

EXTERNAL AUDIT REPORT

1 SUMMARY

1.1 This report presents the following three reports from the Council's External Auditors, PKF, and the results of benchmarking that has been undertaken on audit fees:-

- Fee Outturn Summary for 2009/10 (appendix 1)
- Grant Claim Certification for year ended 31 March 2010 (appendix 2)
- Annual Audit Plan 2010/11 (appendix 3)

2 FEE OUTTURN SUMMARY FOR 2009/10

2.1 Appendix 1 is PKF's report on the outturn audit fee position for their work in relation to the financial year 2009/10 and this is summarised below:-

Audit Area	Planned Fee per Annual Audit Plan £	Outturn Fee £	Variance £
Planning and Reporting	29,100	29,100	-
Financial Statements, including Whole of Government Accounts	63,335	63,335	-
Value For Money Conclusion (including risk based work)	33,900	33,900	
Total Code audit fee	126,335	126,335	-
Work outside of our audit Plan	£	£	£
Certification of claims and returns	32,000	37,750	5,750

2.2 Paragraph 1.2 in PKF's report (appendix 1) sets out the explanation for the £5,750 variance, which, in summary, was due to additional work required on the Housing and Council Tax benefit subsidy claim for both 2009/10 and 2008/09. There is further information about the additional work in appendix 2, which deals specifically with the grant claims work and is covered in the next section.

3 GRANT CLAIM CERTIFICATION FOR YEAR ENDED 31 MARCH 2010

- 3.1 Appendix 2 is PKF's report summarising the main issues arising from their work on the grant claims for housing and Council Tax benefits subsidy (value of claim £19.761m) and the national non domestic rates (NDR) return (value £13.61m). No issues were found with the NDR return, but the report details the findings from the Housing and Council Tax benefit subsidy claim work. There are three recommendations and the Council's response is included in the attached report, together with officer responses. These recommendations will be monitored and reported to the Audit Committee in the normal way.

4 ANNUAL AUDIT PLAN 2010/11 (AAP)

- 4.1 In its AAP in appendix 3, PKF sets out its audit approach and scope in relation to the audit of the 2010/11 financial statements, value for money conclusion and grant certification work. The AAP updates the information provided in the 2010/11 fee letter that was considered by this Committee on 15 June 2010.
- 4.2 The AAP highlights PKF's views on significant audit risks for the Council as follows:-

Risk	Head of Finance Comments
Failure to appropriately apply the international financial reporting standards (IFRS)	Considered low risk. Good progress has been made, although slightly delayed due to the late publication of the final guidance. Updates have been received by Audit Committee on progress.
Failure to properly account for non-current (fixed) assets in the accounts.	Considered medium risk. Changes have been made to the arrangements for preparing the asset accounts with more checks built in.

- 4.3 The AAP includes a revised audit fee for 2010/11, which has been reduced from the original estimate following discussion between PKF and the Head of Finance.

Audit area	Indicative fee 2010/11 £	Revised fee 2010/11 £
Financial statements	70,000	61,500
VFM Conclusion	33,000	22,500
Planning and reporting	29,500	25,900
Total Planned Audit Fee	132,500	109,900
Certification of claims and returns ¹	32,800	28,000
Less Audit Commission subsidy for IFRS work	(6,028)	(6,026)
Totals	159,272	131,874

- 4.4 Paragraph 4.5 of the AAP refers to the Audit Commission no longer charging Local Authorities for the work undertaken on managing the performance part of the Comprehensive Area Assessment. This fee has always been treated separately so makes no difference to the totals quoted in PKF's report.
- 4.5 The fee for the VFM Conclusion has been reduced in relation to safeguarding children work, which is now not considered a significant risk and to reflect the change in approach following the abolition of Comprehensive Area Assessments, which included the Use of Resources framework.
- 4.6 With the abolition of the Comprehensive Performance Assessment regime in 2010, external auditors are still legally obliged to issue a value for money conclusion on whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. The Audit Commission has reviewed its approach to auditors' VFM work so that from 2010/11 auditors will give their statutory VFM conclusion based on the following 2 reporting criteria:-
- The organisation has proper arrangements in place for securing financial resilience.
 - The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.
- 4.7 The reduction in the audit fee for grant certification is due to the work being undertaken by the Principal Auditor. Although this is a time-consuming exercise it is more cost effective to do the work in-house and it also provides some additional benefit in increasing the knowledge of the Principal Auditor.
- 4.8 The audit fee for 2010/11 includes a charge for introduction of IFRS, which will have a considerable impact on the presentation of the Council's accounts

for 2010/11. PKF will be required to audit the re-stated figures for both 2008/09 and 2009/10 accounts. The Audit Commission has agreed to subsidise this increased cost and the Council will receive a rebate of £6,026, which is shown separately in the table above.

5 AUDIT FEES BENCHMARKING

5.1 Calculation of Scale Fee

5.2 The audit fee for the audit of the accounts is known as the scale fee and is guided by the Audit Commission's work programme and scale of fees publication.

5.3 The scale fee is calculated from the following elements:-

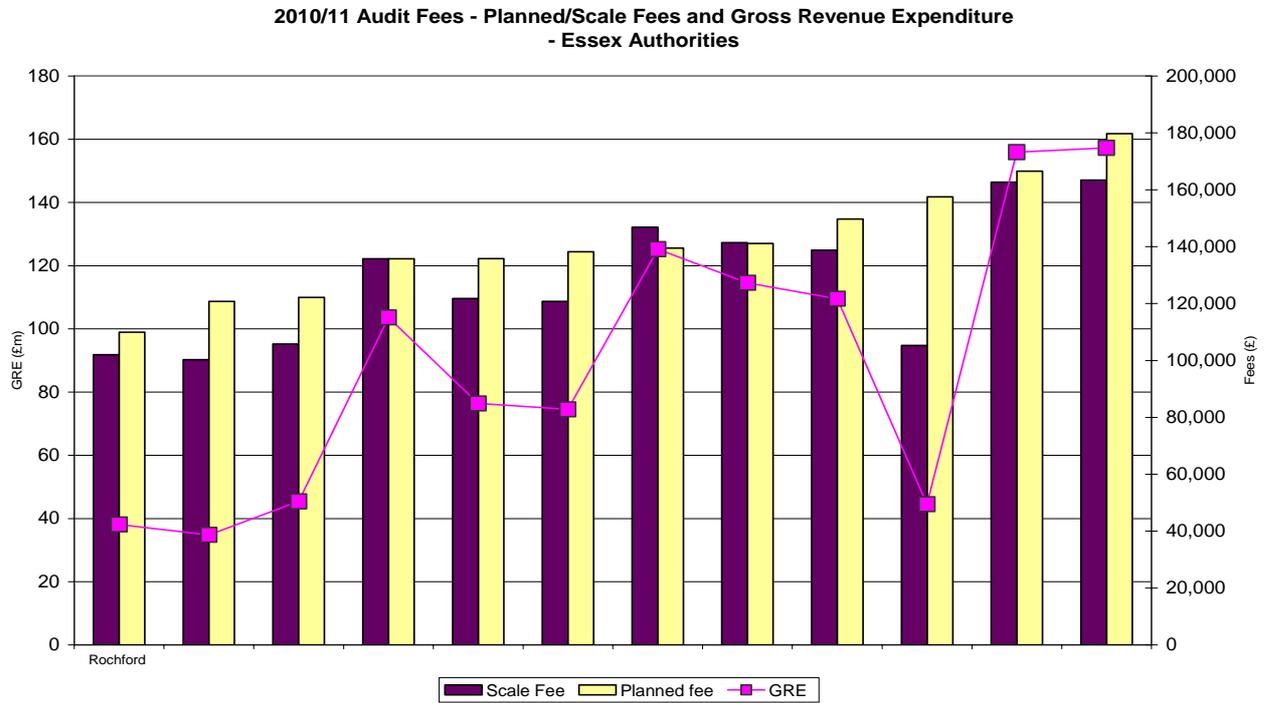
- A fixed element based on the type of audited body. For 2010/11 this is £80,000.
- Plus a percentage of the planned gross revenue expenditure (GRE). GRE for Rochford is £38.098m and the percentage to be applied is 0.05. This gives a variable fee of £19,049.
- Plus a regional premium for the South East of 3%, which for Rochford equals £2,971
- This gives a calculated scale fee of £102,020.

