



Rochford District Council

Annual Audit and Inspection Plan

2006/07

September 2006

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1 Executive Summary

Work scope

- 1.1 The scope of the audit is determined by the Audit Commission's "Code of Audit Practice", which covers two key areas – Accounts and "Use of Resources".
- 1.2 The detailed Code audit approach is unchanged from 2005/06, with the exception of a review of "data quality" replacing previous work on Best Value Performance Indicators. The new approach focuses more on central, corporate arrangements and uses "Key Lines of Enquiry" as a basis.
- 1.3 The Authority's "Whole of Government Accounts" consolidation pack for 2006/07 will be reviewed, this feeding into the first full national "live" run. The review of the 2005/06 pack later in 2006, which will be the first audit of such a return, will be the final "dry run".

Key audit risk areas

- 1.4 These are set out in detail in Appendix A, and include:
- Further development of the performance management arrangements, and data quality of the underlying information
 - Progress on addressing the Decent Homes Standard 2010
 - Partnership involvement

Fees

- 1.5 Overall fees have increased compared to 2005/06, despite reductions in KLOE input, partly because of inflation, but primarily because of the new Data Quality approach where we are not permitted to rely upon Internal Audit's work, something we have done successfully with BVPIs work in previous years.

	<i>2005/06</i>	<i>2006/07</i>
Audit	112,944	117,640
Inspection	15,670	17,223
Total audit and inspection	£128,614	£134,863

Key outputs

- 1.6 The key audit and inspection outputs for Members will be:

Audit and Inspection Plan	June 2006
ISA 260 Report	September 2007
Auditor's Opinion, covering:	September 2007
<ul style="list-style-type: none"> • Statement of Accounts • Use of Resources conclusion • BVPP 	
Interim Annual Audit and Inspection Letter	November 2007
Annual Audit and Inspection Letter	March 2008
Key Lines of Enquiry scores	March 2008
Direction of Travel statement	March 2008

2 Introduction

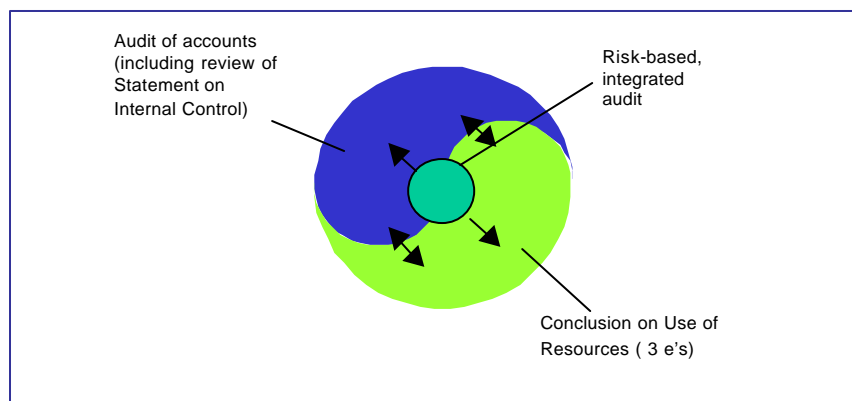
- 2.1 This joint audit and inspection plan (this Plan) sets out the audit and inspection work proposed to be undertaken in 2006/07 by PKF and the Audit Commission.
- 2.2 This Plan has been drawn up from our risk based approach to audit planning and improvement planning meetings held with you. It reflects the Audit Commission's elements of the co-ordinated and proportionate audit and inspection programme.

Auditor's responsibilities - PKF

- 2.3 Our principal objective as your appointed auditor is to carry out an audit that is tailored to focus on the specific financial and operational risks you face and meets the requirements of the Audit Commission's Code of Audit Practice (the Code).
- 2.4 In formulating this Plan, and discharging our duties under the Code, we also have regard to:
- our terms of engagement, as set out in the Audit Commission's "Proposed Work Programme and Fee Scales 2006/07" which was finalised in June 2006.
 - the requirements of the Audit Commission's "Statement of Responsibilities of Auditors and of Audited Bodies" issued in March 2005.
- 2.5 This Plan summarises our approach to delivering our Code responsibilities for the period 1 April 2006 to 31 March 2007. It also details:
- the scope of the work we will undertake to address the key risks you face and to satisfy our responsibilities under the Code.
 - how we intend to rely upon the work of Internal Audit.
 - the timing of our visits, the people involved, and any assistance that we plan to rely upon.
- 2.6 The work covered by this plan can be summarised as follows:
- review of the financial systems used in preparing the accounts to 31 March 2007.
 - review of the financial accounts prepared for the year ending 31 March 2007.
 - review of the BVPP, and supporting BVPIs, as published in June 2006.
 - work on use of resources issues in the period 1 April 2006 to 31 March 2007.

