
FINANCIAL STATEMENTS 2018/19

1 SUMMARY

- 1.1 This report summarises EY's preliminary audit conclusion in relation to the audit of Rochford District Council's financial statements for 2018/19.
- 1.2 As at the date of the report EY have substantially completed their audit for the year ended 31 March 2019. Subject to concluding the outstanding matters listed in their report, EY have confirmed that they expect to issue an unqualified audit opinion and that there are no matters to report on the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources. Their audit report is presented as an appendix to this item.
- 1.3 2018/19 is the second year the Council has worked to the earlier statutory deadline of 31st May for closing the accounts with a target date for the audited accounts to be signed off by 31st July (previously draft accounts were published by 31st July with the audited version agreed by 30th September). The statutory obligation on the Council is to either publish the audited accounts by 31st July or to publish a statement on the Council's website stating why this is not the case. Due to resourcing issues EY were not able to complete their audit work in time to meet the 31st July target date and as such Rochford Council instead issued a statement on its website to that effect as set out below.

NOTICE PERTAINING TO THE AUDIT OF THE FINANCIAL STATEMENTS 2018- 19.

The external audit of the draft statement of accounts for the year ended 31 March 2019 has not yet been completed by our external auditors, EY LLP, due to EY's resourcing pressures. This situation is allowed for by Regulation 10, paragraph (2a) of the Accounts and Audit Regulations 2015. (See attached link):

<http://www.legislation.gov.uk/uksi/2015/234/regulation/10/made>

Therefore this notification explains, as per paragraph (2a), that we are not yet able to publish our audited 2018/19 final statement of accounts in line with the deadline of 31st July 2019, as per paragraph (1). The Audit Committee will consider the results of the 2018/19 audit at a future Committee, after which we will publish the final audited accounts. The

draft financial statements will remain available for public viewing on the Council's website, (or via the attached link):

https://www.rochford.gov.uk/sites/default/files/finance_annual_report_june_2019.pdf

- 1.4 The Authority agrees a Medium-Term Financial Strategy (MTFS) each year in February in order to produce a balanced budget, which maintains a suitable level of balances. The forecast for general fund balances as at 31 March 2019 presented to Council as part of the 2019/20 MTFS in February 2019 was estimated at £907,000 (10% of the 2019/20 net revenue budget). Following closure of the accounts the final level of General Fund balance for 2018/19 was £909,000; this equates to 10% of the 2019/20 net revenue budget.

2 SIGNING AND APPROVAL

- 2.1 The Authority is required by the Accounts and Audit Regulations of 2015 to prepare an annual Statement of Accounts. The financial statements must be signed as true and fair by the Assistant Director, Resources (Section 151 Officer) and Member approval must be given to the audited statements to allow publication. The Authority has given delegation for that approval to the Audit Committee, but as there are small residual areas of work requiring completion Audit Committee is not asked to sign off the statements at this Committee meeting. Instead the Committee is asked to further delegate approval for final sign-off of the financial statements to the Chairman of the Audit Committee, in conjunction with the Assistant Director, Resources (Section 151 Officer), subject to no material changes being required to the Statements. Once the residual work is complete the financial statements will be approved, signed and dated by the Chairman of the Audit Committee and the remaining Members of the Committee will be notified. If any material changes were required post the Committee meeting, the Audit Committee will be reconvened at a later date to reconsider and approve the revised Statement of Accounts.

3 ANNUAL GOVERNANCE STATEMENT

- 3.1 The draft Annual Governance Statement (AGS) was considered in detail by the Audit Committee on 21 May 2019. As a result of discussions between officers and the external auditors some minor changes have been made to the AGS which are reflected in the final version within the Annual Financial Report. The final version of the AGS will be signed by the Managing Director and Leader of the Council prior to publication.

4 MAJOR JUDGMENTS MADE

- 4.1 In the preparation of the accounts, the Assistant Director, Resources (Section 151 Officer) is required to make judgments and estimates in some cases. The types of judgment made include asset life and depreciation methods. The

main estimate relates to the Housing Benefit subsidy claim, which is a material item in the Council's accounts, as the figures are based on the draft end of year subsidy claim. The final claim has been submitted in November 2019 and is subject to separate external audit review by BDO, which will be reported to Audit Committee in March 2020. Other key areas of estimation are set out in Note 6 to the financial statements.

5 RISK IMPLICATIONS

- 5.1 The preparation of the financial statements is a major piece of work that involves a significant amount of officer time across the Authority. Officers therefore prepare a detailed plan of work in conjunction with the external auditors, to ensure that all tasks can be completed by the required deadlines. This is monitored closely throughout the period of accounts preparation and audit to ensure the statutory deadlines are adhered to.
- 5.2 As set out in the external auditors' report, the most significant risk is that financial statements as a whole are not free of material misstatements that could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements, whether caused by fraud or error. The objective of external audit is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement and to issue an auditor's report that includes their opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit will always detect a material misstatement when it exists.

6 LEGAL IMPLICATIONS

- 6.1 It is a statutory requirement for the draft financial statements to be signed by the Chief Finance Officer (Assistant Director, Resources (Section 151 Officer)) by 31 May. The draft financial statements and balance sheet were signed and presented for audit on 31 May 2019. On conclusion of audit, the final financial statements must be published on the Council's website, alongside the statement of the external auditor's opinion.

7 EQUALITY AND DIVERSITY IMPLICATIONS

- 7.1 An Equality Impact Assessment has been completed and found there to be no impacts (either positive or negative) on protected groups as defined under the Equality Act 2010.

8 RECOMMENDATION

- 8.1 It is proposed that the Committee **RESOLVES**

- (1) That the contents of the draft Audit Results Report be noted.
- (2) That the Financial Statements be approved in principle.

- (3) That final sign-off of the financial statements be delegated to the Chairman of the Audit Committee, subject to no significant audit changes being identified post the Committee meeting.
- (4) That the movement in general fund balances be noted.



Naomi Lucas

Assistant Director, Resources

Background Papers: -

None.

For further information please contact Naomi Lucas (Assistant Director, Resources) on: -

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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 results report

Year ended 31 March 2019

2 December 2019

2 December 2019



Dear Audit Committee Members

We are pleased to attach our Audit Results Report. This report summarises our preliminary audit conclusion in relation to the audit of Rochford District Council for 2018/19.

As at the date of this report we have substantially completed our audit of Rochford District Council (the Council) for the year ended 31 March 2019.

Subject to concluding the outstanding matters listed in our report, we confirm that we expect to issue an unqualified audit opinion on the financial statements in the form at Section 3 soon after the December Committee meeting. We will have no matters to report on your arrangements to secure economy, efficiency and effectiveness in your use of resources.

This report is intended solely for the use of the Audit Committee, other members of the Council, and senior management. It should not be used for any other purpose or given to any other party without obtaining our written consent.

We would like to thank your staff for their help during the engagement.

We welcome the opportunity to discuss the contents of this report with you at the Audit Committee meeting on 5 December 2019.