5.4 The Commission has the power to determine the final fee above or below the scale fee where it considers that substantially more or less work was required than envisaged by the scale fee. External auditors may, therefore, charge a fee that is larger or smaller than the scale fee to reflect the actual work that they need to do to meet their statutory responsibilities. They do this on the basis of the auditor's assessment of risk and the scale and complexity of the audit of a particular body. It is a matter for the auditor to decide the work necessary to complete the audit and, subject to approval by the Commission, to seek to agree a variation to the scale fee with the audited body.

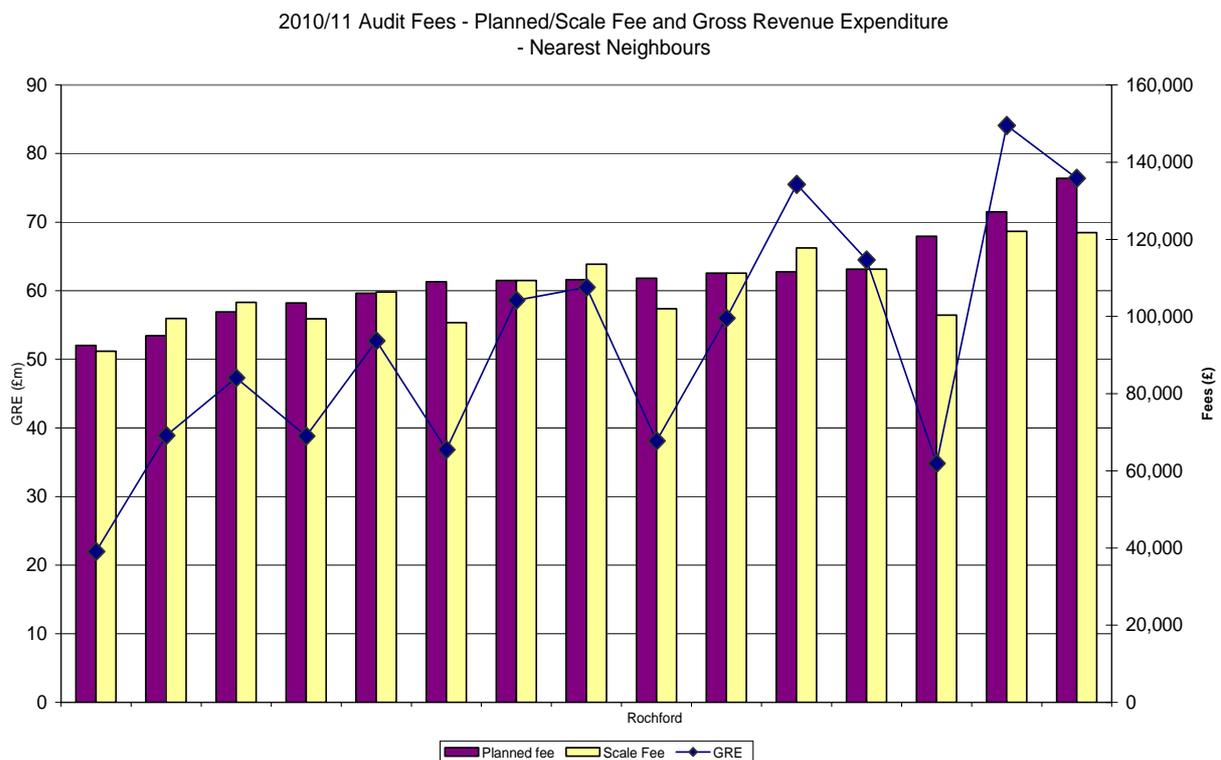
5.5 Our planned fee was originally £132,500, which has been revised down to £109,900, which is 8% above the scale fee. The uplift is mainly due to PKF's assessment of risks associated with the capital accounts following issues in previous years.

5.6 This Committee asked for further work to be done on benchmarking audit fees with other authorities. Comparison was undertaken on the basis of similar Authorities known as nearest neighbours, Essex Authorities and nationally. As the information used was provided on request from the Audit Commission and is not published, the names of the other authorities have not been included. The fee information is the latest available information held by the Commission as at 31 December 2010.

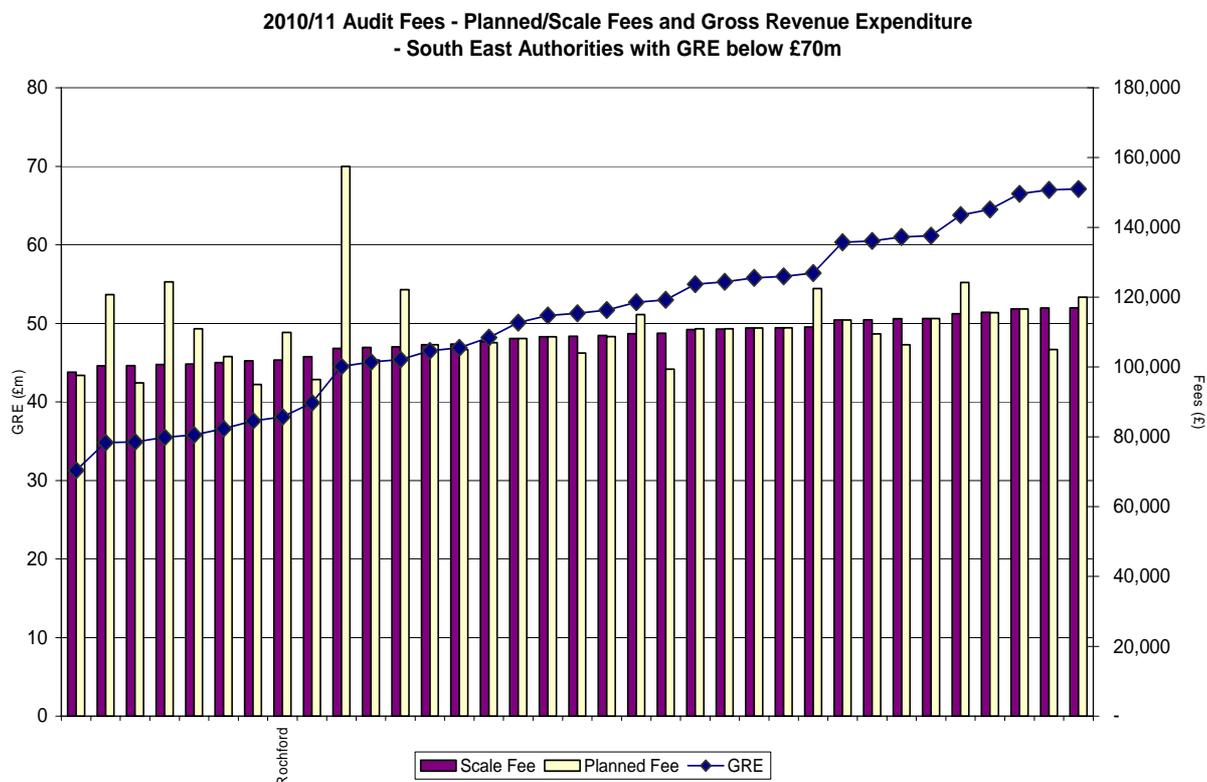
5.7 **Essex Authorities** – the following comparison shows the District Councils in Essex. Rochford now has the lowest Planned Fee