Code of Audit Practice

- 2.7 The Audit Commission published a new Code of Audit Practice for Local Government Bodies in March 2005 that has been applicable to audits since 2005/06. The Code sets out the Audit Commission's redesigned model for public audit, as shown in the diagram below, and auditors' responsibilities in relation to that model.



2.8 Risk assessment continues to be at the heart of the audit approach and we are required to consider both locally identified risks and national risks highlighted by the Audit Commission.

2.9 Our audit responses are grouped under the two Code areas:

- **Accounts** – the work that we undertake in providing our opinion on your Statement of Accounts, including considering the consistency of the Statement on Internal Control (SIC) with our knowledge. The detail of this work is set out more fully under Section 3 of this Plan.
- **Use of resources** – the work that we undertake to assess your arrangements for securing economy, efficiency and effectiveness in your use of resources. This includes our review of your Best Value Performance Plan and Performance Indicators and also the requirement to provide an overall conclusion on Value for Money. The detail of this work is set out more fully under Section 4 of this Plan.

2.10 The accounts and use of resources issues are shown in detail at Appendix A.

Working with Internal Audit

2.11 The Audit Commission and its auditors have been working together to ensure that audit work is most effectively targeted in well-managed authorities, thereby minimising duplication and the overall level of audit resource input. The principles are valid for all aspects of the audit under the Code.

2.12 We have planned the 2006/07 audit on the basis that we will be able to place full reliance on the work of Internal Audit, the relevant areas of this are set out in our fee assumptions at paragraph 7.13. This assumption is based upon the preliminary discussions in respect of arrangements for 2005/06 and our consideration of your Statement on Internal Control in your 2004/05 accounts.

Reports and reporting framework

2.13 The reporting requirements are detailed in the Audit Commission's Annual Letter of Guidance, and reports will be produced in accordance with the requirements of the Audit Commission Act 1998 and the Accounts and Audit Regulations 2003, as amended.

2.14 During the course of the year we will provide the following reports for the year ending 31 March 2007:

- a certificate that the audit has been completed in accordance with statutory requirements;
- an audit opinion on the financial statements;
- an overall conclusion on arrangements to secure economy, efficiency and effectiveness in the use of resources;
- an Audit Memorandum to "those charged with governance" summarising our audit conclusions; and
- information, as yet to be specified by the Audit Commission, to the Relationship Manager, for inclusion in a summary Annual Audit and Inspection Letter addressed to Members.

2.15 We will also provide the following reports for the year ended 31 March 2006:

- an audit report on the consolidation pack submitted for whole of government accounts;
- our statutory report on your Best Value Performance Plan;
- certification of your best value performance indicators; and
- certification of grant claims, for the year ended 31 March 2006, for which a separate fee is chargeable.

- 2.16 In addition, we will provide subsidiary letters to senior management and, where appropriate, to Members relating to more detailed matters which have been noted in our audit work (Memoranda to Officers).

Other reporting powers

- 2.17 We may also, exceptionally, report in other ways:
- report in the public interest, under the terms of Section 8, ACA 1998;
 - application for a declaration that an item of account is unlawful under Section 17, ACA 1998;
 - declaration on the recovery of an amount not accounted for under Section 18, ACA 1998;
 - issue of an advisory notice under Sections 19A to 19C, ACA 1998 (brought about by Section 91 of the Local Government Act 2000); and
 - application for judicial review under Section 24, ACA 1998.
 - identified frauds are reported to the Audit Commission on standard forms.

Inspection – Audit Commission

- 2.18 This Plan also sets out the inspection work that we propose to undertake in 2006/07, linked to your improvement priorities, as summarised under Section 5 of this Plan.
- 2.19 Discussions have been, and will continue to be, held between auditors and inspectors to ensure that the audit and inspection work in this Plan continues to be co-ordinated and targeted at your key areas for improvement.
- 2.20 In carrying out inspection work we comply with the statutory requirements governing it, in particular the Local Government Act 1999 with regard to Best Value inspection.

Communication with other Auditors and Inspectors

- 2.21 The Audit Commission's Standing Guidance for Auditors requires co-operation between auditors of different bodies and Inspectors, where necessary, to facilitate an efficient audit. In some cases it may therefore be necessary to discuss matters with the auditors of the County Council and/or Inspectors to complete our work under the Code i.e. sharing information.
- 2.22 In drafting this Plan we have assumed that the approval of it will constitute you granting us permission to discuss issues relevant to the audit with Inspectors. This permission will not affect our general duty of confidentiality under Section 49 of the Audit Commission Act 1998.