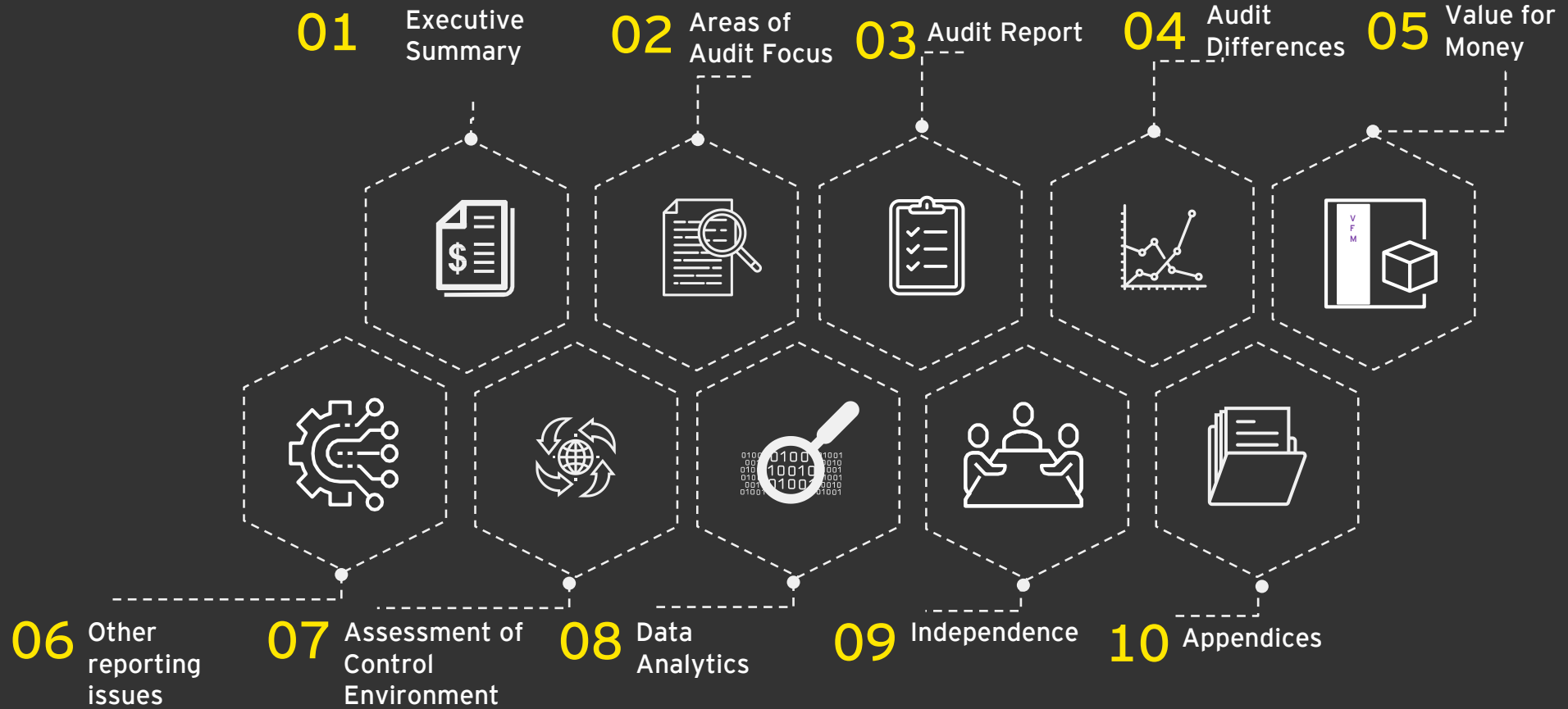
Yours faithfully

Debbie Hanson

Associate Partner
For and on behalf of Ernst & Young LLP

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Public Sector Audit Appointments Ltd (PSAA) have issued a 'Statement of responsibilities of auditors and audited bodies'. It is available from the Chief Executive of each audited body and via the PSAA website (www.psaa.co.uk). This Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The 'Terms of Appointment (updated April 2018)' issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This report is made solely to the Audit Committee, the Council and management of Rochford District Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit Committee, the Council and management of Rochford District Council those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Audit Committee, the Council and management of Rochford District Council for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent



01 Executive Summary



Executive Summary

Scope update

In our Audit Plan presented at the 26 February 2019 Audit Committee (the Committee) meeting, we provided you with an overview of our audit scope and approach for the audit of the financial statements. We carried out our audit in accordance with this Plan. We carried out our audit in accordance with this Plan, with the following exceptions:

- Changes in materiality - As part of our normal audit procedures we updated our planning materiality assessment using the draft statement of accounts and have also reconsidered our risk assessment. Based on our materiality measure of 2% of gross expenditure on provision of services, we have updated our overall materiality assessment to £0.704 million (Audit Plan – £0.726 million). This results in updated performance materiality, at 50% of overall materiality, of £0.352 million, and an updated threshold for reporting misstatements of £35k.

Status of the audit

We have substantially completed our audit of the Authority's financial statements for the year ended 31 March 2019 and have performed the procedures outlined in our Audit Plan. Subject to satisfactory completion of the outstanding items at Appendix B we expect to issue an unqualified opinion on the Authority's financial statements in the form which appears at Section 4. However until work is complete, further amendments may arise. We expect to issue the audit certificate at the same time as the audit opinion.

Audit differences

Unadjusted Differences

At the date of drafting this report there are no uncorrected misstatements.

Adjusted Differences

During the audit we have identified audit differences in the draft financial statements which management has chosen to adjust. The most significant adjustments are:

- An increase in the Pension Liability to take into account the impact of a legal ruling related to historic age discrimination for pensioners (the McCloud case). This ruling on this national issue, impacting on many public sector bodies, was made in late June, after the statements were prepared. The effect is to increase the Council's pension liability by £0.428 million.
- ▶ During the audit the Council put through material amendments to the financial statements to correct the fact that in the draft statements they had applied an index to land and building values at 31 March 2019 rather than at 1 April 2018. The amendment has resulted in an increase of values for land and buildings by £0.676 million.
- ▶ In addition, our audit identified the following Disclosure Note errors within the financial statements which management has amended during the audit:
 - ▶ Note 1: Expenditure and Funding Analysis; The Opening General Fund Reserve Balance as on 1 April 2017 was incorrectly stated as £9.024 million instead of £6.294 million; and
 - ▶ Note 25: Investments: The total of investments value under amortised cost was incorrectly reported as £7.395 million instead of £9.835 million.

We have also identified a number of presentational differences which have been adjusted by management.

Further details are in Section 4, Audit Differences.

Executive Summary

Areas of audit focus

Our Audit Planning Report identified key areas of focus for our audit of Rochford District Council's financial statements. This report sets out our observations and conclusions, including our views on areas which might be conservative, and where there is potential risk and exposure. We summarise our consideration of these matters, and any others identified, in the "Areas of audit focus" section of this report.

We ask you to review these and any other matters in this report to ensure:

- ▶ There are no other considerations or matters that could have an impact on these issues;
- ▶ You agree with the resolution of the issue; and
- ▶ There are no other significant issues to be considered.

There are no matters, apart from those reported by management or disclosed in this report, which we believe should be brought to the attention of the Audit Committee.

Control observations

We have adopted a fully substantive detailed testing approach, so have not tested the operation of controls followed in the prior year. As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. As we have adopted a fully substantive approach, we have therefore not tested the operation of controls. Although our audit was not designed to express an opinion on the effectiveness of internal control we are required to communicate to you significant deficiencies in internal control.

We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements of which you are not aware. We do, however, wish to report the following areas where improvements could be made to the operation or design of controls within the Council to reduce the risk of error.

- We have noted a variance between the Council's General Ledger and the underlying Debtors Ledger of £45,595 (£54,788 in 2017/18). Management should review the root cause of the difference and correct for 2019/20.
- There is a variance between the Council's General Ledger and the underlying Housing Benefits Debtors Ledger of £42,877 caused by not running a report at 31 March 2019. We recommend that all reports supporting the financial statements are run at 31 March and retained to ensure sub-ledgers reconcile to the general ledger.
- The provision for bad debts for Housing Benefit Debtors includes a calculation which could not be supported as the Council had not run an underlying report for one element of the calculation at the 31 March 2019. We recommend that all reports supporting the financial statements are run at 31 March to ensure all calculation are supportable.

Executive Summary

Value for money

We have considered your arrangements to take informed decisions; deploy resources in a sustainable manner; and work with partners and other third parties. We addressed one significant risk during our audit concerning the Asset Delivery Programme.

We have no matters to report about your arrangements to secure economy efficiency and effectiveness in your use of resources.

Other reporting issues

We have reviewed the information presented in the June 2019 version of the Annual Governance Statement for consistency with our knowledge of the Council. We have no matters to report as a result of this work.

The Council is below the threshold set by the National Audit Office (NAO) for the Whole of Government Accounts submission. Therefore we do not have any procedures to undertake and have no issues to report.

We have a duty under the Local Audit and Accountability Act 2014 to consider whether to report on any matter that comes to our attention in the course of the audit, either for the Council to consider it or to bring it to the attention of the public (i.e. “a report in the public interest”). We did not identify any issues which required us to issue a report in the public interest. We also have a duty to make written recommendations to the Council, copied to the Secretary of State, and take action in accordance with our responsibilities under the Local Audit and Accountability Act 2014. We did not identify any issues.

Independence

We have no matters relating to our Independence to bring to your attention. Section 9 includes our update.



02

Areas of Audit Focus



Areas of Audit Focus

Significant risk

Misstatements due to fraud or error

What is the risk?

The financial statements as a whole are not free of material misstatements whether caused by fraud or error.

As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.

We have not identified a heightened risk of management override overall, but we have identified a specific area where management override might occur: incorrect capitalisation of revenue spending. Our specific response to this risk is set out in the next slide.

What judgements are we focused on?

We focussed on testing key areas that are susceptible to management bias including journal entries, material accounting estimates, and unusual transactions.

What did we do?