5.8 **CIPFA Nearest Neighbours** – this is a comparison with those Authorities considered to be similar in size and demographics. Rochford falls midway in the range of £92,000 to £135,825 for Planned Fees.



- 5.9 **Nationally** – The following chart shows a comparison nationally for authorities subject to the 3% South East premium and with a GRE up to £70m. It shows the variation in planned fees between authorities with similar GRE.



6 RESOURCE IMPLICATIONS

- 6.1 The total audit fee of £131,874 represents a 20% reduction compared to the audit fee for 2009/10.

7 LEGAL IMPLICATIONS

- 7.1 The Council is legally required to have an external auditor appointed by the Audit Commission. The Commission has the power to determine the fee above or below the scale fee where it considers that substantially more or less work was required than envisaged by the scale fee. Where the fee is above the scale fee, the Commission would normally expect to approve a proposed variation where this is agreed by the auditor and the audited body.

8 RECOMMENDATION

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

- (1) That the 3 reports from PKF, covering the Fee Outturn Summary for 2009/10, Grant Certification Report and Recommendations and Annual Audit Plan for 2010/11 be noted.

- (2) That the planned audit fee for 2010/11 be noted and agreed.

Yvonne Woodward
Head of Finance

Background Papers:-

Work Programme and Scales of Fees 2010/11 – published by Audit Commission

Work Programme and Scales of Fees 2011/12 – published by Audit Commission

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Accountants &
business advisers

Rochford District Council

Fee outturn summary 2009/10

January 2011

1 Fee outturn

- 1.1 The Audit Commission's *Standing Guidance for Auditors* requires us to report the outturn fee position for the year against the budgeted fee included within your Audit Fee Letter, as updated in your Annual Audit Plan (issued in December 2009). We have now concluded the audit and agreed with officers further additional fees in respect of the accounts audit and the final outturn fee for 2009/10 is set out in the table below:

Audit area	Planned Fee per Annual Audit Plan £	Outturn Fee £	Variance £
Planning and Reporting	29,100	29,100	-
Financial Statements, including WGA	63,335	63,335	-
VFM Conclusion (including risk based work)	33,900	33,900	-
Total Code audit fee	126,335	126,335	-
Work outside of our audit Plan	£	£	£
Certification of claims and returns	32,000	37,750	5,750

- 1.2 The variance on the outturn fee for certification of claims and returns included in the table above is largely due to difficulties with the audit of the Housing and Council Tax Benefit Subsidy claim, resulting in additional substantive testing being required, and additional work requested by the Department for Work and Pensions on matters related to the qualification of the previous year's Housing and Council Tax Benefit Subsidy Claim, neither of which were anticipated at the time of estimating the fee at £32,000. The fee estimate was also made before the outturn for the audit of claims for the year ending 31 March 2009 was known.
- 1.3 For comparative purposes the actual outturn fee for the previous year was £40,706. The key variables between this and the outturn for the current year being:
- First year of charge for overall grants environment risk assessment (increase of £1,040)
 - No requirement to audit the Disabled Facilities Grant claim as this fell below the de-minimis level for audit (reduction of £955)
 - Additional work requested by the Department for Work and Pensions on matters related to the qualification of the previous year's Housing and Council Tax Benefit Subsidy Claim (increase of £868)

- Net impact of the Council's involvement in completing some of the baseline substantive testing, resulting in the need for us to only perform sample re-performance testing on these cases, and training and support given to Council staff in this first year to facilitate this approach (net reduction of £3,983).



Accountants &
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Rochford District Council

Grant claim certification for the year ended 31 March 2010

February 2011

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- B Housing and Council Tax benefit subsidy qualification letter

Code of Audit Practice and Statement of Responsibilities of Auditors and Audited Bodies

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission contains an explanation of the respective responsibilities of auditors and of the audited body with reference to the separate Statement of Responsibilities of Grant-paying Bodies, Authorities, the Audit Commission and Appointed Auditors in Relation to Claims and Returns. Reports and letters prepared by appointed auditors are addressed to members or officers. They are prepared for the sole use of the audited body and no responsibility is taken by auditors to any Member or officer in their individual capacity or to any third party.

[Statement of Responsibilities of Auditors and Audited Bodies](#)

[Statement of Responsibilities of Grant-paying Bodies, Authorities, the Audit Commission and Appointed Auditors in Relation to Claims and Returns](#)

1 Introduction

- 1.1 This report summarises the main issues arising from the certification of grant claims for the financial year ending 31 March 2010. We undertake grant claim certification as an agent of the Audit Commission, in accordance with the Certification Instructions (CIs) issued by them after consultation with the relevant grant paying body. Our work is undertaken in accordance with the Statement of Responsibilities issued by the Audit Commission.
- 1.2 After completion of the tests contained within the CI the grant claim can be certified with or without amendment or, where the correct figure cannot be determined, may be qualified as a result of the testing completed.
- 1.3 The results of the integrated benefits work also contribute to the Audit Commission's inspection risk assessment for benefits services. Sample sizes and methodology for this work are prescribed by the Audit Commission.

2 Overall conclusions

- 2.1 The Council's claims preparation processes are sound and the overall control environment is low risk, although there is some scope for the Council to further improve the accuracy of the draft Housing and Council Tax Benefit Subsidy claim for audit.
- 2.2 A detailed Action Plan to assist in securing such improvements in future years has been agreed with officers and is included in Appendix A to this report.