3 Accounts

- 3.1 The Code of Audit Practice requires us to provide an opinion on whether your Statement of Accounts “presents fairly” your financial position, and has been prepared properly, in accordance with relevant legislation and applicable accounting standards.
- 3.2 In carrying out this work we consider:
- the extent to which your accounting and internal control systems are a reliable basis from which to prepare the Accounts.
 - the robustness of your Accounts preparation processes.
- 3.3 We also undertake analytical procedures, test transactions and balances and consider the adequacy of the disclosures in your Accounts.
- 3.4 It should be noted that we have not yet undertaken our 2005/06 accounts work, so the risk assessment included in Appendix A in relation to this element of the plan has been based on the results of our 2004/05 audit work and preliminary discussions with officers.
- 3.5 Once our 2005/06 audit work has been completed, we will revisit our risk assessment and let you know if there are any significant changes to the risks and the audit response to those risks included in this Plan.

Internal controls and key financial systems

- 3.6 New International Standards in Auditing (UK and Ireland) have come into effect and auditors are now required to obtain a detailed understanding of an organisation, its environment, risk assessment processes, the information systems, internal controls, and monitoring activities. This must be sufficient to identify and assess the risks of material misstatement of the financial statements whether due to fraud or error and be sufficiently well documented to enable the auditor to design and perform further audit procedures based on identified risks.
- 3.7 This will also require additional work to be undertaken to understand the internal controls, and the auditor must evaluate the design of the control and determine whether it has been implemented. Evaluating the design of a control involves considering whether the control, individually or in combination with other controls, is capable of effectively preventing, or detecting and correcting, material misstatements.
- 3.8 Where the audit intends to rely on controls to reduce risk or the level of substantive testing otherwise required, the auditor must also undertake tests of the operating effectiveness of the relevant controls. The core financial systems upon which the accounts are based will therefore require additional testing and review in order to arrive at our opinion on the Statement of Accounts.
- 3.9 We have discussed these requirements with Internal Audit and we have developed an agreed approach to the testing of the key controls that should help to avoid unnecessary duplication of audit effort. It is not possible at this stage to identify any areas of higher risk regarding internal controls until our assessment of the work performed in respect of the 2005/06 audit has been completed.

Fraud risk assessment

- 3.10 Under ISA240, we have a responsibility to consider specifically the potential risk of material misstatement of your Statement of Accounts as a result of fraud and error, including the risk of fraudulent financial reporting. 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 ‘those charged with governance’.

- 3.11 In order to identify the fraud risks, and the controls you have put in place on which we will seek to place reliance to mitigate those risks, we will:
- discuss your anti fraud and corruption arrangements with officers and ‘those charged with governance’;
 - consider the extent to which the work of Internal Audit is designed to detect material misstatements in the Accounts arising through fraud;
 - make inquiries regarding instances of actual fraud you have identified; and
 - consider any material unusual or unexpected relationships that have been identified in performing analytical procedures.
- 3.12 For all residual 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 Accounts and our audit programme.

Accounts preparation

- 3.13 We will consider the adequacy of your arrangements for closing down the ledger and producing an accurate, timely and comprehensive Statement of Accounts and supporting working papers.
- 3.14 We will provide officers with a detailed list of schedules and working papers required for the audit. We have assumed in this Plan that that this information will be provided to us on a timely basis and that the accounts production processes will be similar to that in prior years.

Statement on Internal Control

- 3.15 We will review your Statement on Internal Control to assess whether it has been presented in accordance with relevant guidance, is adequately supported, that a effectiveness review has been completed, and it is consistent, complete and not misleading based on our overall knowledge.

Whole of Government Accounts

- 3.16 As part of the WGA process we are required to review and report on the consolidation pack you have prepared for submission. The actual procedures to be performed have been developed by the Audit Commission in discussion with the National Audit Office and for Band 2 Authorities, of which you are one, focus on ensuring consistency between the consolidation pack and the audited accounts and the agreement of balances with other bodies.
- 3.17 The work for the submission of the WGA consolidation pack is performed in addition to our Code of Audit Practice responsibilities and is therefore subject to a separate audit fee.

Key accounts risks

- 3.18 We have included in Appendix A our assessment of the risks relevant to our accounts audit work and our planned response to those risks. The key risks are:
- Compliance with the SORP 2006 and proposed amendments to the financial statements.
 - The submission of correct information for the Whole of Government Accounts process.
 - The timely closure and publication of the statement of accounts.

