of changes on the assumption recognised in the balance sheet. No such analysis has been included in this note (or elsewhere in the financial statements) for depreciation or the bad debt provision.

In our opinion the individuals disclosed under the heading "Members" in the related party transactions note do not meet the definition of a related party as defined by the Code. These individuals and associated transactions should therefore not be disclosed as such.

APPENDIX III: MATERIALITY

In carrying out our work we determine and apply a level of materiality. Materiality is the expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole, or individual elements of the financial statements as appropriate. Consequently, the audit cannot be relied upon to identify all risks or potential or actual misstatements. Materiality may relate to both quantitative and qualitative matters, and for quantitative considerations the numerical level materiality is assessed at may be different for different information in the financial statements. Nevertheless, within this context, we provide an indication of the quantitative levels used for planning purposes. Materiality is re-assessed every year in the context of authoritative audit practice.

MATERIALITY

Planning materiality	£705,000
Final materiality	£700,000
Clearly trivial threshold	£25,000

Planning materiality of £705,000 was based on 2% of gross expenditure from 2013/14 audited statement of accounts.

We have no reason to revise our final materiality level.

APPENDIX IV: RECOMMENDATIONS AND ACTION PLAN

CONCLUSIONS FROM WORK	RECOMMENDATIONS	MANAGEMENT RESPONSE	RESPONSIBILITY	TIMING
FINANCIAL STATEMENTS				
Collection fund accounting				
The Council are currently recognising a liability in respect of national non-domestic arrangements in place prior to 1 April 2013. Our expectation is that this liability should now have been settled. We have also identified that the Council have not adequately updated their working paper templates to reflect current arrangements for accounting for non-domestic rates.	Determine whether or not the liability in respect of pre-1 April 2013 national non-domestic rate arrangements should continue to be recognised by discussion with central government.	Agreed	Principal Accountant	February 2016
	Update collection fund working papers to ensure that they reflect current arrangements.	Agreed	Principal Accountant	December 2015
Accounting for grant income				
The Council incorrectly recognised income associated with a grant for which the related conditions had not been met. We also identified that the Council do not have a robust method for identifying all grant income received during the year.	Establish a mechanism for recording grant income received in the year.	Agreed; A Grant register will be introduced for all grant funding received. Owners identified for each fund and appropriate monitoring procedures implemented to ensure funding is aligned to the stated objectives, appropriate accounting treatment applied and any risks of loss or misappropriation of funds minimised	Senior Accountant	Implementation December 2015; on-going activity to update, monitor and reporting thereafter
	Review all grants received during the year to determine whether there are conditions attached and if so, whether or not they have been met.	Agreed; action to address outlined above	Senior Accountant	See Above

CONCLUSIONS FROM WORK	RECOMMENDATIONS	MANAGEMENT RESPONSE	RESPONSIBILITY	TIMING
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GOVERNANCE REPORTING

Financial Statement Preparation

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 in 2014/15. The statements included an incomplete cash flow statement and draft versions of some notes. There were also a number of formatting issues.

Implement processes, supported by adequate capacity in the accountancy team, to ensure that the Council is able to prepare a robust set of draft financial statements by the earlier deadlines due to take effect for the 2017/18 financial year.

Management are aware of the challenges associated to the accelerated timescale and intend to establish a cross service working group to consider the implications, training and processes that will need to be in place or improved to facilitate a timely submission.

An action plan will be developed and progressed rigorously monitored.

Section 151
Officer

February 2016

USE OF RESOURCES

Contract Monitoring

We reviewed a sample of contracts in place during 2014/15. We identified areas for improvement in relation to contract management.

Develop robust contract monitoring procedures which are to be used on all contracts awarded by the Council. These procedures should include a requirement to ensure that appropriate measures of performance are identified and monitored during the life of the contract.

Ensure senior officers more pro-actively monitor the application of contract monitoring procedures and ensure that appropriate documentation is maintained and retained.

Seek assurance that contract monitoring procedures are being consistently applied. This may take the form of a focused piece of Internal Audit work.

Management recognise the importance and benefits of effective contract management and have started to realign or commission resources which will work collaboratively to enhance this function.

Processes as recommended will be enhanced and risk based methodology applied.

Section 151
Officer

March 2016

APPENDIX V: STATUTORY AND PROFESSIONALLY REQUIRED COMMUNICATIONS

COMMUNICATION REQUIRED	DATE COMMUNICATED	TO WHOM	METHOD
Accounting practices, accounting policies, estimates and judgements and financial statement disclosures (ISA 260)			Financial statements section of this report
Significant difficulties encountered during the audit (ISA 260)		No issues	
Significant matters discussed or subject to correspondence with management (ISA 260)		No issues	
The final draft of the representation letter (ISA 260)		Appendix VI	
Independence (ISA 260)			Independence section of this report
Fraud and illegal acts (ISA 240)		No issues	
Non compliance with laws and regulations (ISA 250)		No issues	
Significant deficiencies in internal control (ISA 265)		No issues	
Misstatements, whether or not corrected by the entity (ISA 450)		Appendix II	
Significant matters in connection with related parties (ISA 550)		No issues	
Events or conditions that may cast significant doubt on the entity's ability to continue as a going concern (ISA 570)		No issues	
Matters relating to the audit of the group (ISA 600)		No issues	
Expected modifications to our audit report or inclusions of emphasis of matter / other matter (ISA 705 / 706)		No issues	
Material inconsistencies with other information in documents containing audited financial information (ISA 720)		No issues	
Objections from the public or exercise of statutory powers under the Audit Commission Act 1998		No issues	