3 Summary of certification

3.1 The table below identifies the certification status of the grant claims audited for the year ending 31 March 2010:

Claim	Value of claim £	Qualified/ Unqualified	Number of quantifiable amendments	Impact of amendments on subsidy £	Fee for the year ended 31 March 2010 £	Fee for the year ended 31 March 2009 £
Housing and council tax benefit subsidy	19,760,975	Qualified	4	(50,935)	30,075	34,058
Disabled facilities grant	N/A	N/A	N/A	N/A	-*	955
National non domestic rates return	13,607,269	Unqualified	0	N/A	5,003	4,928
Housing and council tax benefit subsidy – 2008/09 follow-up (requested by the Department for Work and Pensions)	N/A	N/A	N/A	N/A	867	-**
Overall grants control environment risk assessment	N/A	N/A	N/A	N/A	1,040	-**
Grants report	N/A	N/A	N/A	N/A	765	765
Total for 2009/10	33,368,244	1 Qualified	4	(50,935)	37,750	-
Total for 2008/09	31,004,453	1 Qualified	6	(1,641)	-	40,706

* Below the Audit Commission de-minimis level of £125,000 therefore did not require certification in this period

** Not required in 2008/09.

- 3.2 The decrease in the fees charged for the audit of the Housing and Council Tax Benefit Subsidy claim was a consequence of our working more closely with Internal Audit to train and support them to complete some of the baseline benefit testing in the first instance. This enabled us, after undertaking some sampled re-performance work, to rely on their work instead of completing it ourselves. It is feasible for further savings to be made, for the year ended 31 March 2011, if Internal Audit extend the amount of baseline testing they complete on our behalf, and all other factors remain the same e.g. the level of errors identified from testing does not rise.
- 3.3 The grants report and the overall grants control environment risk assessment were mandated by the Audit Commission, as a result of their *Review of Arrangements for Certifying Claims and Returns*, to raise the importance and profile of certification work and improve the standards of claims and returns prepared

4 Overall grants control environment risk assessment

- 4.1 Our risk assessment concluded that overall there is a low risk of grant claims and returns submitted for audit not being in compliance with the CI prescribed by the Audit Commission and the grant paying body.
- 4.2 Whilst the Council does not operate formal, centralised, control environment checks on draft claims, the level of quantifiable error identified through audit is generally low. Typically, the Council only experiences difficulties with the Housing and Council Tax Benefit Subsidy claim, which is more complex and has a higher volume of transactions than most other claims, and is considered higher risk individually.
- 4.3 For this reason we are not recommending that the Council take any action to strengthen the control environment more generally, as this would be disproportionate, in terms of cost and capacity, to the overall level of risk. In addition, the Council already has procedures in place for localised pre-audit checks on the Housing and Council Tax Benefit Subsidy claim, including:
- Conducting and recording pre-audit analytical review of draft claims, by comparison to the prior year's claim and the knowledge and expectations of the officer responsible for preparing the claim, aimed at identifying areas of potential inaccuracy for further review.
 - Conducting and recording internal test checks of samples of claim entries in areas where known errors or qualification issues have been reported in prior years.

5 Detailed findings

- 5.1 There were no matters arising from the audit of the National Non-Domestic Rates return.
- 5.2 As in previous years the Housing and Council Tax Benefit Subsidy claim presents the greatest challenge and is more prone to error. The Council implemented all of the recommendations made in our previous year's report. The results of the audit of this claim have been set out in more detail below.

Housing and council tax benefit subsidy claim

- 5.3 Overall, there were a similar number of errors and uncertainties identified with the Housing and Council Tax Benefit Subsidy claim compared to the previous years.
- 5.4 This year we worked closely with Internal Audit by providing training and support to enable them to complete some of the baseline audit testing. We re-performed 10% of Internal Audit's testing, and found that the correct certification conclusion was given in all cases, enabling us to place reliance on their work. This resulted in a net reduction of external audit time required to complete the audit, which is reflected in the fees charged, as set out in section 3.
- 5.5 The audit resulted in a net decrease of £50,935 in subsidy claimed after amendment of the following quantifiable errors:
- Incorrect classification of prior year excess benefit paid (overpayment) between eligible error and local authority error in respect of one rent allowance claim where it was identified that a discount was incorrectly applied to a claim going back a number of years. This was considered to be an isolated incident due to the nature of the error found and therefore an amendment could be quantified.
 - Incorrect up-rating of claimant's war widow pension for modified scheme claims which resulted in the misclassification of benefit award between standard benefit awarded (overstated) and local scheme (understated). Further testing of 100% of the modified schemes population was completed (as this was less than 40 cases) and therefore an amendment could be quantified.
 - Standard benefit for modified scheme claims was overstated due to incorrect netting-off of some benefit entries, by the IT software, within the draft claim. Further testing of 100% of the modified schemes population was completed and therefore an amendment could be quantified.

- Incorrect classification of excess benefit paid (overpayment), for the Council's fraud cases, between eligible errors and local authority error across all benefit types. This issue was identified by the Council as part of their internal control checks, and notified to PKF during the course of our initial testing. In response the Council undertook a prompt review of all fraud cases during the year, and reassessed the classification of overpayments. The Council amended the draft claim and provided us with a list of all claims reviewed, and those amended, on the final audited claim. This approach was both proportionate and appropriate and enabled us to focus our audit work on re-performance of a 10% sample of cases to conclude on the accuracy of the adjustments made, which were all found to be correct.
- 5.6 In addition to these amendments, the Council declined to amend the following quantifiable errors in the 2009/10 claim and has, instead, made an amendment in the current year, which will result in it being included as a prior year overpayment in the 2010/11 claim form:
- There was one rent allowance case in which the claimants rent was based on a "Notice to Increase", which was later rejected by a Rent Tribunal but not updated on the system. We were able to confirm that no other cases had been referred to a Rent Tribunal during 2009/10 and we, therefore, concluded that this was an isolated case. The amendment made in 2010/11 goes back to the date of the original proposed rent.
 - One non-HRA case had the incorrect benefit start date, which was started the day before the claimant moved into the accommodation. We reviewed the remaining population of non HRA rent rebate cases (37 cases) and no other errors were identified with the start date being incorrect.
- 5.7 We included reference to the Council's deferral of these adjustments in our qualification letter to the Department for Work and Pensions (DWP), a copy of which is attached as Appendix B.
- 5.8 Ultimately the claim was qualified due to the following issues which could not be quantified and, consequently, the impact on subsidy in respect of these matters is not known:
- Incorrect classification of current year excess benefit paid (overpayment) between eligible error and local authority error in respect of rent allowance claimants. We were unable to determine that this error was isolated and so testing of an additional sample of 40 cases was completed, in compliance with the Audit Commission's prescribed methodology for responding to, and extrapolating the results of, failures in the baseline testing. Four further errors were identified and this matter was included within our qualification letter to the DWP as set out at Appendix B.

- Restriction of the eligible rent figure used in the benefit award calculation to the cap level (and then deducting ineligible service charges) for non-HRA rent rebate calculations. We have not been able to identify definitive guidance on whether it is appropriate for the Council to award benefit in this way and have, therefore, referred the matter to the DWP. If it were determined that the Council should not be restricting rent to the cap level in this way, and then calculating the eligible rent from that point, there will have been systematic under-recording of benefit entitlement (for subsidy claim purposes) during the year, which would be likely have a subsidy impact.

5.9 In accordance with the directions of CI BEN01, the technical details of the reasons for qualification were set out in full in a qualification letter to the DWP. A copy of this letter is attached as Appendix B.