4 Use of Resources

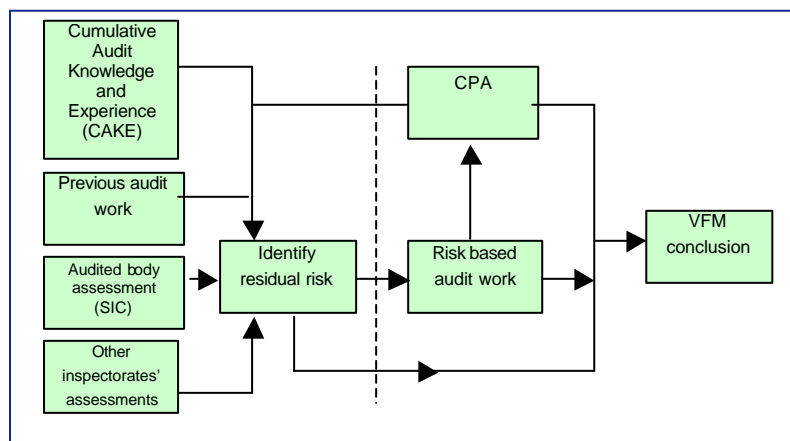
4.1 The new Code requires us to:

- be satisfied that proper arrangements have been made to secure economy, efficiency and effectiveness in the use of resources (value for money conclusion);
- be satisfied that there are adequate arrangements in place for collecting, recording and publishing performance information; and
- audit your best value performance plan.

Value for money conclusion

4.2 We will give an overall conclusion on whether you have proper arrangements in place to secure value for money (VFM).

4.3 The process for compiling our VFM conclusion is shown in the diagram below.



Local risk-based planning

4.4 The start of the process is to assess the risks relating to your corporate performance and financial management arrangements through consideration of:

- the results of our previous audit work and knowledge gathering exercises.
- your KLOE and Direction of Travel assessment from March 2006.
- your system of internal financial control as reported in your Statement on Internal Control.
- the results of inspection work and the work of any other reviewing agencies.
- consultation with senior officers at the Authority.

4.5 Once we have completed the risk assessment and considered the controls you have in place to manage those risks, we will:

- highlight the risk to you.
- defer further work on the risk in the context of work planned by you or other review agencies to address the risk.
- carry out further work to enable us to form a view on the adequacy of your corporate performance and management arrangements.

- 4.6 In that context, when we carry out detailed work in this area we will have regard to the potential contribution to your improvement agenda and will not duplicate work already planned by you or other review agencies.

Mandated key lines of enquiry work

- 4.7 In addition to our local risk based planning, the Audit Commission can specify work to be carried out by auditors on a national basis. From 2006/07, the Audit Commission have specified that we review your arrangements against their Key Lines of Enquiry (KLoE) criterion.
- 4.8 This review will focus on the progress made since our previous Use of Resources assessment and on proposed changes to the methodology and specific KLoEs. Revised guidance on the KLoE requirements is expected in late Spring 2006.
- 4.9 The KLoE assessment will continue to focus on the importance of having sound and strategic financial management to ensure that resources are available to support your priorities and improve services. This work will contribute to forming our overall conclusion on value for money as audited bodies are required to reach a minimum score of 2 in each area for an unqualified opinion. The scoring mechanism is defined as follows:

Score	Judgement	Conclusion
1	Below minimum requirements	Inadequate performance
2	At minimum requirements	Adequate performance
3	Consistently above minimum requirements	Performing well
4	Well above minimum requirements	Performing strongly

- 4.10 The Council achieved a Use of resources assessment level “2”, which reflects adequate performance at the minimum standards, during the assessment performed in 2005.

Performance Information

- 4.11 We will review your arrangements for collecting, recording and publishing specified performance information against the guidance that is issued annually by the Audit Commission.
- 4.12 The Audit Commission is in the process of developing a revised approach to the audit of performance indicators in local government that will enable auditors to conclude on the arrangements for ‘monitoring and reviewing performance, including arrangements to ensure data quality’ and also to support the reported performance applied in the Audit Commission’s CPA assessments.
- 4.13 It is expected to follow a three-stage process:
- Stage 1 – review of overall management arrangements to secure data quality
 - Stage 2 – completeness check of reported performance information
 - Stage 3 – data quality spot check and in-depth review of specified performance indicators.
- 4.14 The number of indicators selected will be based on the assessment of risk following the review of the overall management arrangements and it is expected that up to four indicators will be subject to in-depth review for a District Council.
- 4.15 The Audit Commission is also expected to issue a Code of Practice on Data Quality that will set out the systems and processes that an organisation should put in place to assure itself of the robustness of published performance information. Much of the Stage 1 review of management arrangements will focus on compliance with this voluntary code.