- ▶ Identified fraud risks during the planning stages;
- ▶ Asked management about risks of fraud and the controls put in place to address those risks;
- ▶ Understood the oversight given by those charged with governance of management's processes over fraud;
- ▶ Considered the effectiveness of management's controls designed to address the risk of fraud;
- ▶ Determined an appropriate strategy to address those identified risks of fraud; and
- ▶ Performed mandatory procedures regardless of specifically identified fraud risks, including testing of journal entries and other adjustments in the preparation of the financial statements

What are our conclusions?

We have not identified any material weaknesses in controls or evidence of material management override.

We have not identified any instances of inappropriate judgements being applied.

Our testing of journals is not yet completed but to date we have not identified adjustments outside of the normal course of business. All journals tested to date have appropriate rationale.

We did not identify any other transactions during our audit which appeared unusual or outside the Authority's normal course of business.



Areas of Audit Focus

Significant risk

Incorrect capitalisation of revenue expenditure

What is the risk?

In considering how the risk of management override may present itself, we conclude that this is primarily through management taking action to override controls and manipulate in year financial transactions that impact the medium to longer term projected financial position.

A key way of improving the revenue position is through the inappropriate capitalisation of revenue expenditure. The Council has a significant fixed asset base and therefore has the potential to materially impact the revenue position through inappropriate capitalisation.

What judgements are we focused on?

How management decides on appropriate capitalisation of revenue expenditure.
Confirming additions to property, plant and equipment and revenue expenditure funded from capital under statute have been correctly classified as

What did we do?

- We:
- Sample tested additions to property, plant and equipment, intangible assets to ensure that they have been correctly classified as capital and included at the correct value in order to identify any revenue items that have been inappropriately capitalised.
 - Sample tested Revenue Expenditure Funded from Capital Under Statute (REFCUS), to verify that revenue costs have not been inappropriately funded from capital.
 - Identified the controls the Council has in place to prevent incorrect capitalisation of revenue expenditure.
 - Considered the effectiveness of management's controls designed to address the risk.
 - Tested year end journals which move expenditure from revenue to capital.

What are our conclusions?

We have complete our work on REFCUS, subject to manager and Associate Partner review, and have not identified any issues

Our work on additions is complete and has not identified any additions that were incorrectly capitalised.

Other areas of audit focus (continued)

What is the risk/area of focus?

Pension Liability Valuation

The Council's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Council's balance sheet. At 31 March 2018 this totalled £31.662 million. The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the County Council.

Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

In 2017/18 the accounts were amended to reflect a £1.055 million change in valuation of pension fund liability due to changes in the value of pension fund assets between the date of the actuary's estimate and the year end.

What did we do?

We:

- ▶ liaised with the auditors of the Essex Pension Fund to obtain assurances over the information supplied to the actuary in relation to Rochford Council;
- ▶ assessed the work of the Pension Fund actuary including the assumptions they have used by relying on the work of PWC, being the Consulting Actuaries commissioned by the National Audit Office for all Local Government sector auditors, and considering any relevant reviews by the EY Pensions actuarial team;
- ▶ Considered the movement in fund asset values between the actuary's estimate and year end; and
- ▶ Reviewed and tested the accounting entries and disclosures made within the Council's financial statements in relation to IAS19.

We have received reports from the Essex Pension Auditor and the EY actuarial team and are satisfied that the information supplied to the actuary is accurate and the assumptions applied by the actuary are reasonable.

We considered the Authority's response to legal rulings regarding age discrimination arising from public sector pension scheme transitional arrangements, commonly described as McCloud ruling and the Guaranteed Minimum Pension (GMP) arrangements. The Council requested the pension fund actuary to estimate the impact of the McCloud ruling on the value of its pension fund liability, as well as to reflect the movement in pension fund asset values between the date of the actuary's estimate and year end.

The actuary estimated the impact of these items to be an increase the pension fund liability of £0.428 million. The Council has updated the financial statements to recognise the additional liability. We have assessed the reasonableness of this estimate and concluded it to be materially accurate. We do not expect the potential impact of the GMP ruling to be material but will undertake additional audit procedures to confirm this.

This amendment does not impact on the Council's General Reserve

Areas of Audit Focus

Other areas of audit focus (continued)

What is the risk/area of focus?

Valuation of Property, Plant and Equipment

The fair value of Property, Plant and Equipment (PPE), primarily land and buildings, represents a significant balance in the Authority's accounts and are subject to valuation changes, impairment reviews and depreciation charges.

Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.

What did we do?

We:

- ▶ considered the work by the Authority's valuers, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
- ▶ sample tested key asset information used by the valuers in performing their valuation (e.g. floor plans to support valuations based on price per square metre);
- ▶ considered the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code for PPE;
- ▶ reviewed assets not subject to valuation in 2018/19 to confirm that the remaining asset base is not materially misstated;
- ▶ considered changes to useful economic lives as a result of the most recent valuation; and
- ▶ tested that accounting entries have been correctly processed in the financial statements.

Conclusions

- We are satisfied with the scope of the work performed by the valuers including their professional capabilities;
- We concluded that the underlying valuation assumptions are reasonable based on sample testing to supporting evidence;
- We confirmed that the Council has valued all assets within a five year rolling programme.
- Our consideration of assets not revalued in year did not identify any significant changes to assets which would indicate the need for a revaluation; and
- We did not find any significant changes to economic lives as a result of the most recent valuation; and
- We did not find errors in the processing of accounting entries.

We noted that the Council had indexed its depreciated replacement cost assets (mainly specialised assets such as leisure centres where no resale market exists) using the 5% index advised by the market review performed by the Council's valuers. However, the Council had applied the index to values at 31 March 2019 rather than at 1 April 2018. The amendment has resulted in an increase of values for land and buildings of £0.676 million. This amendment does not impact on the Council's General Reserve.

6.17

Areas of Audit Focus

Other areas of audit focus (continued)

What is the risk/area of focus?

Group Accounts - Green Gateway Limited

2017/18 was the first year that the Council consolidated its wholly owned trading company, Green Gateway Trading, and presented Group Accounts within the Council's financial statements. We did not identify any errors from our direct testing of the transactions or consolidation process in 2017/18. However, the consolidation of group accounts remains a more complex accounting area with risks of misstatement.

What did we do and our conclusions?

We undertook the following procedures to gain assurance over the material accuracy of the consolidation of the trading companies accounts as well as the disclosure notes in the group accounts:

- ▶ Directly testing Green Gateway Trading Company transactions;
- ▶ Reviewed the consolidation workings for accuracy;
- ▶ Agreed the accounting treatment of intercompany balances; and
- ▶ Reviewed the disclosures made in relation to Green Gateway Trading Company.

We concluded that the Council's arrangements were adequate as:

- We did not identify any errors from our direct testing of the transactions between the group.
- We agreed with the approach to the consolidation and found no errors.
- We agreed the accounting treatment and the appropriate elimination of intercompany balances.
- The Council has made appropriate disclosures in relation to its group accounts.

What is the risk/area of audit focus?

Restructuring of the Finance Team

At the time of developing our Outline Audit Plan we considered that a key issue for 2018/19 would be the turnover of key personnel in the Finance team with the Chief Accountant departing in July 2018, the Head of Finance departing in December 2018 and two key technical accountants departing for maternity leave in April 2019.

Management were taking action to fill the vacancies. However, we were concerned in the short term there may be a loss of knowledge and experience which may impact on the production and arrangements to support the audit of the financial statements, and increase the risk of error.

What did we do and our conclusions?

We reviewed management's proposals to restructure the team and considered the impact for the production of the financial statements especially given the pressure on the Finance Team to produce accounts to the deadline of 31 May 2019. We also undertook early interim work to make best use of key finance staff before they leave.

We concluded that the Council took appropriate action to appoint to a Technical Accountant role in order to meet the 31 May 2019 deadline, which the Council met.

6.18

Areas of Audit Focus

Other areas of audit focus

What is the risk/area of focus?

IFRS 9 financial instruments

This new accounting standard changed:

- ▶ How financial assets are classified and measured;
- ▶ How the impairment of financial assets are calculated; and
- ▶ The disclosure requirements for financial assets.

There are transitional arrangements within the standard; and the 2018/19 Cipfa Code of practice on local authority accounting provides guidance on the application of IFRS 9.

Conclusion on IFRS 9 - We agreed with the Council's assessment that IFRS15 had no significant impact on the way it accounts for revenue from customers.

IFRS 15 Revenue from contracts with customers

The key requirements of the standard cover the identification of performance obligations under customer contracts and the linking of income to the meeting of those performance obligations.

The 2018/19 Cipfa Code of practice on local authority accounting provides guidance on the application of IFRS 15 and includes a useful flow diagram and commentary on the main sources of LG revenue and how they should be recognised.