Acknowledgement

5.10 We would like to thank all the staff involved in grant claim preparation and audit for their considerable co-operation and assistance.

Appendix A

Action Plan

Matter arising	Recommendations	Priority	Management response	Responsibility	Timing
Housing and council tax benefit subsidy					
<p>Some errors were due to excess benefit being misclassified between types, for rent allowances resulting in misstatement of subsidy claimed.</p> <p>This issue was also identified in the previous year's audit which suggests that arrangements could be improved further.</p>	<p>1. Review the approach to undertaking targeted test checking of claim cells and consider increasing sample sizes, or re-targeting based on the results of cases identified where excess benefit is classified incorrectly, through identification and targeting any trends identified both by staff member and common error types.</p>	Medium	<p>We are currently looking at ways to reallocate some resource to increase our checking sample.</p> <p>Internal Audit will be checking a sample of claims one day a week with effect from 1/4/2011.</p> <p>We are going to provide all benefit assessors with an aide-memoir to assist in overpayment classification.</p>	<p>Revenues & Benefits Manager</p> <p>Principal Auditor</p> <p>Senior Officer (procedures)</p>	<p>April 2011</p> <p>April 2011</p> <p>April 2011</p>

Matter arising	Recommendations	Priority	Management response	Responsibility	Timing
<p>Academy incorrectly netted excess benefit from gross benefit awarded on Rent Allowance local scheme claims which have both standard expenditure and modified schemes.</p> <p>This issue was identified last year and a permanent fix should be sought to reduce the administration burden on the benefits team arising from later review of all modified schemes for accuracy.</p>	2. Liaise with Capita to develop and implement an IT solution to ensure that overpayments are correctly processed and classified for Rent Allowance local scheme claims.	High	<p>This has been outstanding with Capita for several years but we will raise it again with our Account Manager at the next meeting.</p> <p>Only 5 claims were affected and we will ensure that any claims affected in 2010/11 Subsidy claim will be checked and the claim form manually adjusted.</p>	<p>Revenues & Benefits Manager</p> <p>Senior Benefit Officer (procedures)</p>	<p>May 2011</p> <p>May 2011</p>
<p>The Council did not carry out up-ratings of war widow pensions for some claimants. For these claimants it was identified that the pension figures had not been up-rated for both the current year and prior years, resulting in discrepancies for the income figure used in the assessment compared to the correctly up-rated figure.</p>	3. Obtain direct confirmations of war widow pensions from claimants to ensure the most up to date figure is used in the benefit assessment.	High	All customers that we did not hold evidence of their War Pension since 2008 have now been contacted and claims have been updated.	N/A	Implemented
	4. For any up-ratings applied, ensure that a secondary independent check is carried out by an appropriate revenues & benefits officer.	High	A second Senior Revenues & Benefits Officer will ensure that War Pensions are uprated.	Senior Benefit Officer (procedures) / Senior Benefit Officer	Immediate

Appendix B

Housing and Council Tax Benefit Subsidy qualification letter

Department for Work and Pensions
Housing Benefits Unit
Room 512
Norcross
Blackpool
FY5 3TA

Our ref: 1012597/RB/10-11/BEN01

30 November 2010

Dear Sir/Madam

**Rochford District Council
Housing Benefit & Council Tax Benefit claim for the year ended 31 March 2010
(Form MPF720A)
Qualification Letter referred to in the Auditor's Certificate dated 30 November
2010.**

Details of the matters giving rise to our qualification of the above claim are set out in the Appendix to this letter.

The factual content of our qualification has been agreed with officers of the Council.

No amendments have been made to the claim for the issues raised in this qualification letter.

Yours faithfully

PKF (UK) LLP

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1. Rent tribunal decisions

Cell 94: Rent Allowance – Total expenditure (Benefit Granted)

Cell Total £14,495,361

Cell Population 3,744

Headline Cell £14,495,361

Testing of the initial sample identified one case in which the rent was based on a “Notice to Increase”. However, this rent was later rejected by Rent Tribunal but not updated on the system. The Council confirmed that no other cases had been referred to a Rent Tribunal during 2009/10 and we, therefore, concluded that this was an isolated case.

However, the Council has declined to amend this quantifiable error in the 2009/10 claim and has, instead, made an amendment in the current year (in October 2010), which will result in it being included as a prior year overpayment in the 2010/11 claim form. The amendment made in 2010 goes back to the date of the original proposed rent.

If this case were to be amended in the 2009/10 claim, the following cells would be adjusted:

- Cell 99 would be reduced by £4,078
- Cell 108 would be increased by £4,078
- Cell 115 would be increased by £443.

2. Classification of eligible overpayments

Cell 109: Rent Allowance – Eligible Overpayments (Current Year)

Cell Total £250,345 (final)

Cell Population 882

Headline Cell £14,495,361

Testing of the initial sample identified:

- 1 case (value £1,021) where the overpayment had been incorrectly classified as an eligible overpayment. Cell 109 is therefore overstated and cell 108 (LA error and administrative delay – current year) is correspondingly understated. There is no effect on cell 094.
- 1 case (value £9) where the dates had been incorrectly applied and one week of the overpayment should have been classified as LA error rather than eligible overpayment. Cell 109 is therefore overstated and cell 108 (LA error and administrative delay – current year) is correspondingly understated. There is no effect on cell 094.

Testing of an additional, random, sample of 40 cases identified 4 further cases (value £2,942) where the overpayment had been incorrectly classified as an eligible overpayment. Consequently, cell 109 is overstated and cell 108 (LA error and administrative delay – current year) is correspondingly understated. There is no effect on cell 094.

The result of our testing is set out in the table below:

Sample:	Movement / brief note of error:	Original cell total:	Sample error:	Sample value:	Percentage error rate (to one decimal place):	Cell adjustment:	Revised cell total if cell adjustment applied:
		[CT]	[SE]	[SV]	[SE/SV]	[SE/SV times CT]	[RA]
Initial sample - 7 cases	Cell 109 is overstated. Cell 108 is understated	£250,736	(£1,030)	£2,759			
Additional sample - 40 cases	Cell 109 is overstated. Cell 108 is understated	£250,736	(£2,942)	£20,106			
Combined Sample – 47 cases	Combined sample. Cell 109:	£250,736	(£3,972)	£22,865	(17.4%)	(£43,557)	£207,179
Corresponding adjustment	Total under - statement of cell 108.					£43,557	

The percentage error rate in our sample reflects the individual cases selected. The value of the errors found range from £9 to £2,371 and the benefit periods range from 1 week to 10 weeks.

Given the nature of the population and the variation in the errors found it is unlikely that even significant additional work will result in an amendment to this cell that will allow us to conclude with sufficient accuracy that it is fairly stated.

3. Benefit entitlement start dates

Cell 13: Non HRA Rent Rebates – Total expenditure (Benefit Granted)

Cell Total £28,132 (final)

Cell Population 47

Headline Cell £80,741

Testing of the initial sample identified one case in which the benefit was started the day before the claimant moved into the accommodation. We reviewed the remaining population of non HRA rent rebate cases (37 cases) and no other errors were identified with the start date being incorrect. Although this error is quantifiable, the Council has declined to amend it in the 2009/10 claim, instead making an amended

in the current year (in October 2010), which will result in it being included as a prior year overpayment in the 2010/11 claim form.