Best Value Performance Plans (BVPPs)

- 4.16 We will consider and report on whether you have complied with statutory requirements applicable to a Weak Council in respect of the preparation and publication of your BVPP, including specified performance information and associated targets.
- 4.17 The BVPP production deadline of 30 June requires, where possible, outturn performance information being included in the BVPP. Consequently, we will consider the extent to which this has been achieved.

Key use of resources risks

- 4.18 We have included in Appendix A our assessment of the risks relevant to our Use of Resources audit work and our planned response to those risks. The key risks are:
- fully embedding processes to ensure the Authority has effective risk management.
 - the improvement of performance management arrangements to allow ongoing monitoring of the Authority's service delivery.
 - the continued process towards the Large Scale Voluntary Transfer (LSVT) of the Authority's housing stock.
 - consideration of the impact of partnerships on the achievement of the Authority's objectives.

5 CPA and Inspections

- 5.1 Following the Council's classification as a "weak" council in 2004 CPA, we have applied the principles of strategic regulation recognising the key strengths/weaknesses in the Authority's performance.
- 5.2 As a consequence our inspection activity, will include a cross-cutting inspection review of customer access and user focus, a progress assessment report and undertaking work to prepare the annual Direction of Travel statement.

Inspection activity	Reason/impact
Access to services	Cross-cutting inspection across all the Council's services of customer access and user-focus
Relationship Management support	To work with the Council, supporting improvement
Direction of Travel statement.	To provide a focus for continuous improvement.

- 5.3 This work has been agreed in full consultation with other regulators to ensure that work programmes are co-ordinated and proportionate.

6 Grant Claims

- 6.1 As agents of the Audit Commission we are required to express an opinion on certain grant claims submitted by the Council, with our work programme in support of these opinions being set out in relevant Certification Instructions issued by the Audit Commission. As part of this Plan we will be auditing grant claims for the year ended 31 March 2006.
- 6.2 There are de-minimis arrangements in place for the certification of claims, which are:
- amounts below £50,000 will no longer be certified
 - amounts between £50,000 and £100,000 will be subjected to limited audit testing to agree form entries to underlying records, but the eligibility of expenditure will not be tested
 - amounts £100,000 will be audited in accordance with the outcome of a control environment risk assessment.
- 6.3 The dates for completion of this work are laid down by the Government Departments to which the claims are submitted. We will liaise with the relevant Council Officers to ensure we complete our work within the given timetable.

7 Fees and Audit Arrangements

Fees

- 7.1 As for previous years, the guideline for fee levels applicable to audited bodies remains a formula-based calculation that is adjusted to reflect the agreed scope of work applicable to your local circumstances and risk profile, as set out in Appendix A. For audit, the calculation is based on the minimum amount of work required under the risk-based audit approach outlined in the Code.
- 7.2 New International Standards in Auditing (UK and Ireland) have come into effect and the Audit Commission has assessed the additional amount of work auditors are required to do to comply with the new standards. The fee scales propose an increase in fees and workload of approximately five per cent as a result.
- 7.3 In addition to this five per cent, the Audit Commission has also proposed a 2.5 per cent increase to the audit fees to reflect cost pressures of five per cent, abated by a 2.5 per cent efficiency requirement as part of the response to the Gershon agenda.
- 7.4 There is also an acknowledgement that, as auditors are now required to provide an opinion on Value for Money and complete the mandated Use of Resources assessment (KLoEs), and that this work is performed regardless of the CPA categorisation, fee modelling by CPA category is no longer appropriate.

Audit

- 7.5 The audit fee, excluding grants and challenge work, for the period from April 2006 to March 2007 will be £117,640 plus VAT which, as in previous years, includes an amount payable to the Audit Commission (although this has increased from 1% for 2005/06 to 2% for 2006/07). The fee is based on our understanding of audit requirements at the time of drafting this Plan.

Inspection

- 7.6 The fee payable for the 2006/07 programme of inspection work, net of any central government grant, is £17,223.

Whole of Government Accounts

- 7.7 The Audit Commission has now issued guidance on the level of the currently separate fee which will be charged for the audit of the reporting on Whole of Government Accounts. For 2005/06, this will be in the range of £1,800 to £3,600. In the absence of further information, we assume there will be a similar fee for 2006/07. These elements are not included in the Code fees proposed and analysed.