The impact on local authority accounting is likely to be limited as large revenue streams like council tax, non domestic rates and government grants will be outside the scope of IFRS 15. However where that standard is relevant, the recognition of revenue will change and new disclosure requirements introduced.

Conclusion on IFRS 15 - We agreed with the Council's assessment that IFRS15 had no significant impact on the way it accounts for revenue from customers.

What did we do?

- ▶ Assessed the Council's implementation arrangements, including reviewing an impact assessment paper setting out the application of the new standard, transitional adjustments and planned accounting for 2018/19;
- ▶ Considered the classification and valuation of financial instrument assets;
- ▶ Reviewed the new expected credit loss model impairment calculations for assets; and
- ▶ Checked additional disclosure requirements.

- ▶ Assessed the Council's implementation arrangements, including an impact assessment paper setting out the application of the new standard, transitional adjustments and planned accounting for 2018/19.
- ▶ Considered the application to the Council's revenue streams, and where the standard is relevant test to ensure revenue is recognised when (or as) it satisfies a performance obligation; and
- ▶ Checked additional disclosure requirements.



03 Audit Report

Draft audit report

Our opinion on the financial statements

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ROCHFORD DISTRICT COUNCIL

Opinion

We have audited the financial statements of Rochford District Council for the year ended 31 March 2019 under the Local Audit and Accountability Act 2014. The financial statements comprise the:

- Council and Group Comprehensive Income and Expenditure Statement,
- Council and Group Balance Sheet,
- Council and Group Movement in Reserves Statement,
- Council and Group Cash Flow Statement,
- Collection Fund, and
- The related notes 1 to 30 of the Authority's Financial Statements and notes 1 to 6 of the Collection Fund.

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

In our opinion the financial statements:

- on Local Authority Accounting in the United Kingdom 2018/19. give a true and fair view of the financial position of Rochford District Council and Group as at 31 March 2019 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of Rochford District Council and Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and the Comptroller and Auditor General's (C&AG) AGN01, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- The Chief Finance Officer's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Chief Finance Officer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The other information comprises the information included in the statement of accounts, other than the financial statements and our auditor's report thereon. The Chief Finance Officer is responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.



Audit Report

Our opinion on the financial statements

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinion on other matters prescribed by the Local Audit and Accountability Act 2014

Arrangements to secure economy, efficiency and effectiveness in the use of resources

In our opinion, based on the work undertaken in the course of the audit, having regard to the guidance issued by the Comptroller and Auditor General (C&AG) in November 2017, we are satisfied that, in all significant respects, Rochford District Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

Matters on which we report by exception

We report to you if:

- in our opinion the annual governance statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Council;
- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014;
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;

- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

Responsibility of the Section 151 Officer

As explained more fully in the Statement of Responsibilities set out on page 44 the Section 151 Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19, and for being satisfied that they give a true and fair view.

In preparing the financial statements, the Section 151 Officer is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Authority either intends to cease operations, or have no realistic alternative but to do so.

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.



Audit Report

Our opinion on the financial statements

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General (C&AG) in November 2017, as to whether Rochford District Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether Rochford District Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, Rochford District Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

We are required under Section 20(1) (c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our conclusion relating to proper arrangements.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Certificate

We certify that we have completed the audit of the accounts of Rochford District Council in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice issued by the National Audit Office.

Use of our report

This report is made solely to the members of Rochford District Council, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than Rochford District Council and Rochford District Council's members as a body, for our audit work, for this report, or for the opinions we have formed.

Debbie Hanson (Key Audit Partner)
Ernst & Young LLP (Local Auditor)
Luton
Xxxx 2019

The maintenance and integrity of the Rochford District Council web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdiction.



04 Audit Differences



Audit Differences

In the normal course of any audit, we identify differences and misstatements between amounts we believe should be recorded in the financial statements and the disclosures and amounts actually recorded. These differences are classified as “known” or “judgemental”. Known differences represent items that can be accurately quantified and relate to a definite set of facts or circumstances. Judgemental differences generally involve estimation and relate to facts or circumstances that are uncertain or open to interpretation.

Summary of audit differences

Our audit work to date has not identified any uncorrected differences and has identified the following adjusted differences and misstatements in the draft statements;. However as we have yet to complete the work set out in Appendix B, there may be more unadjusted and adjusted differences.

Balance Sheet

- **McCloud - increase in pension liability:** An amendment has been made as a result of judgement on the McCloud case to address the impact of historical age discrimination in the treatment of pensioners. This national decision, impacting on many public sector bodies, came through in late June 2019, after the statements were originally drafted. The effect of the difference arising from the revised report received from the actuaries is to increase the Authority’s pension liability by £0.428 million.
- **Land and buildings valuations:** During the audit the Council put through material amendments to the financial statements to correct the fact that in the draft statements they had applied an index to land and building values at 31 March 2019 rather than at 1 April 2018. The amendment has resulted in an increase in values for land and buildings by £0.676 million

Disclosure Notes

- ▶ Our audit identified the following errors in Disclosure Note within the financial statements for which management amended:
 - ▶ **Note 1: Expenditure and Funding Analysis:** The Opening General Fund Reserve Balance as on 1 April 2017 was incorrectly stated as £9.024 million instead of £6.294 million; and
 - ▶ **Note 25: Investments:** The total of investments value under amortised cost was incorrectly mentioned as £7.395 million instead of £9.835 million.

In addition, Management has amended the accounts to include comparative 2017/18 information within Note 13 Trust Funds, Note 25 Capital Grants Receipts in Advance and Note 28 Capital Commitment

We have also reported to management a small number of other audit differences, including disclosure items, which are below our reporting threshold.

None of these adjustments have impacted at present on the reported Net Cost of Services that would affect Council Tax funding requirements



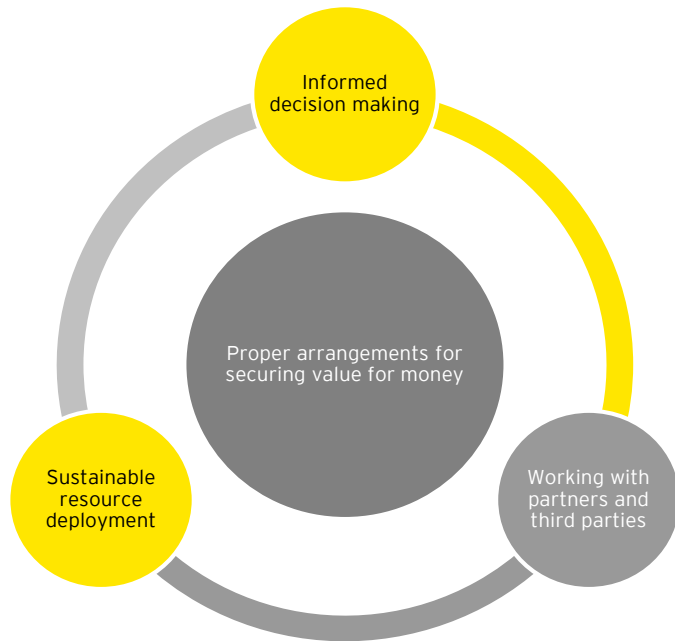
05

Value for Money Risks

6.26



Value for Money



Background

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. This is known as our value for money conclusion.

For 2018/19 this is based on the overall evaluation criterion:

"In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people"

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- Take informed decisions;
- Deploy resources in a sustainable manner; and
- Work with partners and other third parties.

In considering your proper arrangements, we will draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your annual governance statement.

Overall conclusion

We identified one significant risk relating to the governance arrangements for the Council's Asset Delivery Programme. The table below presents our findings in response to the risk in our Audit Planning Report. As a result of our work, we do not expect to have any matters to report about your arrangements to secure economy, efficiency and effectiveness in your use of resources.

We also assessed:

- the Council's financial resilience by completing a quantitative and qualitative assessment of the Council's budget, medium term financial strategy, capital and treasury management strategies produced in the period to 31 March 2019; and
- service performance to determine the impact of outages arising from IT failures at several points during the year.

There are no issues to report in relation to these matters.

6.27

Value for Money Risks

We are only required to determine whether there are any risks that we consider significant within the Code of Audit Practice, where risk is defined as:

“A matter is significant if, in the auditor’s professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public”

Our risk assessment supports the planning of enough work to deliver a safe conclusion on your arrangements to secure value for money, and enables us to determine the nature and extent of any further work needed. If we do not identify a significant risk we do not need to carry out further work.