If this case were amended in the 2009/10 claim, the following cells would be adjusted:

- Cell 13 would be reduced by £12
- Cell 14 would be reduced by £11
- Cell 26 would be increased by £23

4. Non HRA Rent Rebates – application of rent cap restriction

Cell 012, 013 and 014: Homeless people in board and lodging accommodation
Cell 012, 013, and 014: cell total £70,741 (final)
Headline Cell £80,741

Testing of the initial sample of 10 cases identified 8 cases where the weekly liability is above the rent cap. In these cases the Council has restricted the liability to the cap level and then deducted the ineligible service charges and has used the net figure as the eligible rent. This then takes the eligible rent below the cap level. Further inquiry identified that it is Council policy not to pay benefit above the cap on non HRA rent rebates and any shortfall in the amount payable to the B&Bs is met from the Homelessness Department budget. We have not been able to identify any definitive guidance to confirm or deny whether it is appropriate for the Council to operate this policy.

Due to the systematic nature of this approach, and the uncertainty surrounding its validity, testing on the remaining population (37 cases) has not been performed.

We can confirm that if all 8 identified cases had the eligible rent calculated from the actual rent and not the capped rent, it would have resulted in an understatement of benefit entitlement in each case. Consequently, if it were determined that the Council should not be restricting rent to the cap level in this way, and then calculating the eligible rent from that point, there would have been systematic under-recording of benefit entitlement (for subsidy claim purposes) during the year, which would be likely have a subsidy impact.



Accountants &
business advisers

Rochford District Council

Annual Audit Plan 2010/11

December 2010



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Code of Audit Practice and Statement of Responsibilities of Auditors and Audited Bodies

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission contains an explanation of the respective responsibilities of auditors and of the audited body. Reports and letters prepared by appointed auditors are addressed to members or officers. They are prepared for the sole use of the audited body and no responsibility is taken by auditors to any Member or officer in their individual capacity or to any third party.

[Code of Audit Practice](#)

[Statement of Responsibilities](#)

1 Executive summary

- 1.1 The purpose of this Annual Audit Plan is to update our 2010/11 fee letter issued in April 2010 by:
- updating our risk assessment, now that we have concluded our 2009/10 audit work, and confirming the significant audit risks identified
 - setting out our audit strategy and the scope of our audit.

Significant audit risks

- 1.2 These are set out in detail in section 3 and Appendix A, and include:
- Introduction of International Financial Reporting Standards (IFRS), including specifically the identification and classification of leases in accordance with IFRIC 4, IFRIC 12 and IAS 17.
 - Application of the correct accounting treatment for non-current assets in accordance with the CIPFA Code of Practice for Local Authority Accounting and the Council's own accounting policies.
- 1.3 In addition, International Standards on Auditing (UK and Ireland) presumes that a risk of management override of controls is present in all entities and requires us to respond to this risk by testing the appropriateness of accounting journals and other adjustments to the financial statements, reviewing accounting estimates for possible bias and obtaining an understanding of the business rationale of significant transactions that appear to be unusual. We are also required to consider the need to perform other additional procedures.

Fees

- 1.4 The audit fee for the year is £109,900. This is a reduction to the indicative fee estimated in our Audit Fee Letter issued in April 2010, which was £132,500. The reduced fee reflects our updated risk assessment of the Council, including removal of the work originally proposed on safeguarding children as this is no longer considered a significant risk, and also reflects the efficiencies realised from the enhanced approach taken in this second year of the use of resources assessment.
- 1.5 We will discuss any further proposed amendments to the fee with the Head of Finance and then prepare a report outlining the reasons why the fee needs to change for discussion with the Audit Committee. The assumptions we have made in setting the audit fee are set out in section 4.

- 1.6 Furthermore, in respect of 2010/11 audit fees, the Audit Commission has:
- given a 6 per cent rebate of audit scale fee to partly mitigate the increase in audit fee arising from the transition to IFRS. The rebate for Rochford District Council was £6,026.
 - announced that it will rebate a further 1.5% of the audit scale fee to reflect the early curtailment of the use of resources work completed earlier this year. This is expected to be in the region of £1,500 but the exact amount is yet to be confirmed
 - confirmed that it will not charge local authorities for the work undertaken on the managing performance part of the organisational assessment before work on Comprehensive Area Assessment (CAA) was stopped. These CAA related fees were to be charged directly by the Audit Commission to the Council in addition to the audit fee. The Audit Commission estimated that this fee would have been £9,152, as referred to separately in our Audit Fee Letter.
- 1.7 Grant fees for claims and returns for the year ended 31 March 2010 have now been completed and the outturn fee was £37,750. Based upon our experience of this most recent set of reviews, we anticipate fees for claims and returns for the year ended 31 March 2011 to be approximately £28,000, taking account of grade rate changes outlined in the Audit Commission's Work Programme and Fees document for 2010/11.

Key outputs

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

Output	Expected timing
Accounts	
Report on the review of internal controls	May 2011
Annual governance report on the financial statements	September 2011
Audit opinion covering the financial statements	September 2011
Value for money conclusion	September 2011
Annual audit letter	November 2011
Grants	
Grants report to Those Charged With Governance on claims and returns for the year ended 31 March 2011	February 2012

2 Introduction

2.1 This Annual Audit Plan sets out the audit work that we propose to undertake for the 2010/11 financial year. It has been drawn up from our risk based approach to audit planning and planning meetings held. The information and fees in this Plan will be kept under review and any significant changes will be reported to the Audit Committee.

2.2 The context in which we deliver our audit is set out in Appendix B.

Assessing risks

2.3 We are committed to targeting work to where it will have the greatest effect, based upon assessments of risk and performance. This means planning our audit work to address areas of risk relevant to our audit responsibilities and reflecting this in the audit fees. It also means ensuring that our work is co-ordinated with the work of other regulators, and that it helps you to improve.

2.4 Our risk assessment process focuses on the identification of significant financial and operational risks. For each of the significant risks identified, we consider the arrangements put in place to mitigate the risk and plan our work accordingly.

Impact of introduction of Clarity International Standards on Auditing (CISAs)

2.5 We would like to draw to your attention to the fact that for the audit of the financial statements for years ending on or after 15 December 2010 we are required to apply the clarified (or revised and redrafted) International Standards on Auditing (UK & Ireland). These have increased the number of requirements that have to be met when carrying out an audit and you are likely to notice a change in our approach to the audit of certain areas. Consequently we may require additional information from you or we may request information at a different stage of the audit process than has been the case in previous years.

2.6 Examples of areas where our approach to the audit may change as a result of the additional requirements of the clarified International Standards on Auditing include (but are not limited to):

- **Materiality** – we are required to set not only a materiality level against which to evaluate the effect of identified misstatements on the audit but also a second level of materiality (known as “performance materiality”) which is to be used when planning and performing the audit. This has to be set at a level lower than the materiality for the financial statements as a whole so as to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole. The potential impact is that areas previously unaudited on the grounds of materiality may now fall within the scope of our audit work or more work may have to be done

in certain areas to reflect the lower level of materiality on the extent of work.