APPENDIX VI: DRAFT REPRESENTATION LETTER

TO TYPED ON CLIENT HEADED NOTEPAPER

BDO LLP
16 The Havens
Ransomes Europark
W1U 7EU
Ipswich
Suffolk
IP3 9SJ

23 September 2015

Dear Sirs

Financial statements of Rochford District Council for the year ended 31 March 2015

We confirm that the following representations given to you in connection with your audit of the Council's financial statements (the 'financial statements') for the year ended 31 March 2015 are made to the best of our knowledge and belief, and after having made appropriate enquiries of other officers and members of the Council.

The Section 151 Officer has fulfilled her responsibilities for the preparation and presentation of the financial statements as set out in the Accounts and Audit Regulations 2011 and Statement of responsibilities of auditors and of audited bodies local government (March 2010) issued by the Audit Commission, and in particular that the financial statements give a true and fair view of the financial position of the Council as of 31 March 2015 and of its income and expenditure and cash flows for the year then ended in accordance with proper practices as set out in the CIPFA /LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code) and for making accurate representations to you.

We have fulfilled our responsibilities on behalf of the Council, as set out in the Accounts and Audit Regulations 2011, to make arrangements for the proper administration of the Council's financial affairs, to conduct a review at least once in a year of the effectiveness of the system of internal control and approve the annual governance statement, to approve the Statement of Accounts (which include the financial statements), and for making accurate representations to you.

We have provided you with unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence. In addition, 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 other meetings have been made available to you.

In relation to those laws and regulations which provide the legal framework within which the Council's business is conducted and which are central to our ability to conduct our business, we have disclosed to you all instances of possible non-compliance of which we are aware and all actual or contingent consequences arising from such instances of non-compliance.

There have been no events since the balance sheet date which either require changes to be made to the figures included in the financial statements or to be disclosed by way of a note. Should any material events of this type occur, we will advise you accordingly.

We are responsible for adopting sound accounting policies, designing, implementing and maintaining internal control, to, among other things, help assure the preparation of the financial statements in conformity with generally accepted accounting principles and preventing and detecting fraud and error.

We have considered the risk that the financial statements may be materially misstated due to fraud and have identified no significant risks.

To the best of our knowledge we are not aware of any fraud or suspected fraud involving councillors, management or employees. Additionally, we are not aware of any fraud or suspected fraud involving any other party that could materially affect the financial statements.

To the best of our knowledge we are not aware of any allegations of fraud or suspected fraud affecting the financial statements that have been communicated by councillors, employees, former employees, analysts, regulators or any other party.

We attach a schedule showing accounting adjustments that you have proposed, which we acknowledge that you request we correct, together with the reasons why we have not recorded these proposed adjustments in the financial statements. In our opinion, the effects of not recording such identified financial statement misstatements are, both individually and in the aggregate, immaterial to the financial statements.

We have disclosed to you the identity of all related parties and all the related party relationships and transactions of which we are aware. We have appropriately accounted for and disclosed such relationships and transactions in accordance with the applicable financial reporting framework.

We have no plans or intentions that may materially affect the carrying value and where relevant, the fair value measurement, or classification of assets or liabilities reflected in the financial statements.

We confirm that the fair value measurements in relation to the following are reasonable and that there are no circumstances of which we are aware that would have a material impact on the values reported:

- fair value of property, plant and equipment
- assumptions underpinning the reported pension liability

We consider that the Council is able to continue to operate as a going concern and that it is appropriate to prepare the financial statements on a going concern basis.

We have disclosed all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements and these have been disclosed in accordance with the requirements of accounting standards.

We confirm that the above representations are made on the basis of enquiries of councillors, management and staff with relevant knowledge and experience (and, where appropriate, of inspection of supporting documentation) sufficient to satisfy ourselves that we can properly make each of the above representations to you.

We confirm that the financial statements are free of material misstatements, including omissions.

We acknowledge our legal responsibilities regarding disclosure of information to you as auditors and confirm that so far as we are aware, there is no relevant audit information needed by you in connection with preparing your audit report of which you are unaware. Each director and assistant director has taken all the steps that they ought to have taken as a director or assistant director in order to make themselves aware of any relevant audit information and to establish that you are aware of that information.

Yours faithfully

Denise Murray
Section 151 Officer

Chief Finance Officer
23 September 2015

Cllr Mrs J A Mockford
Chair of the Audit Committee

Signed on behalf of the Audit Committee
23 September 2015



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.

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