The table below presents the findings of our work in response to the risks areas in our Audit Planning Report.

| What is the significant value for money risk? | What arrangements did the risk affect? | What are our findings? |
|---|---|--|
| <p>Asset Delivery Programme</p> <p>In July 2018, the Council's Investment Board approved the Council's Asset Strategy and appointed advisors to help its delivery. The Council is following the HM Treasury three stage model designed to take projects from initiation through to delivery .This involves an initial Strategic Outline Case (SOC) which forms the basis for a more detailed financial and commercial analysis within an Outline Business Case (OBC) before a Full Business Case is developed.</p> <p>In November 2018, the Council noted the outcomes of the management’s SOC for a potential Asset Delivery Programme and recommended that management prepare the OBC early in 2019.</p> | <ul style="list-style-type: none"> Take informed decisions | <p>We completed our assessment as outlined in our Audit Plan. The Council is progressing its preferred asset delivery option to consolidate the Council’s operations at the Freight House, Rochford. The estimated net capital cost is £3.4 million offset against £2.8 million sales of Council assets that are no longer required and revenue savings. This would leave a net cost of £0.6 million, to be funded by reserves or borrowing with estimated savings of £0.3 million per annum.</p> <p>The Council has put in place appropriate arrangements to both govern the asset delivery programme and assess its financial viability including:</p> <ul style="list-style-type: none"> Processes in place to oversee the project, through the Programme Board, Member Working Party and Project Team, with summary reporting to the Investment Board and the Council; Developed principles upon which the Council will make future decisions on its property assets, through its July 2018 Asset Management Strategy; Followed the HM Treasury three stage model designed to take projects from initiation through to delivery which includes a Strategic Outline Case, an Outline Business Case and a Full Business Case which is in development; Set out strategic, economic and management cases for reporting on the asset delivery programme; Sought appropriate technical guidance to recognise gaps in capacity within the Council; Reported its intentions based on an options appraisal for the most appropriate solution; and Sought a sector-recognised independent peer review of arrangements, which concluded that the Programme to be progressing well and, following exemplary project management principles from strategy inception, strategic outline case to outline business case. |

Value for Money Risks (continued)

| What is the significant value for money risk? | What arrangements did the risk affect? | What are our findings? |
|--|---|---|
| <p>Asset Delivery Programme</p> <p>The purpose of the OBC is to:</p> <ul style="list-style-type: none"> Develop an Asset Delivery Programme that optimises value for money; Prepare the Asset Delivery Programme for procurement (if required); and Establish the necessary funding and management arrangements for the successful delivery of the Asset Delivery Programme. <p>The proposals represent a significant investment for the Council and present risks around governance, risk management and financial modelling, particularly in light of the earlier asset plans which were aborted in 2017/18.</p> | <ul style="list-style-type: none"> Take informed decisions | <p>The Council has set out commercial and financial cases for its preferred solution with costings and income sales independently checked. The Council has included the net cost of the project in its Medium-Term Financial Plan but have prudently not taken into account the estimated savings accruing of £0.3 million in its revenue projections.</p> <p>The next steps are for the Council to complete the procurement process for a strategic development partner and develop the Full Business Case to identify more accurate development costs for inclusion in the Medium-Term Financial Plan.</p> <p>We will monitor progress during 2019/20 as the Full Business Case develops.</p> |



06 Other reporting issues

6.30

Other reporting issues

Consistency of other information published with the financial statements, including the Annual Governance Statement (AGS)

We must give an opinion on the consistency of the financial and non-financial information in the Statement of Accounts 2018/19 with the audited financial statements. We must also review the AGS for completeness of disclosures, consistency with other information from our work, and whether it complies with relevant guidance. We found that financial information in the Statement of Accounts 2018/19 and published with the financial statements was consistent with the audited financial statements. We have reviewed the AGS and can confirm it is consistent with other information from our audit of the financial statements.

We have reviewed the Annual Governance Statement and can confirm it is consistent with other information from our audit of the financial statements. We requested amendments to clarify that the governance system applied during the financial year for the accounts that it accompanies, information about the governance arrangements for group activities and to provide a conclusion.

We have also reviewed the Narrative Statement and requested amendments to enhance descriptions of the indicators. In addition, as in 2017/18, the Council has not included commentary on significant changes between years as required by the Code of Practice.

Whole of Government Accounts (WGA)

Alongside our work on the financial statements, we also review and report to the National Audit Office (NAO) on your WGA return. The extent of our review, and the nature of our report, is specified by the NAO. As the Council falls below the £500 million threshold for review as per the NAO's group instructions, we are not reporting any matters.

Other powers and duties

We have a duty under the Local Audit and Accountability Act 2014 to consider whether to report on any matter that comes to our attention in the course of the audit, either for the Council to consider it or to bring it to the attention of the public (i.e. "a report in the public interest"). We did not identify any issues which required us to issue a report in the public interest.

We also have a duty to make written recommendations to the Council, copied to the Secretary of State, and take action in accordance with our responsibilities under the Local Audit and Accountability Act 2014. We have not identified any relevant issues.

Other reporting issues

Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we must tell you significant findings from the audit and other matters if they are significant to your oversight of the Authority's financial reporting process. They include the following:

- Significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures;
- Any significant difficulties encountered during the audit;
- Any significant matters arising from the audit that were discussed with management;
- Written representations we have requested;
- Expected modifications to the audit report;
- Any other matters significant to overseeing the financial reporting process;
- Related parties;
- External confirmations;
- Going concern; and
- Consideration of laws and regulations; and
- Group audits.

We have no significant matters to report in relation to the above.



07

Assessment of Control Environment

Assessment of Control Environment

It is the responsibility of the Council to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility as your auditor is to consider whether the Council has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. As we have adopted a fully substantive approach, we have therefore not tested the operation of controls. Although our audit was not designed to express an opinion on the effectiveness of internal control we are required to communicate to you significant deficiencies in internal control.

We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements of which you are not aware.

We do, however, wish to report the following areas where improvements could be made to the operation or design of controls within the Council to reduce the risk of error.

Imbalance between the general ledger and the underlying debtors sub-ledger

- During our audit, we noted a variance between the Council's General Ledger and the underlying Debtors Ledger of £45,595 (£54,788 in 2017/18). When investigated, management found that the sub ledger included postings to 2019/20 that should not be in the report. This arose because the day the report was run as 31st March 2018 was a Saturday. The error has continued for 2018/19 and may be a s a result of 31 March 2019 being a Sunday. Management has been prudent in recording the lower sum from the General Ledger in its financial statements. Management should review the root cause of the difference and ensure this is corrected for 2019/20.

Imbalance between the general ledger and the underlying debtors sub-ledger for Housing Benefits debtors

- During our audit, we noted a variance between the Council's General Ledger and the underlying Housing Benefits Debtors Ledger of £42,877. The difference arises because the Housing Benefits system is a live system and if a report is not run at the 31 March, the report cannot be recreated. The Council has been prudent in recording the lower sum from the General Ledger in its financial statements. We recommend that all reports supporting the financial statements are run at 31 March and retained to ensure sub-ledgers reconcile to the general ledger.

Difference in evidence in supporting the calculation for the Housing Benefits bad debt provision

- The calculation of the provision for bad debts on Housing Benefits for £1,585,435 depends upon two calculations covering previous and current year debts. For the current year debts the sum used in the calculation is the same as for 2017/18 at £377,854. However, management did not run the report to support this figure at 31 March 2019 with the report being run during the audit on 8 October 2019. This report shows a sum of £280,657. The Council has been prudent in using the higher figure in its calculation of the provision. However, in a re-performance of the calculation using the October report indicates that the Council has over provided for its bad debt provision by £50,000. We recommend that all reports supporting the financial statements are run at 31 March and retained to ensure sub-ledgers reconcile to the general ledger.



08 Data Analytics



Use of Data Analytics in the Audit

Data analytics

Analytics Driven Audit

Data analytics

We used our data analysers to enable us to capture entire populations of your financial data. These analysers:

- ▶ Help identify specific exceptions and anomalies which can then be the focus of our substantive audit tests; and
- ▶ Give greater likelihood of identifying errors than traditional, random sampling techniques.

In 2018/19, our use of these analysers in the Council's audit included testing journal entries, to identify and focus our testing on those entries we deem to have the highest inherent risk to the audit.

We capture the data through our formal data requests and the data transfer takes place on a secured EY website. These are in line with our EY data protection policies which are designed to protect the confidentiality, integrity and availability of business and personal information.