Analysis

7.8 An analysis of the fee by audit area is shown below:

Work area	2005/06 Fee* £	2006/07 Fee £
Code of Audit Practice		
Accounts – core audit	51,820	54,950
Subtotal accounts	51,820	54,950
Use of Resources – KLOE	16,444	19,130
Use of Resources – BVPIs	5,740	11,230
Use of Resources – BVPP	2,820	2,890
Use of Resources – other	11,190	3,003
Subtotal Use of Resources	36,194	36,253
Planning & Reporting	24,930	26,437
Subtotal Audit	112,944	117,640
Inspection	15,670	17,223
Total audit and inspection	£128,614	£134,863

7.9 The detailed sub-analysis above is provisional and based on our current estimations of the impact of the changes in 2006/07. The analysis, specifically, does **not** include any time for changes to the 2006 SORP that may, or may not, materialise in due course.

Grants

7.10 Our fee for the review of grant claims will be separately billed, based on the Audit Commission's grade related rates as set out in their publications "Work Programme and Fee Scales 2006/07".

7.11 Based on the claims we audited for the year ending 31 March 2005, we anticipate that the fee will be approximately £35,435 for the 2006 claims (2005: £33,484).

Questions and Objections

7.12 Time spent dealing with questions and objections from members of the public under various sections of the Audit Commission Act 1998 (see also paragraph 2.17) will be billed separately. Where possible, we will provide an estimate of the likely time required to respond to the matters before starting the work.

Assumptions

7.13 The fees detailed above are based on the following assumptions:

- there are no major changes to the content of government department grant instructions.
- you will prepare your grant claims in accordance with the Audit Commission's "Statement of responsibilities of grant paying bodies, authorities, the Audit Commission and appointed auditors in relation to claims and returns".
- Internal Audit will have completed their systems testing in accordance with their plans and to an adequate standard.
- you will keep us informed of any significant changes to your main financial systems or procedures.

- you will provide a comprehensive, good quality set of working papers and records to support the accounts, performance indicators and grant claims prior to the commencement of the audit and there will be no fundamental problems with them.
- you will ensure that action plans are completed promptly and the implementation of recommendations by the due date is actively monitored.

Billing Arrangements

7.14 Your audit fee will be billed in four instalments, reflecting our resource input, as follows:

Month	£
September 2006	26,000
March 2006	26,000
June 2006	32,000
September 2007	33,940
Total	£117,640

7.15 Inspection work will be billed separately by the Audit Commission. Grants work will be billed by PKF on the basis of hours incurred and necessary staff grades used as the work progresses.

Staffing

7.16 The following staff will be involved in the audit throughout the course of the year:

Audit Staff	
Partner	David Eagles
Senior Manager	Stuart Frith
Supervisor	Adam Kendall
	Kate Beauchamp
Other Team Members	Kevin Brinkley Chris Donovan

Inspection Staff	
Relationship Manager	Ian Davidson
Inspectors	Various

Timetable

7.17 The following outline audit timetable shows the main dates planned for audit visits for the period covered by this Plan:

Audit Timetable	Month
Accounts – core financial systems	April – May 2007
Accounts – Statements of Account and Statement on Internal Control	July – August 2007
Use of Resources – VFM conclusion	July – August 2007
Use of Resources – BVPIs	September 2006
Use of Resources – BVPP	September 2006
Inspections	To be agreed

- 7.18 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.

Independence

- 7.19 International Standard on Auditing 260 (“ISA260”) requires 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.
- 7.20 We have included in Appendix C to this Plan a statement to the Audit Committee setting out the Audit Commission’s objectivity and independence guidelines and giving our confirmation that we have complied with those guidelines.
- 7.21 Following our audit of the Statement of Accounts we will report to the Audit Committee on the findings from our audit.

Quality of Service

- 7.22 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, Martin Goodchild. Any complaint will be investigated carefully and promptly.
- 7.23 If you are not satisfied you may take up the matter with the Institute of Chartered Accountants in England and Wales (“ICAEW”).
- 7.24 In addition, the Audit Commission’s complaints handling procedure is detailed in their leaflet “Something to complain about? What to do if you wish to complain about the Audit Commission or one of its Appointed Auditors” that is available on request.

