
EXTERNAL AUDITOR'S ANNUAL AUDIT PLAN FOR 2014/15 AND PLANNING LETTER FOR 2015/16

1 SUMMARY

- 1.1 This report presents the Council's external auditor's annual audit plan (AAP) covering the audit of the 2014/15 accounts and certification of claims and returns and the Planning Letter 2015/16, which reports the proposed fees and proposed work for the 2015/16 financial year.

2 INTRODUCTION

- 2.1 In its AAP, attached as appendix 1, BDO sets out its audit approach and scope in relation to the audit of the 2014/15 financial statements, value for money conclusion and grant certification work.
- 2.2 The Planning Letter, attached as appendix 2, sets out the proposed fees and audit arrangements for 2015/16.

3 EXTERNAL AUDIT ARRANGEMENTS

- 3.1 In December 2014 we were advised by the Audit Commission that Ernst & Young would be appointed as our external auditor for two years from 2015/16. The appointment was made under section 3 of the Audit Commission Act 1998 and was approved by the Audit Commission Board at its meeting on 4 December 2014.
- 3.2 The Commission's contracts with audit firms are extendable by three years. The Department for Communities and Local Government (DCLG) has indicated it will make a decision in summer 2015 about whether to extend the contracts from 2017 to 2020.
- 3.3 BDO will complete the audit of the accounts for 2014/15.
- 3.4 The Audit Commission closed at the end of March 2015 and from 1 April 2015, a transitional body, Public Sector Audit Appointments Limited (PSAA), set up by the Local Government Association as an independent company, will oversee the Commission's audit contracts until they end in 2017, or 2020 if extended by DCLG. Arrangements for audited bodies to appoint their own auditor will be announced by DCLG and will apply once the audit contracts have ended.

4 RESOURCE IMPLICATIONS

- 4.1 The AAP confirms the proposed core audit fee for 2014/15 as £62,643, which adheres to the scale fee published by the Audit Commission. However, since the Planning Letter 2014/15 was issued, the Audit Commission has consulted on a supplementary fee for audit work on business rates. This reflects the fact that auditors previously placed reliance on the certification work on national

non-domestic rates. This certification work is no longer performed and it is therefore necessary to undertake audit procedures on material business rate balances and disclosures as part of the work on the financial statements. The additional fee in respect of this work has been confirmed as £900 for District Councils. The revised audit fee for 2014/15 is therefore £63,543 plus VAT, which is consistent with the updated scale fees published by the Audit Commission. The proposed fee for the certification of claims and returns is £11,360 plus VAT, which complies with the composite scale fee published by the Audit Commission.

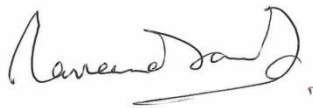
- 4.2 The Planning Letter sets out the proposed fees for 2015/16, which are £47,657 plus VAT for the Code audit, and £8,184 plus VAT for the housing benefit subsidy certification fee.
- 4.3 If Ernst & Young needs to propose any amendments to the audit fee during the course of the audit or where its assessment of risk and complexity is significantly different from those reflected in the proposed fee, it will first discuss this with the Assistant Director, Resources.

5 LEGAL IMPLICATIONS

- 5.1 PSAA will exercise the Commission's statutory functions relating to auditor appointments and fees. It will continue to monitor the performance of the firms providing audit services, ensuring that local public bodies receive high quality and effective audit services which provide value for money to the local taxpayer.

6 RECOMMENDATION

- 6.1 It is proposed that the Committee **RESOLVES**
- (1) That the external auditor's annual audit plan for 2014/15 be noted.
- (2) That the external auditor's Planning Letter 2015/16 be noted.



Joseph Raveendran

Assistant Director, Resource Services

Background Papers:-

None.

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If you would like this report in large print, Braille or another language please contact 01702 318111.

ROCHFORD DISTRICT COUNCIL

AUDIT PLAN TO THE AUDIT COMMITTEE

Audit for the year ended 31 March 2015

JUNE 2015

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EXECUTIVE SUMMARY

We are pleased to present our Audit Plan for the year ending 31 March 2015. This plan summarises the work that we propose to undertake in respect of our audit of Rochford District Council for the 2014/15 financial year.