- **Related parties** – whilst under the existing ISAs we were required to obtain an understanding of the related parties of the entity, including the controls that those charged with governance have in place over the identification and accounting for related parties, the clarified ISAs place a greater emphasis on a risk based approach to the consideration of this area. We use our understanding to assess the risk of material misstatement of the financial statements in respect of related parties and design further audit procedures accordingly. Our audit work on related parties will also include consideration of transactions that have occurred, if any, outside the normal course of business and in identifying any omitted related party relationships and transactions.
- **Control environment** – whilst, under the existing ISAs, we were required to report to those charged with governance, the clarified ISAs place an increased emphasis on the need to communicate in writing significant deficiencies in internal control identified during the audit to those charged with governance on a timely basis and, in addition, to report other deficiencies in internal control identified during the audit that are of sufficient importance to merit management's attention. As a result it may be necessary for us to produce additional reports to management of weaknesses identified in the control arrangements at the Council, in addition to the reporting cycle to those charged with governance through the Audit Committee.
- **Accounting estimates** – we will consider all areas of the financial statements subject to accounting estimate and we are required to obtain a greater understanding about how those estimates have been determined and consider the effects of uncertainty in assumptions used. We will identify and assess the risks of material misstatement arising from the use of accounting estimates and will focus our work on areas where the risks of material misstatement are greatest. Our audit work on accounting estimates will also focus on identification of any possible instances of management bias.

3 Risk assessment

Significant financial statement audit risks

- 3.1 Summarised below are the significant accounts risks that are likely to impact on our audit of which we are currently aware. More detail on these risks can be found in Appendix A.
- International Financial Reporting Standards (IFRS) have been adopted in local government from 2010/11 and required transitional arrangements to be put in place by the Council.
 - Application of the correct accounting treatment for non-current assets in accordance with the CIPFA Code of Practice for Local Authority Accounting and the Council's accounting policies.
- 3.2 In addition, International Standards on Auditing (UK and Ireland) presumes that a risk of management override of controls is present in all entities and requires us to respond to this risk by testing the appropriateness of accounting journals and other adjustments to the financial statements, reviewing accounting estimates for possible bias and obtaining an understanding of the business rationale of significant transactions that appear to be unusual. We are also required to consider the need to perform other additional procedures.
- 3.3 We have set a triviality level of £10,000 for the 2010/11 accounts audit and will not report to you any matters arising below this level.

Updated value for money conclusion risk assessment

- 3.4 We have updated our use of resources risk assessment for 2010/11 to take into account:
- matters arising from the completion of the 2009/10 audit
 - additional audit knowledge gained since our initial risk assessment which was included in our 2010/11 Audit Fee Letter, presented to the Audit Committee in April 2010
 - the introduction of the Audit Commission's revised arrangements for the determination of the value for money conclusion (see Appendix B).
- 3.5 No additional risks were identified from completion of this review.

Other issues

- 3.6 The current economic climate continues to cause financial pressures with the change in estimated revenue spending power in 2011/12 for the Council being reported by the CLG as a reduction of 4.5% overall (£600,000). In real terms, this is actually a reduction of 16.5% of revenue support grant which presents a notable financial management challenge. The Council's financial position will be regularly monitored during the course of our planning and delivery of the audit, and we will assess the Council's financial resilience and plans for delivering efficiencies as part of forming our value for money conclusion.

4 Fees and billing arrangements

Fees

- 4.1 The audit fee for the period April 2010 to March 2011 is £109,900 plus VAT (including uplift on the prior year for the impact of implementing IFRS).
- 4.2 This is a reduction to the indicative fee estimated in our Audit Fee Letter issued in April 2010, which was £132,500. The reduced fee reflects our updated risk assessment of the Council, including removal of the work originally proposed on safeguarding children as this is no longer considered a significant risk, and also reflects the efficiencies realised from the enhanced approach taken in this second year of the use of resources assessment.
- 4.3 The fee is analysed in the table below.

Audit area	Revised fee 2010/11	Indicative fee 2010/11	Actual fee 2009/10
Financial statements	61,500	70,000	63,335
VFM Conclusion	22,500	33,000	33,900
Planning and reporting	25,900	29,500	29,100
Total Code audit fee	£109,900	£132,500	£126,335
Certification of claims and returns ¹	£28,000	£32,800	£37,750

- 4.4 **Grants certification:** Fees are separately billed based on the Audit Commission's grade related rates as set out in the *Work Programme and Fee Scales* on the basis of hours incurred. Grant fees for claims and returns for the year ended 31 March 2010 have been completed and the outturn fee was £37,750. Based upon our experience of this most recent set of reviews, we anticipate fees for claims and returns for the year ended 31 March 2011 to be approximately £28,000, taking account of grade rate changes outlined in the Audit Commission's Work Programme and Fees document for 2010/11. The assumptions made in estimating this fee are set out in paragraph 4.9 below.
- 4.5 **Questions and objections:** Should any arise, time spent dealing with questions and objections will be billed separately. Where possible we will provide an estimate of the likely time required to respond to the matters before starting the work.

¹ Revised fee is based on the outturn for the 2009/10 claims and returns but makes the assumptions included in paragraph 4.9

- 4.6 We will discuss any further proposed amendments to the fee with the Head of Finance and then prepare a report outlining the reasons why the fee needs to change for discussion with the Audit Committee. The assumptions we have made in setting the audit fee are set out in paragraph 4.8 below.
- 4.7 Furthermore, in respect of 2010/11 audit fees, the Audit Commission has:
- given a 6 per cent rebate of audit scale fee to partly mitigate the increase in audit fee arising from the transition to IFRS. The rebate for Rochford District Council was £6,026.
 - announced that it will rebate a further 1.5% of the audit scale fee to reflect the early curtailment of the use of resources work completed earlier this year. This is expected to be in the region of £1,500 but the exact amount is yet to be confirmed
 - confirmed that it will not charge local authorities for the work undertaken on the managing performance part of the organisational assessment before work on Comprehensive Area Assessment was stopped. These CAA related fees were to be charged directly by the Audit Commission to the Council in addition to the audit fee. The Audit Commission estimated that this fee would have been £9,152, as referred to separately in our Audit Fee Letter.
- 4.8 The fees detailed above are based on the following assumptions:
- Internal Audit will have completed its systems testing in accordance with the plans and agreed timetable, and to an adequate standard
 - we will, after re-performing a sample of Internal Audit's work, be able to place full reliance on it
 - you will keep us informed of any significant changes to your main financial systems or procedures
 - you will provide the information requested in our records required listing in accordance with the agreed dates and there will be no significant departures from that timetable. The firm reserves the right to increase its fees should this not be the case or should we encounter unexpected problems, or should complex technical matters or other issues arise, causing additional work. It should be noted that time spent dealing with problems or issues arising is usually that of senior people and hence the cost will necessarily often be disproportionate to the original fee
 - you will ensure that audit reports are responded to promptly and the implementation of recommendations by the due date is actively monitored
 - there are no major changes to the content of government department grant instructions
 - Internal Audit will complete the baseline testing of all housing and council tax benefit cases, including modified schemes, required for the HBCOUNT methodology and we will, after re-performing a sample of Internal Audit's work, be able to place full reliance it

- there will not be any errors identified in the testing of the HBCOUNT baseline sample that necessitate completion of additional (40+) testing.