Appendix A Risk Assessment Matrix

	Audit risk identified from planning	Mitigating controls	Residual audit risk	Significance	Response to residual audit risk
Accounts					
1	There will be a new SORP in operation for the 2006/07 Statement of Accounts. The proposals contained within consultation document will have a major impact on the statement of accounts presentation and disclosure. There is a risk that the Authority may not produce its accounts in line with the new regulations.	The Authority has appropriate staffing arrangements to follow developments in order that it is aware of the requirements once the 2006 SORP is finalised, and a track record of producing properly prepared accounts.	There is a risk that the Authority will not have prepared the statement of accounts in accordance with the 2006 SORP requirements.	Medium	We will agree with officers the necessary amendments to the accounts preparation processes, reporting format, and undertake detailed audit procedures on those transactions and balances subject to amendment as a result of the SORP 2006. [Fee does not include allowance for changes that may, or may not, arise from SORP 2006].
2	The first 'live run' of the Whole of Government Accounts (WGA) will be carried out in 2006/07 following two 'dry run' years and there is a risk that financial information will not be available in the format required to capture information on material transactions and balances with other WGA bodies for agreement and elimination upon consolidation.	The Council participated in the first limited review dry run and will also participate in the full second dry run in 2005/06 which should enable management to identify and address weaknesses in advance of the 'live run' in 2006/07.	There remains a risk that the required financial information will not be available in the format or level of detail required to agree material transactions and balances. This may result in the auditor not having sufficient information or assurance to provide the opinion on the WGA returns for 2006/07.	Medium	We will review in detail the financial information and agreement processes for the 2005/06 submission and agree any improvements required for 2006/07.
3	A new finance system is being installed in September 2006. There is a risk that data may not be accurately and completely transferred to the new system and that disruption may occur due to staff unfamiliarity.	We have been informed that Internal Audit will review controls in place over the system change.	Risk remains that the control environment may be affected by the change to a new system.	Medium	We will review Internal Audit's systems work around the process for the system transfer, to ensure correct transfer of data. System implementation arrangements will be reviewed to minimise the risk of problems occurring during the changeover

	Audit risk identified from planning	Mitigating controls	Residual audit risk	Significance	Response to residual audit risk
Use of Resources					
4	The council has not developed a corporate plan, however many of the key elements are included in other documents such as 'Our Performance Plan'. There are plans to produce a Corporate Plan in 2006 along with a Community Plan. The recently developed priorities are not supported by a corporate planning process and there are inconsistent departmental approaches to planning delivery.	Corporate priorities are being developed and are being linked to budgets.	There remains a risk that priorities are not supported and will not be met due to inadequate budgeting	High	Linkage of corporate priorities to medium term financial plan will be reviewed, and ensured that the budgetary and control arrangements are effective.
5	The Authority is continuing to develop its performance management arrangements as a result of the Comprehensive Performance Assessment. However, these are not yet embedded and there remains a risk that they do not drive the organisation and deliver service improvement, which would impact on the Use of Resources conclusion.	The Authority has ongoing meetings with the Audit Commission to ensure progress is being made in implementing the Comprehensive Performance Assessment Action Plan.	The anticipated improvements in services expected by the enhanced performance management arrangements are not forthcoming, resulting in an adverse Use of Resources opinion.	High	Assess the progress of embedding the management arrangements at the Authority by reviewing reports produced by the Authority and the action taken as a result. Key issues are covered by KLOE Action Planning.
6	The Council has limited capacity to manage important initiatives and places reliance on key staff. There is a risk that the Council has difficulty in recruiting and retaining specialist staff needed to deliver the projects currently underway to achieve improvements for the Council.	The Council is considering ways to improve capacity using both internal and external resources.	There remains a risk that if staff leave the Council will find it difficult to replace them and the Council will not have the capacity to properly manage and deliver the projects being undertaken, resulting in an adverse Use of Resources opinion.	Medium	Watching brief monitor of critical staffing for key initiatives.

	Audit risk identified from planning	Mitigating controls	Residual audit risk	Significance	Response to residual audit risk
7	<p>Progress towards achieving the Decent Homes Standard 2010:</p> <p>If tenants vote “No” for LSVT costs incurred would be met from the General Fund. This would decrease balances to below the minimum reserve level. (A “Yes” would be funded from the HRA). If tenants vote “Yes” for LSVT, there would be a significant change to the services provided by the Council, and consequently the assets required by the Council to deliver those services. There is a risk that the residual Council organisation would encounter inefficiencies in the utilisation of assets, impacting on the Use of Resources opinion.</p>	<p>The Council is working to deliver a “Yes” vote, however the ultimate result remains out of the direct control of the Council, therefore, although the Council is aware of this issue, further consideration needs to be given to this eventuality.</p>	<p>As the decision is ultimately that of the tenants there remains a risk of this outcome with the impact on reserves, the MTFS and management capacity being significant.</p>	High	<p>We will monitor the progress of the Council against the project plan for the delivery of the LSVT.</p>
8	<p>Partnership working continues to grow in significance as a means of delivering service. Partnerships may not be effectively contributing to the achievement of the Council’s objectives, potentially impacting on the Use of Resources opinion.</p>	<p>The Environmental Scrutiny Committee has been established to evaluate the effectiveness and value for money of a number of the Authority’s key partnerships.</p>	<p>The risk remains that the Authority is involved in partnerships that may not be consistent with strategic aims and objectives.</p>	Medium	<p>We will review the progress being made in identifying key partnerships, and linking these to the specific aims and objectives of the Authority.</p>
9	<p>There are risks that the Authority will be unable to deliver against the targets signed up to within the Essex Local Area Agreement (LAA) and will therefore not achieve the improvements envisaged or obtain the rewards for success.</p>	<p>The Authority, through the Chief Executive, is a key player in developing the LAA.</p>	<p>The risk of failing to achieve the expectations of the LAA are reduced.</p>	Low	<p>Subject to further information awaited via the Relationship Manager and the auditors of the County Council relating to governance, finance and performance information and management flows within the wider LAA, we do not propose to undertake any separate work</p>