Significant Risks

Our audit is designed to respond to significant risks and identify where we intend to focus our resources in providing our opinion on the financial statements and our value for money conclusion. Summarised below are the significant risks that impact on our audit of which we are currently aware:

FINANCIAL STATEMENTS	SUMMARY OF SIGNIFICANT RISKS
Management override	Auditing standards presume that a risk of management override of controls is present in all entities and require us to respond to this risk including by testing the appropriateness of accounting journals and other adjustments to the financial statements, reviewing accounting estimates for possible bias and obtaining an understanding of the business rationale of significant transactions that appear to be unusual.
Revenue recognition	Auditing standards presume that there are risks of fraud in revenue recognition. These risks may arise from the use of inappropriate accounting policies, failure to apply the stated accounting policies or from an inappropriate use of estimates in calculating revenue.
USE OF RESOURCES	SUMMARY OF SIGNIFICANT RISK
Financial resilience	The Council's most recent medium term financial plan 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.

Fees

Our Planning Letter 2014/15 (issued in April 2014) set out a proposed audit fee for the year of £62,643 plus VAT. Since the planning letter was issued, the Audit Commission has consulted on a supplementary fee for audit work on business rates. This reflects the fact that auditors previously placed reliance on the certification work on national non-domestic rates. This certification work is no longer performed and it is therefore necessary to undertake audit procedures on material business rate balances and disclosures as part of our work on the financial statements. The additional fee in respect of this work has been confirmed as £900 for district councils. The revised audit fee for 2014/15 is therefore £63,543 plus VAT, which is consistent with the updated scale fees published by the Audit Commission.

The proposed fee for the certification of claims and returns is £11,360 plus VAT, which agrees to the composite scale fee published by the Audit Commission.

Key outputs

The key reports, opinions and conclusions from the audit will be:

REPORT	DATE
Report on any significant deficiencies in internal controls, if required, based on the results of our interim audit visit	June 2015
Final report to those charged with governance	September 2015
Independent auditor's report including: <ul style="list-style-type: none">• Opinion on the financial statements• Value for money conclusion• Certificate	By 30 September 2015
Assurance statement on the Whole of Government Accounts return	October 2015
Summary of findings from the audit in the Annual Audit Letter	October 2015
Report on the results of our grant claims and returns certification work	January 2016

SCOPE OF THE AUDIT

Purpose of the audit plan

The purpose of this audit plan is to:

- Ensure that there is mutual understanding of the respective responsibilities relating to the audit
- Provide you with an overview of the planned scope of the audit for the year ending 31 March 2015
- Ensure that the areas of potential significant risk of material misstatement which we have identified are consistent with the areas which you perceive to be the key areas and to promote effective two-way communication between us.

We will also provide a report to management and those charged with governance on the findings of the audit which will focus on the significant matters arising from the audit of the Council regarding internal control, financial governance and reporting and accounting arrangements. We aim to provide management with clear recommendations that will add value to the Council.

Code audit

The scope of the audit is determined by the Audit Commission's Code of Audit Practice for Local Government (2010) (the 'Code'), which covers two areas: providing an opinion on the financial statements, and reviewing the arrangements for securing economy, efficiency and effectiveness in the use of resources (value for money conclusion).

Respective responsibilities

Our responsibilities, as auditors, in relation to the audit of the financial statements and other Audit Commission requirements are set out below. The audit of the financial statements does not relieve you of your responsibilities which are outlined in the Statement of Responsibilities of Auditors and Audited Bodies (2010) available from the Audit Commission's website.

Auditing Standards require auditors to communicate relevant matters relating to the audit to those charged with governance. Relevant matters include issues on auditor independence, audit planning information and findings from the audit.

We will communicate matters of governance interest that have come to our attention as a result of the performance of the audit. Communication may take the form of

discussions or, where appropriate, be in writing. The audit is not designed to identify all matters that may be relevant to you.

Our contacts for communications will be the Assistant Director of Resource Services and the Audit Committee. When communicating with the Audit Committee we will consider all individuals representing those charged with governance as informed and our responsibilities for communicating relevant matters will be discharged.

Financial statements

At the conclusion of the financial statements audit we give our opinion on the financial statements, including whether:

- they give a true and fair view of the financial position at the year end and the expenditure and income for the year
- they have been prepared properly in accordance with relevant legislation and applicable accounting standards

We also provide an opinion on whether the information given in the Explanatory Foreword is consistent with the financial statements.

We report by exception if we are unable to satisfy ourselves that the Annual Governance Statement is not inconsistent with our knowledge.