Journal Entry Analysis

We obtain downloads of all financial ledger transactions posted in the year. We perform completeness analysis over the data, reconciling the sum of transactions to the movement in the trial balances and financial statements to ensure we have captured all data. Our analysers then review and sort transactions, allowing us to more effectively identify and test journals that we consider to be higher risk, as identified in our audit planning report.

Payroll Analysis

We also use our analysers in our payroll testing. We obtain all payroll transactions posted in the year from the payroll system and perform completeness analysis over the data, including reconciling the total amount to the General Ledger trial balance. We then analyse the data against a number of specifically designed procedures. These include analysis of payroll costs by month to identify any variances from established expectations, as well as more detailed transactional interrogation.

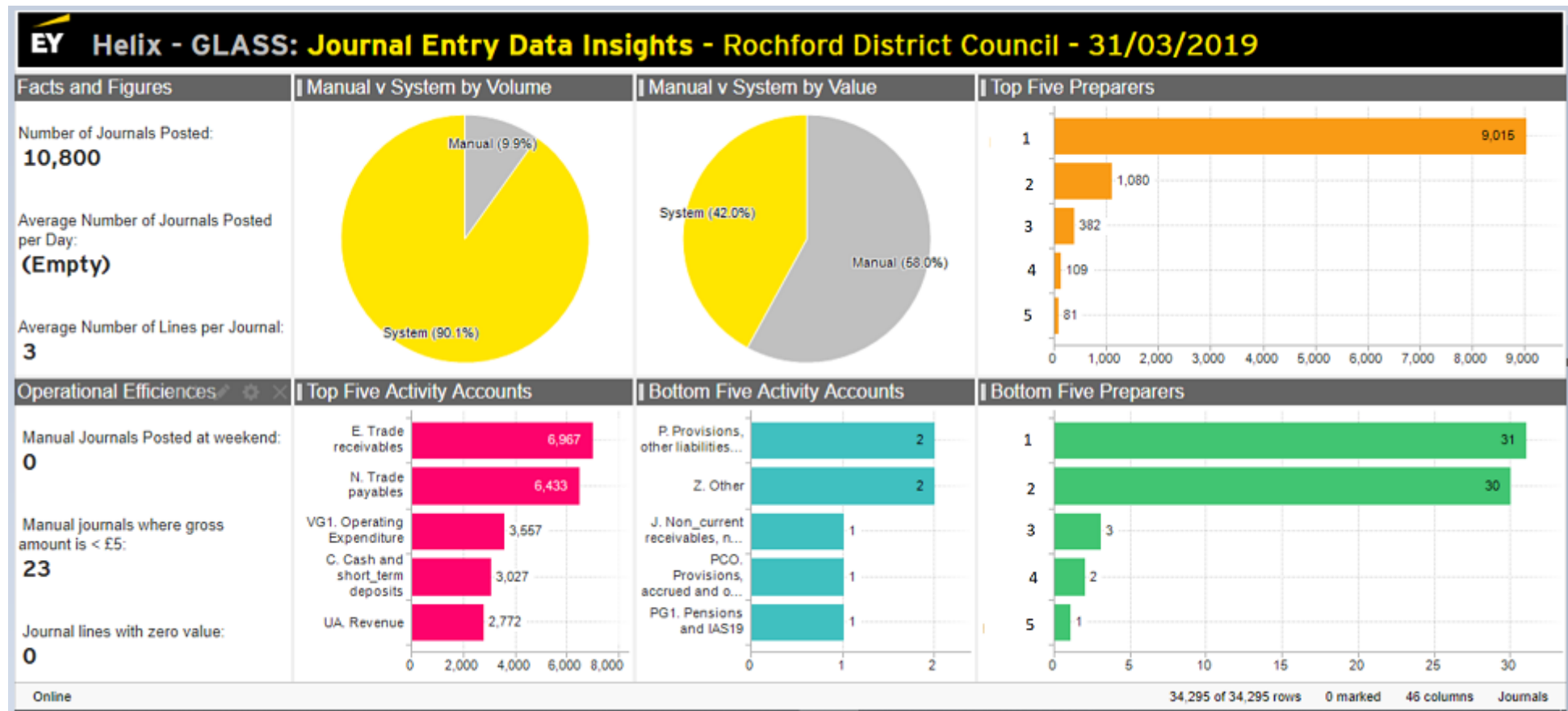
6.36



Journal Entry Data Insights

The graphic outlined below summarises the journal population for 2018/19. We review journals by certain risk based criteria to focus on higher risk transactions, such as journals posted manually by management, those posted around the year-end, those with unusual debit and credit relationships, and those posted by individuals we would not expect to be entering transactions.

The purpose of this approach is to provide a more effective, risk focused approach to auditing journal entries, minimising the burden of compliance on management by minimising randomly selected samples.





Journal Entry Testing

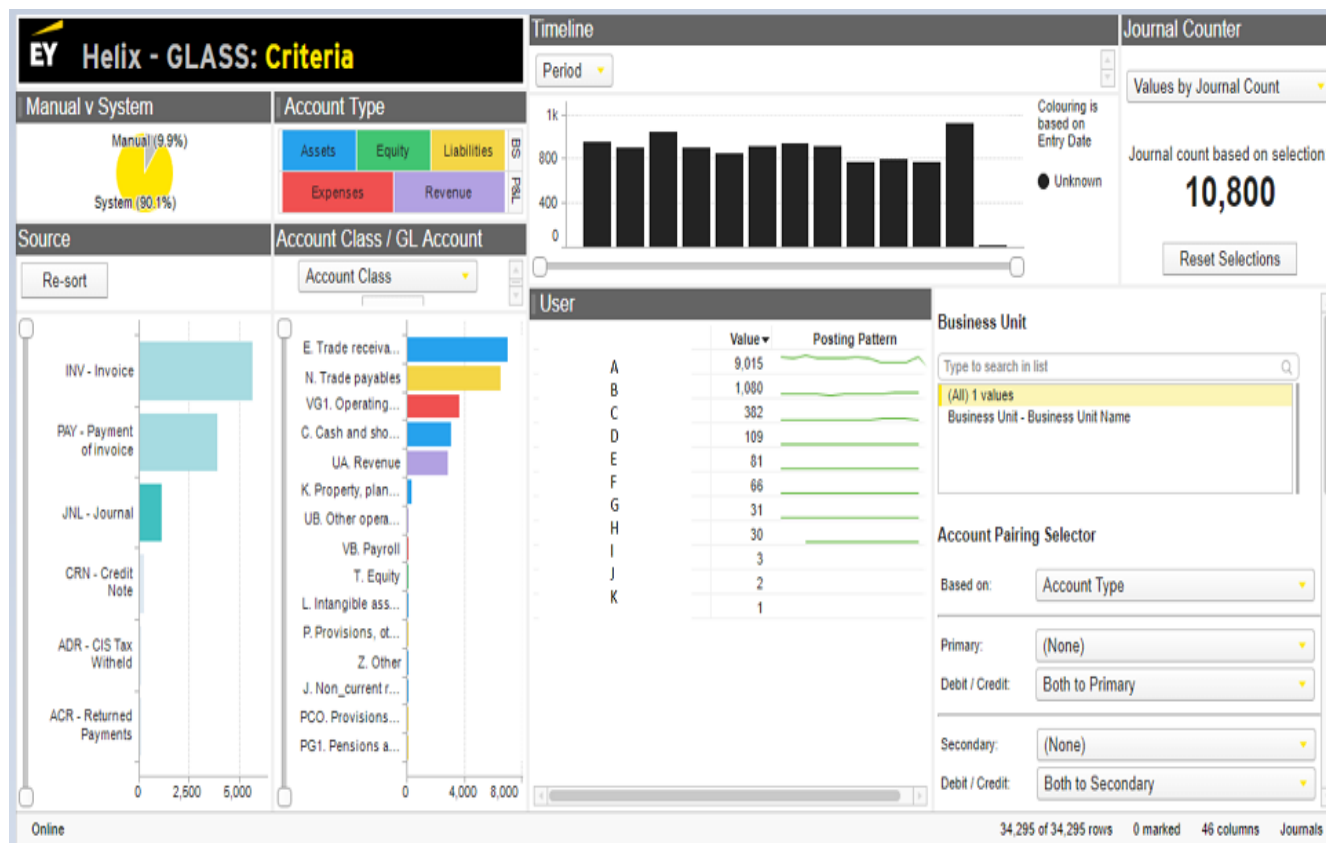
What is the risk?

In line with ISA 240 we are required to test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements.

What judgements are we focused on?

Using our analysers we are able to take a risk based approach to identify journals with a higher risk of management override, as outlined in our audit planning report.

Journal entry data criteria – 31 March 2019



What did we do?