Appendix B

Disclosure under ISA 260 (Communication of audit matters to those charged with governance)

To: Audit Committee, Rochford District Council

Auditors appointed by the Audit Commission are subject to the *Code of Audit Practice* (the Code) which includes the requirement to comply with International Standards on Auditing (ISA) when auditing the financial statements. ISA 260 requires auditors 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.

The ISA defines 'those charged with governance' as 'those persons entrusted with the supervision, control and direction of an entity'. In the case of Rochford District Council it has been agreed that the appropriate addressee of communications from the auditor to those charged with governance is the Audit Committee. The auditor reserves the right, however, to communicate directly with the board/authority on matters which are considered to be of sufficient importance.

Auditors are required by the Code to:

- carry out their work with independence and objectivity;
- exercise their professional judgement and act independently of both the Commission and the audited body;
- maintain an objective attitude at all times and not act in any way that might give rise to, or be perceived to give rise to, a conflict of interest;
- resist any improper attempt to influence their judgement in the conduct of the audit.

In addition, the Code specifies that auditors, or any firm with which an auditor is associated, should not carry out work for an audited body, which does not relate directly to the discharge of the auditors' functions if it would impair the auditors' independence or might give rise to a reasonable perception that their independence could be impaired. If auditors are satisfied that performance of such additional work will not impair their independence as auditors, nor be reasonably perceived by members of the public to do so, and the value of the work in total in any financial year does not exceed a *de minimis* amount (currently the higher of £30,000 or 20% of the annual audit fee), then auditors (or, where relevant, their associated firms) may undertake such work at their own discretion. If the value of the work in total for an audited body in any financial year would exceed the *de minimis* amount, auditors must obtain approval from the Commission before agreeing to carry out the work.

The Code also states that the Commission issues guidance under its powers to appoint auditors and to determine their terms of appointment. The *Standing Guidance for Auditors* includes several references to arrangements designed to support and reinforce the requirements relating to independence, which auditors must comply with. These are as follows:

- any staff involved on Commission work who wish to engage in political activity should obtain prior approval from the Partner or Regional Director;
- audit staff are expected not to accept appointments as lay school inspectors;
- firms are expected not to risk damaging working relationships by bidding for work within an audited body's area in direct competition with the body's own staff without having discussed and agreed a local protocol with the body concerned;
- auditors are expected to comply with the Commission's statements on firms not providing personal financial or tax advice to certain senior individuals at their audited bodies, auditors' conflicts of interest in relation to PFI procurement at audited bodies, and disposal of consultancy practices and auditors' independence;

- auditors appointed by the Commission should not accept engagements which involve commenting on the performance of other Commission auditors on Commission work without first consulting the Commission;
- auditors are expected to comply with the Commission's policy for both the Partner and the second in command (Manager) to be changed on each audit at least once every five years with effect from 1 April 2003 (subject to agreed transitional arrangements);
- audit suppliers are required to obtain the Commission's written approval prior to changing any Audit Partner in respect of each audited body; and
- the Commission must be notified of any change of second in command within one month of making the change. Where a new Partner or second in command has not previously undertaken audits under the Audit Commission Act 1998 or has not previously worked for the audit supplier, the audit supplier is required to provide brief details of the individual's relevant qualifications, skills and experience.

Statement by the Appointed Auditor

In relation to the audit of the financial statements for Rochford District Council for the financial year ending 31 March 2007, we are able to confirm that the Commission's requirements in relation to independence and objectivity, outlined above, have been complied with.

Under the requirements of ISA 260, we are not aware of any relationships that may bear on the independence and objectivity of the audit engagement partner and audit staff which are required to be disclosed.

Statement by the Relationship Manager

I am not aware of any relationships that may affect the independence and objectivity of the Inspectors who will work with you.