As part of our audit we obtain an understanding of the Council's system of internal control sufficient to plan the audit. We assess the adequacy of the design of specific controls that respond to significant risks of material misstatement and evaluate whether those controls have been implemented. Where we intend to place reliance on particular controls for the purposes of our audit, we will carry out procedures to test the operating effectiveness of those controls and use the results of those procedures to determine the nature, timing and extent of further audit procedures to be performed.

In order to achieve an efficient and cost effective audit, we aim to work closely with Internal Audit to minimise duplication and the overall level of audit resource input.

We have planned the audit on the basis that we will be able to place full reliance on the work of Internal Audit where they intend to provide assurance over key controls within the financial systems.

We will communicate to management any deficiencies in internal control identified during the audit. Where those deficiencies are significant, we will also communicate to those charged with governance.

Misstatements due to fraud

The primary responsibility for ensuring that your internal control frameworks are robust enough to prevent and detect fraud and corrupt practices lies with management and the Audit Committee.

We have a responsibility to consider specifically the potential risk of material misstatement of your financial statements as a result of fraud and error, including the risk of fraudulent financial reporting. We have discussed possible risk of material misstatement arising from fraud with the following individuals:

- Joseph Raveendran - Assistant Director of Resource Services
- Jim Kevany - Principal Auditor, Internal Audit

We will discuss with members of the Audit Committee how the Committee oversees management processes to identify and respond to the risk of fraud, and whether there is knowledge of any actual, suspected or alleged frauds affecting the Council other than those reported by management.

For all fraud risks, and for any actual frauds that have been identified and we have been informed of, we will consider the possible impact on your financial statements and our audit programme.

Materiality and triviality

Materiality is the expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole. In carrying out our work we will apply an appropriate level of materiality and as such the audit cannot be relied upon to identify all potential or actual misstatements.

For planning purposes, we have set materiality at £705,000 (2% of average gross expenditure in the Comprehensive Income and Expenditure Statement excluding non-recurrent expenditure).

For reporting purposes, we consider misstatements of less than £14,000 to be trivial, unless the misstatement is indicative of fraud. We are required to bring to your attention unadjusted audit differences that are more than trivial that the Audit Committee are required to consider and we will request that you correct them.

Use of resources

The Code requires auditors to issue a conclusion on whether the audited body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

This is based on the following two reporting criteria:

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

We will plan a programme of use of resources audit work based upon our risk assessment.

Whole of Government Accounts

Local authorities are required to prepare information to allow HM Treasury to prepare consolidated Whole of Government Accounts (WGA) based on the statutory financial statements.

The WGA return is audited in accordance with Audit Commission specified procedures. We provide an assurance report to the National Audit Office to confirm that the WGA return is consistent with the audited financial statements and that it is properly prepared.

Certification of grant claims and returns

As an agent of the Audit Commission we will undertake a review of the housing benefit subsidy claim in accordance with the certification instruction issued by the Audit Commission. We express a conclusion as to whether the claim or return is fairly stated and in accordance with the relevant terms and conditions (claims and returns over the threshold).

Engagement partner

David Eagles is the engagement partner and is the person in the firm who is responsible for the audit engagement and its performance and for the report that will be issued on behalf of the firm.

We aim to provide a high quality of service to you at all times. If, for any reason or at any time, you would like to discuss how we might improve the service, or if you are in any way dissatisfied, please contact David Eagles in the first instance. Alternatively you may wish to contact our Managing Partner, Simon Michaels. Any complaint will be investigated carefully and promptly.

If you are not satisfied you may take up the matter with the Institute of Chartered Accountants in England and Wales (“ICAEW”).

In addition, the Audit Commission’s complaints handling procedure is detailed in their leaflet “How to complain: What to do if you want to complain about the Audit Commission or its appointed auditors”, which is available on their website <http://www.audit-commission.gov.uk/about-us/contact-us/complaints>

Local Audit and Accountability Act 2014

The Act received Royal Assent on 30 January 2014. The Act makes it possible for the Audit Commission to close, in line with Government expectations, on 31 March 2015.

There will be a new framework for local public audit, due to start after the Audit Commission’s current contracts with audit suppliers end in 2016/17, or potentially in 2019/20 if all the contracts are extended. A transitional body will oversee the contracts in the intervening period. The transitional body is the Public Sector Audit Appointments Limited and is an independent, private company created by the Local Government Association.