We obtained general ledger journal data for the period and have used our analysers to identify characteristics typically associated with inappropriate journal entries or adjustments, and journals entries that are subject to a higher risk of management override.

We then performed tests on the journals identified to determine if they were appropriate and reasonable.

What are our conclusions?

We isolated a sub set of journals for further investigation and obtained supporting evidence to verify the posting of these transactions and concluded that they were appropriately stated.



09

Independence

6.39

Confirmation

We confirm that there are no changes in our assessment of independence since our confirmation in our audit planning report tabled at the 26 February 2019 Audit Committee meeting. We complied with the FRC Ethical Standards and the requirements of the PSAA's Terms of Appointment. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.

We consider that our independence in this context is a matter which you should review, as well as us. It is important that the Audit Committee considers the facts known to you and comes to a view. If you would like to discuss any matters concerning our independence, we will be pleased to do this at the meeting of Audit Committee on 5 December 2019.

Relationships, services and related threats and safeguards

The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and your Council, and its directors and senior management and its affiliates, including all services provided by us and our network to your Council, its directors and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on the our integrity or objectivity, including those that could compromise independence and the related safeguards that are in place and why they address the threats. There are no relationships from 1 April 2018 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

Services provided by Ernst & Young

The table overleaf includes a summary of the fees that you have paid to us in the year ended 31 March 2019 in line with the disclosures set out in FRC Ethical Standard and in statute.

We confirm that none of the services listed below has been provided on a contingent fee basis.

As at the date of this report, there are no future services which have been contracted and no written proposal to provide non-audit services has been submitted.

Independence

Fee analysis

As part of our reporting on our independence, we set out below a summary of the fees paid for the year ended 31 March 2019. We confirm that we have not undertaken non-audit work outside the PSAA Code requirements. In our Outline Audit Plan we reported ranges for the expected additional fees associated to the additional risks we had identified. We have updated these ranges where appropriate.

| | Final fee 2018/19 | Planned fee 2018/19 | Final Fee 2017/18 |
|-------------------------------|------------------------|---------------------|-------------------|
| | £'s | £'s | £'s |
| Total Audit Fee - Code Work | To Be Confirmed* | 36,696 | 64,154 |
| Housing Benefit certification | Not Applicable** | Not Applicable** | 13,836 |
| Total Audit Work | To Be Confirmed | 36,696 | 77,990 |

* Our 2018/19 Audit Plan indicated the following areas where a scale fee variation increase would arise from changes in the scope of the audit:

- ▶ Performance Materiality is set at 50% of planning materiality rather than at 75% as assumed via the scale fee, requiring increased sample sizes;
- ▶ The requirement to audit the Group Accounts;
- ▶ The significant risk identified for the value for money conclusion relating to the Council's Asset Delivery Programme.

In addition, we have identified at section 4, Audit Differences, a number of differences which have resulted in extra work being undertaken during the audit which will result in an extra fee.

At this stage, we are unable to quantify the quantum of the extra work. We will discuss the additional fee with management, which is then subject to approval by the Public Sector Audit Appointments Ltd.

** For 2018/19 the Council has appointed BDO LLP to undertake Housing Benefits Certification work.







10 Appendices

Appendix A

Required communications with the Corporate Governance Committee





There are certain communications that we must provide to the Audit Committees of UK clients. We have detailed these here together with a reference of when and where they were covered:

|  Our Reporting to you | | |
|--|---|--|
| Required communications |  What is reported? |   When and where |
| Terms of engagement | Confirmation by the Audit Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties. | The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies |
| Our responsibilities | Reminder of our responsibilities as set out in the engagement letter. | Audit Planning Report - 1 February 2019 |
| Planning and audit approach | Communication of the planned scope and timing of the audit, any limitations and the significant risks identified. | Audit Planning Report - 1 February 2019 |
| Significant findings from the audit | <ul style="list-style-type: none"> ▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▶ Significant difficulties, if any, encountered during the audit ▶ Significant matters, if any, arising from the audit that were discussed with management ▶ Written representations that we are seeking ▶ Expected modifications to the audit report ▶ Other matters if any, significant to the oversight of the financial reporting process | Audit Results Report - 2 December 2019. As indicated in the report, some work is being completed and we are to update the 5 December 2019 Audit Committee on progress. |




Appendix A

| | | Our Reporting to you |
|-------------------------|---|---|
| Required communications | What is reported? | When and where |
| Going concern | <p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> ▶ Whether the events or conditions constitute a material uncertainty ▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▶ The adequacy of related disclosures in the financial statements | No conditions or events were identified, either individually or together to raise any doubt about Rochford District Council's ability to continue for the 12 months from the date of our report |
| Misstatements | <ul style="list-style-type: none"> ▶ Uncorrected misstatements and their effect on our audit opinion ▶ The effect of uncorrected misstatements related to prior periods ▶ A request that any uncorrected misstatement be corrected ▶ Material misstatements corrected by management | Audit Results Report - 2 December 2019. As indicated in the report, some work is being completed and we are to update the 5 December 2019 Audit Committee on progress. |
| Subsequent events | <ul style="list-style-type: none"> ▶ Asking the Audit Committee where appropriate about whether any subsequent events have occurred that might affect the financial statements. | Audit Results Report - 2 December 2019 |
| Fraud | <ul style="list-style-type: none"> ▶ Asking the Audit Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the Council ▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▶ Unless all of those charged with governance are involved in managing the Council, any identified or suspected fraud involving: <ol style="list-style-type: none"> a. Management; b. Employees who have significant roles in internal control; or c. Others where the fraud results in a material misstatement in the financial statements. ▶ The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected ▶ Any other matters related to fraud, relevant to Audit Committee responsibility. | Audit Results Report - 2 December 2019. As indicated in the report, some work is being completed and we are to update the 5 December 2019 Audit Committee on progress. |





Appendix A

| | |  Our Reporting to you |
|-------------------------|---|--|
| Required communications |  What is reported? |   When and where |
| Related parties | Significant matters arising during the audit in connection with the Authority's related parties including, when applicable: <ul style="list-style-type: none"> ▶ Non-disclosure by management ▶ Inappropriate authorisation and approval of transactions ▶ Disagreement over disclosures ▶ Non-compliance with laws and regulations ▶ Difficulty in identifying the party that ultimately controls the Council | Audit Results Report - 2 December 2019. As indicated in the report, some work is being completed and we are to update the 5 December 2019 Audit Committee on progress. |
| Independence | Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence. Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as: <ul style="list-style-type: none"> ▶ The principal threats ▶ Safeguards adopted and their effectiveness ▶ An overall assessment of threats and safeguards ▶ Information about the general policies and process within the firm to maintain objectivity and independence Communications whenever significant judgments are made about threats to objectivity and independence and the appropriateness of safeguards put in place. | Audit Planning Report - 1 February 2019 Audit Results Report - 2 December 2019 |

Appendix A

| | |  Our Reporting to you |
|---|---|---|
| Required communications |  What is reported? |  When and where |
| External confirmations | <ul style="list-style-type: none"> ▶ Management's refusal for us to request confirmations ▶ Inability to obtain relevant and reliable audit evidence from other procedures. | All confirmations requested have been received. We have received more confirmations than requested. We are to update the 5 December 2019 Audit Committee on progress. |
| Consideration of laws and regulations | <ul style="list-style-type: none"> ▶ Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur ▶ Enquiry of the Audit Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit Committee may be aware of | We have asked management and those charged with governance. We have not identified any material instances or non-compliance with laws and regulations |
| Significant deficiencies in internal controls identified during the audit | <ul style="list-style-type: none"> ▶ Significant deficiencies in internal controls identified during the audit. | Audit Results Report - 2 December 2019 |