Several of the Audit Commission’s functions will continue after its closure. The Local Audit and Accountability Act gave the Comptroller and Auditor General a duty to prepare and issue Codes of Audit Practice and guidance to auditors; and a power to carry out examinations into the economy, efficiency and effectiveness with which relevant authorities have used their resources.

The Act also provides for the Audit Commission’s data matching powers, and therefore the National Fraud Initiative, to transfer to the Cabinet Office. The government has announced that the Commission’s counter-fraud function will transfer to a new public sector ‘Counter Fraud Centre’ to be established by the Chartered Institute of Public Finance and Accountancy.

Independence and objectivity

We are required to communicate to those charged with governance, at least annually, all relationships that may bear on the firm’s independence and the objectivity of the audit engagement partner and audit staff.

In relation to the audit of the financial statements for Rochford District Council for the financial year ending 31 March 2015, we are able to confirm that the Audit Commission’s requirements in relation to independence and objectivity have been complied with and we are not aware of any relationships that would affect our independence. Should this change we will update you accordingly.

RISK ASSESSMENT

We are committed to targeting work to where it will have the greatest effect, based upon assessments of risk and performance. This means planning our audit work to address areas of risk relevant to our audit responsibilities and reflecting this in the audit fees. The determination of significant risks is a matter for auditors' professional judgement. For each of the significant risks identified, we consider the arrangements put in place to mitigate the risk and plan our work accordingly.

If you consider there to be other significant risks of material misstatement in the financial statements or, arrangements for securing economy, efficiency and effectiveness in the use of resources, whether due to fraud or error, please let us know. Summarised below are the significant audit risks that impact on our audit of which we are currently aware:

FINANCIAL STATEMENTS SIGNIFICANT AUDIT RISKS			
RISK	RISK DETAIL	ACCOUNTS AREA AND ASSERTIONS	AUDIT RESPONSE
MANAGEMENT OVERRIDE	Auditing standards presume that a risk of management override of controls is present in all entities and require us to respond to this risk by testing the appropriateness of accounting journals and other adjustments to the financial statements, reviewing accounting estimates for possible bias and obtaining an understanding of the business rationale of significant transactions that appear to be unusual.	Financial statement level risk across all account headings and assertions.	We will carry out audit procedures to review significant journals and other adjustments in preparing the financial statements, review the reasonableness of assumptions used by management when including accounting estimates, and obtain an understanding of unusual transactions.
REVENUE RECOGNITION	Auditing standards presume that there are risks of fraud in revenue recognition. These risks may arise from the use of inappropriate accounting policies, failure to apply the stated accounting policies or from an inappropriate use of estimates in calculating revenue.	Existence, completeness and accuracy of income	We will substantively test a sample of income received and debtor accruals to ensure that accounting policies have been correctly applied in determining the point of recognition of income. We will revisit our assessment of this risk following receipt of the draft 2014/15 financial statements.

We will also review other areas of the financial statements where our risk assessment has determined that there is a risk of material misstatement but where we do not consider that risk to be significant. These areas include the valuation and impairment review of land and buildings, the valuation of the pension liability and the identification and disclosure of related parties.


USE OF RESOURCES SIGNIFICANT RISK		
RISK	RISK DETAIL	AUDIT RESPONSE
FINANCIAL RESILIENCE	The Council's most recent medium term financial plan 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.	We will complete the following work in response to this risk: <ul style="list-style-type: none"> We will review the Council's Medium Term Financial Strategy to assess the reasonableness of assumptions and how the Council is addressing financial pressures We will review the implementation of the Council's management restructure and consider whether or not it is expected to deliver the savings originally envisaged.

AUDIT TIMETABLE

The timetable for key reports, opinions and conclusions from the audit will be:

OUTPUT	DATES
FINANCIAL STATEMENTS	
Review of internal controls	March 2015
Final audit visit	July - August 2015
Audit report covering: <ul style="list-style-type: none"> • 'True and fair' opinion on the financial statements • Information in the Statement of Accounts being consistent with auditor's knowledge • Annual governance statement is prepared in accordance with guidance and not inconsistent with auditor's knowledge 	Clearance meeting to be held late August 2015 By 30 September 2015
Opinion on the Whole of Government Accounts return.	By 07 October 2015
USE OF RESOURCES	
Review of economy, efficiency and effectiveness	January - April 2015
Value for money conclusion	By 30 September 2015
GRANTS	
Audit of housing benefit subsidy return	August to November 2015
REPORTING	
Report on any significant deficiencies in control (if required)	June 2015
Final report to those charged with governance	September 2015
Annual Audit Letter	October 2015

We will agree specific dates for our visits with officers in advance of each part of our programme, and we will work closely with officers during the year to ensure that all key deadlines are met. We will also meet regularly with senior officers to discuss progress on the audit and obtain an update on relevant issues.