Appendix A

| | |  Our Reporting to you |
|--|--|--|
| Required communications |  What is reported? |   When and where |
| Group Audits | <ul style="list-style-type: none"> ▶ An overview of the type of work to be performed on the financial information of the components ▶ An overview of the nature of the group audit team's planned involvement in the work to be performed by the component auditors on the financial information of significant components ▶ Instances where the group audit team's evaluation of the work of a component auditor gave rise to a concern about the quality of that auditor's work ▶ Any limitations on the group audit, for example, where the group engagement team's access to information may have been restricted ▶ Fraud or suspected fraud involving group management, component management, employees who have significant roles in group-wide controls or others where the fraud resulted in a material misstatement of the group financial statements. | Audit Results Report - 2 December 2019. As indicated in the report, some work is being completed and we are to update the 5 December 2019 Audit Committee on progress. |
| Written representations we request from management and/or those charged with governance | <ul style="list-style-type: none"> ▶ Written representations we request from management and/or those charged with governance | Audit Results Report - 2 December 2019. |
| Material inconsistencies or misstatements of fact identified in other information which management has refused to revise | <ul style="list-style-type: none"> ▶ Material inconsistencies or misstatements of fact identified in other information which management has refused to revise | Audit Results Report - 2 December 2019 |
| Auditors report | <ul style="list-style-type: none"> ▶ Any circumstances identified that affect the form and content of our auditor's report | Audit Results Report - 2 December 2019 |
| Fee Reporting | <ul style="list-style-type: none"> ▶ Breakdown of fee information when the audit planning report is agreed ▶ Breakdown of fee information at the completion of the audit ▶ Any non-audit work | Audit Planning Report - 1 February 2019 Audit Results Report - 2 December 2019 |
| Certification work | <ul style="list-style-type: none"> ▶ Summary of certification work | Not Applicable |

Appendix B

Outstanding matters

The following items relating to the completion of our audit procedures are outstanding at the date of the release of this report:

| Item | Actions to resolve | Responsibility |
|---|---|-------------------|
| Outstanding audit queries | At the date of the release of this report, a number of areas of testing are ongoing. We are working with management to progress in advance of the Audit Committee meeting. We outline the most significant items below. We will provide an update during the meeting on their status, as well as any additional findings if relevant. | EY and management |
| Cash Flow | Agreement of Debtor and Creditor balances | EY and management |
| Cash and Bank | Query over one investment balance and the classification of cash and cash equivalents and bank balances which appear to be investments | EY and management |
| The completion of procedures concerning the Local Government Pension Scheme following our review of the updated actuary reports obtained to assess the potential for material impact on the pension liability arising from McCloud/ Sergeant, Guaranteed Minimum Pension and changes in the estimate for the Authority's share of Pension Fund Assets | Agreement of actuarial reports to the financial statements | EY and management |
| Collection Fund | Completion of testing which is in progress. | Management and EY |
| Payroll | Resolution of payroll analytical review queries | EY and management |
| Debtors and creditors | Queries with management | EY and management |

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Appendix B

Outstanding matters

The following items relating to the completion of our audit procedures are outstanding at the date of the release of this report:

| Item | Actions to resolve | Responsibility |
|--|---|---|
| Reserves | Queries with management | Management and EY |
| Related Parties | Review of remaining company house details | Management and EY |
| Journals | Completion of testing in the week of 2 December 2019 | EY |
| Review of the final set of the financial statements | Receipt and review of the final version of the accounts | EY and management |
| Completion of subsequent events review | Completion of subsequent events procedures to the date of signing the audit report | EY and management |
| Final Manager and Associate Partner reviews | Final Associate Partner and Manager review of the concluded work, audit adjustments and reporting | EY |
| Receipt of the signed accounts and management representation letter. | Receipt of signed accounts and management representation letter | Management and Governance and Audit Committee |
| | | |

Management representation letter

Management Rep Letter

To be placed on headed letter paper

[Date]

Debbie Hanson

Audit Partner

Ernst & Young

One Cambridge Business Park

Cambridge

CB4 0WZ

Rochford District Council- Audit for the year ended 31 March 2019

This letter of representations is provided in connection with your audit of the financial statements of Rochford District Council ("the Group and Council") for the year ended 31st March 2019. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the financial position of the Group and Council as of 31st March 2019 and of its income and expenditure for the year then ended in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

We understand that the purpose of your audit of our financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing (UK and Ireland), which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose - all fraud, shortages, errors and other irregularities, should any exist.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19
2. We acknowledge, as members of management of the Group and Council, our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position, financial performance (or results of operations) and cash flows of the Group and Council in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 and are free of material misstatements, including omissions. We have approved the financial statements.
3. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.

Management representation letter

Management Rep Letter

4. As members of management of the Group and Council, we believe that the Group and Council have a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19, that are free from material misstatement, whether due to fraud or error.

5. There are no unadjusted audit differences identified during the current audit and pertaining to the latest period presented.

B. Non-compliance with law and regulations, including fraud

1. We acknowledge that we are responsible to determine that the Group and Council's activities are conducted in accordance with laws and regulations and that we are responsible to identify and address any non-compliance with applicable laws and regulations, including fraud.

2. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.

3. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

4. We have no knowledge of any identified or suspected non-compliance with laws or regulations, including fraud that may have affected the Group and Council (regardless of the source or form and including without limitation, any allegations by "whistleblowers"), including non-compliance matters:

- involving financial statements;
- related to laws and regulations that have a direct effect on the determination of material amounts and disclosures in the Group and Council's financial statements;
- related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Group and Council's activities, their ability to continue to operate, or to avoid material penalties;
- involving management, or employees who have significant roles in internal controls, or others; or
- in relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.

C. Information Provided and Completeness of Information and Transactions

1. We have provided you with:

- Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
- Additional information that you have requested from us for the purpose of the audit; and
- Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

2. All material transactions have been recorded in the accounting records and are reflected in the financial statements.

Management representation letter

Management Rep Letter

3. We have made available to you all minutes of the meetings of the Group and Council and its relevant committees (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the year to the most recent meeting on the following date: **XXXX 2019**.

4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Group and Council's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the period end. These transactions have been appropriately accounted for and disclosed in the financial statements

5. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.

6. We have disclosed to you, and the Group and Council have complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

D. Liabilities and Contingencies

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements

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2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.

3. We have recorded and/or disclosed, as appropriate, all liabilities related litigation and claims, both actual and contingent, and have disclosed in the financial statements all guarantees that we have given to third parties.

E. Subsequent Events

1. Other than described in the financial statements, there have been no events subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

F. Other information

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises the information included in the statement of accounts, other than the financial statements and our auditor's report thereon.

2. We confirm that the content contained within the other information is consistent with the financial statements.

G. Ownership of Assets

1. Except for assets capitalised under finance leases, the Council has satisfactory title to all assets appearing in the balance sheets, and there are no liens or encumbrances on the Authority's assets, nor has any asset been pledged as collateral. All assets to which the Council has satisfactory title appear in the balance sheets.

Management representation letter

Management Rep Letter

2. All agreements and options to buy back assets previously sold have been properly recorded and adequately disclosed in the Council financial statements.

3. We have no plans to abandon lines of product or other plans or intentions that will result in any excess or obsolete inventory, and no inventory is stated at an amount in excess of net realisable value.

4. There are no formal or informal compensating balance arrangements with any of our cash and investment accounts.

H. Reserves

1. We have properly recorded or disclosed in the financial statements the useable and unusable reserves.

2. We are unaware of any known or probable instances of non-compliance with the requirements of regulatory or governmental authorities, including their financial reporting requirements, and there have been no communications from regulatory agencies or government representatives concerning investigations or allegations of non-compliance.

I. Contingent Liabilities

1. We are unaware of any violations or possible violations of laws or regulations the effects of which should be considered for disclosure in the financial statements or as the basis of recording a contingent loss (other than those disclosed or accrued in the financial statements).

J. Use of the Work of a Specialist

1. We agree with the findings of the specialists that we engaged to evaluate the valuation of Property, Plant and Equipment and the IAS19 actuarial valuations of pension fund liabilities and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

K. Estimates

Pension Liability and PPE Valuations

1. We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimate(s) have been consistently applied and are appropriate in the context of the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

2. We confirm that the significant assumptions used in making the estimates for PPE, Investment Properties and Pensions Liability appropriately reflect our intent and ability to carry out specific courses of action on behalf of the entity.

Management representation letter

Management Rep Letter

3. We confirm that the disclosures made in the financial statements with respect to the accounting estimate(s) are complete and made in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19

4. We confirm that no adjustments are required to the accounting estimate(s) and disclosures in the financial statements due to subsequent events.

L. Retirement benefits

1. On the basis of the process established by us and having made appropriate enquiries, we are satisfied that the actuarial assumptions underlying the scheme liabilities are consistent with our knowledge of the business. All significant retirement benefits and all settlements and curtailments have been identified and properly accounted for.

M. Group audits

1. There are no significant restrictions on our ability to distribute the retained profits of the Group because of statutory, contractual, exchange control or other restrictions other than those indicated in the Group financial statements.

2. Necessary adjustments have been made to eliminate all material intra-group unrealised profits on transactions amongst council, subsidiary undertakings and associated undertakings.

Yours faithfully,

Section 151 Officer

Chair of the Audit Committee

Schedule of Uncorrected Misstatements

EY | Assurance | Tax | Transactions | Advisory

About EY

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