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 council and may not be quoted nor copied without our prior written consent. No responsibility to any third party is accepted.

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27 April 2015

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Dear Mr Dave

Annual Audit and Certification Fees 2015/16

Standing Guidance for auditors requires us to issue a letter setting out our proposed fees for 2015/16 by 30 April. We are therefore writing to confirm the audit and certification work that we propose to undertake for the 2015/16 financial year at Rochford District Council

Our 2015/16 audit is our first for you, and the first that we will undertake following the closure of the Audit Commission on 31 March 2015. Our contract will now be overseen by Public Sector Audit Appointments Ltd (PSAA), an independent company set up by the Local Government Association, until it ends in 2017 (or 2020 if extended by the Department of Communities and Local Government).

The responsibility for publishing the statutory Code of Audit Practice, under which we will conduct our audit work, has transferred to the National Audit Office.

Indicative audit fee

The fee reflects the risk-based approach to audit planning set out in the National Audit Office's Code of Audit Practice for the audit of local public bodies, applying from 2015/16 audits.

The audit fee covers the:

- Audit of the financial statements
- Value for money conclusion
- Whole of Government accounts.

For the 2015/16 financial year the Audit Commission set the scale fee for each audited body prior to its closure. The scale fee is reduced by 25% compared to previous years following the tendering of contracts in March 2014. It is not liable to increase during the remainder of our contract without a change in the scope of our audit responsibilities.

The 2015/16 scale fee is based on certain assumptions, including:

- The overall level of risk in relation to the audit of the financial statements is not significantly different from that of the prior year;
- We are able to place reliance on the work of internal audit to the maximum extent possible under auditing standards;
- The financial statements will be available to us in line with the agreed timetable;
- Working papers and records provided to us in support of the financial statements are of a good quality and are provided in line with our agreed timetable; and
- Prompt responses are provided to our draft reports.

Meeting these assumptions will help ensure the delivery of our audit at the indicative audit fee which is set out in the table below.

For Rochford District Council, the fee is set at the scale fee and reflects our assumption that relevant factors, including audit risk and complexity, are not significantly different from those used by the Audit Commission in establishing this figure.

Certification fee

The Audit Commission set an indicative certification fee for housing benefit subsidy claim certification work for each audited benefits authority. The indicative fee is based on actual 2013/14 benefit certification fees and incorporating a 25 per cent reduction.

The indicative certification fee is based on the expectation that an audited body is able to provide the auditor with complete and materially accurate housing benefit subsidy claim with supporting working papers, within agreed timeframes.

The indicative certification fee for 2015/16 relates to work on the housing benefit subsidy claim for the year ended 31 March 2016. We have set the certification fee at the indicative fee level. We will update our risk assessment after our predecessor auditor completes 2014/15 benefit certification work, and to reflect any further changes in the certification arrangements.

Summary of fees

	Indicative fee 2015/16 £
Total Code audit fee	47,657
Certification of housing benefit subsidy claim	8,184

Any additional work that we may agree to undertake (outside of the Code of Audit Practice) will be separately negotiated and agreed with you in advance.

Audit plan

Our plan is expected to be issued in March 2016. This will communicate any significant financial statement risks identified, planned audit procedures to respond to those risks and any changes in fee. It will also set out the significant risks identified in relation to the value for money conclusion. Should we need to make any significant amendments to the audit fee during the course of the audit, we will discuss this in the first instance with the Head of Finance and, if necessary, prepare a report outlining the reasons for the fee change for discussion with the Audit Committee.

Billing

The indicative audit fee will be billed in 4 quarterly instalments of £13,960.25 starting from July 2015.

We are committed to providing you with a high quality service. If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, please contact me.

We look forward to meeting with you in due course.

Yours sincerely

Kevin Suter

Audit Director

For and on behalf of Ernst & Young LLP

cc. Joseph Raveendran, Assistant Director – Resources and s151 Officer.
Cllr Mockford, Chair of the Audit Committee