4.9 The fee assumes efficient co-operation as set out above and is set at the minimum level to carry out the audit. This assumption is based upon arrangements for 2010/11 and our consideration of your annual governance statement in your 2009/10 accounts.

Billing arrangements

4.10 Your audit fee is being billed as follows:

Month	£
June 2010	32,000
September 2010	32,000
December 2010	10,500
March 2011	21,000
June 2011	4,400
September 2011	10,000
Total	109,900

5 Audit arrangements

Staffing

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

	Role and responsibility
Engagement Partner Richard Bint Email: Richard.Bint@uk.pkf.com Tel: 020 7065 0497	Responsible for delivering the audit in line with the Audit Commission Code of Audit Practice, including agreeing the Audit Plan, Annual Governance Report and Annual Audit Letter. Also responsible for signing opinions and conclusions, and for liaison with the Chief Executive and Audit Committee.
Director Lisa Clampin Email: Lisa.Clampin@uk.pkf.com Tel: 01473 320716	Responsible for overall control of the audit, ensuring timetables are met and reviewing the audit output. Also responsible for managing our accounts and value for money conclusion work and for completion of the Audit Plan, Annual Governance Report and Annual Audit Letter.
Supervisor Liana Hine Email: Liana.Hine@uk.pkf.com Tel: 01473 320715	Responsible for managing our audit fieldwork on site for accounts and value for money conclusion judgements.
Senior Charlotte Monk Email: Charlotte.Monk@uk.pkf.com Tel: 01473 320772	Responsible for managing our audit teams undertaking fieldwork on site for accounts.

Timetable

- 5.2 The following outline timetable shows the expected dates planned for key fieldwork elements of the audit to commence:

Audit Timetable	Timing	Reporting
Review of internal controls	March/April 2011	May 2011
Audit of the financial statements	August/September 2011	September 2011
Value for money conclusion	September 2011	September 2011
Grants reviews (including HBCOUNT benefits work) for the year ended 31 March 2011	June to November 2011	February 2012

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

Communication

- 5.4 Auditing Standards require auditors to communicate relevant matters relating to the audit to “those charged with governance”. Relevant matters include issues on auditor independence, audit planning information and findings from the audit.
- 5.5 We have included in Appendix C to this Plan a statement to the Audit Committee setting out the Audit Commission’s objectivity and independence guidelines and giving our confirmation that we have complied with those guidelines.
- 5.6 Following our audit of the financial statements we will report to the Audit Committee on the findings from our audit.

Quality of service

- 5.7 We aim to provide a high quality of service to you at all times. If, for any reason or at any time, you would like to discuss how we might improve the service, or if you are in any way dissatisfied, please contact Richard Bint in the first instance. Alternatively you may wish to contact our Managing Partner, Martin Goodchild. Any complaint will be investigated carefully and promptly.
- 5.8 If you are not satisfied you may take up the matter with the Institute of Chartered Accountants in England and Wales (“ICAEW”).
- 5.9 In addition, the Audit Commission’s complaints handling procedure is detailed in their leaflet “How to complain: What to do if you want to complain about the Audit Commission or its appointed auditors”, which is available on their website <http://www.audit-commission.gov.uk/complaints/>

Appendix A

Accounts risks

	Audit risk identified from planning	Financial Statement Area & Assertion	Audit response
Accounts			
1	<p>Failure to appropriately apply IFRS may have a material impact on the accuracy of a number of balances, income and expenditure totals and disclosures within the financial statements. The IFRS changes most pertinent to the Council in 2010/11 necessitate:</p> <ul style="list-style-type: none"> • Review of arrangements against IFRIC 4 (lease arrangements) • Consideration of leasing arrangements against IAS 17 (Leases) • Review of valuation policies and component accounting for assets under IAS 16 (Property, plant and equipment) • Calculation of employee benefits under IAS 19 (Employee benefits) • Review of government grants in light of CIPFA's decision to apply IPSAS 23 • Review of group accounting requirements under IFRS which focuses on ability to control as opposed to actual control • Operating segment disclosures under IFRS 8 (Operating segments) 	<p>Financial Statements as a whole</p> <p>All assertions covering transactions, account balances, presentation and disclosure</p>	<p>An early review will be completed to ensure that the new standards have been implemented correctly, in particular with regard to the restatement of the balance sheet for 31 March 2010 and comparative balances for the year ended 31 March 2009.</p> <p>Detailed testing will be completed during the final accounts audit.</p>

	Audit risk identified from planning	Financial Statement Area & Assertion	Audit response
3	<p>There is a risk that the balances shown in the financial statements for non-current assets will not be fairly stated as there were a number of errors identified in the previous years audits indicating a weakness in the capital accounting processes.</p> <p>We have worked closely with the Council to secure improvements to their capital accounting arrangements. However, the errors identified in previous years give rise to audit risks around the accounting treatment and disclosure of valuations, depreciation and impairment.</p>	<p>Non Current Assets (Existence, Rights & Obligations, Completeness, Valuation and Allocation)</p>	<p>We will increase the level of detailed substantive testing completed on the accounting treatment of any revaluations and movements in non-current assets.</p>

Appendix B: Audit requirements

Financial statements

The Code requires us to provide an opinion on whether your financial statements “are true and fair” and have been prepared properly, in accordance with relevant legislation and applicable accounting standards.

In carrying out this work we:

- consider the extent to which your accounting and internal control systems are a reliable basis from which to prepare the accounts
- consider the robustness of your accounts preparation processes
- undertake analytical procedures, test transactions and balances and consider the adequacy of the disclosures in your financial statements.

We will consider the adequacy of your arrangements for closing down the ledger and producing accurate, timely and comprehensive financial statements and supporting working papers. We will provide officers with a detailed list of schedules and working papers required for the audit.

We will review the appropriateness and consistency of application of the accounting policies adopted by the Council and ensure that these are consistent with the *Code of Practice on Local Authority Accounting in the United Kingdom 2010/11*.

We will report to you significant qualitative aspects of the accounting practices including the application of the Code or other significant matters relevant to the financial reporting process.

We will also report uncorrected misstatements and material uncertainties relating to going concern.

We will read the other information included in the financial statements and, if appropriate the annual report, to ensure this is consistent, complete and not misleading based on our overall knowledge. We will review your annual governance statement to assess whether it has been presented in accordance with relevant guidance, is adequately supported, that an effectiveness review has been completed, and it is consistent, complete and not misleading based on our overall knowledge.

We will report to you significant matters discussed, or subject to correspondence with management or other employees; and also any significant difficulties that we encountered during the course of the audit.

We will seek written representations from the Council or from other parties to acknowledge and understand the responsibilities for preparing the financial statements, for the internal controls necessary to enable to preparation of the financial statements that are free from material misstatement whether due to fraud or error, and that we have been provided with access to all information of which you are aware of that is relevant to the preparation of the financial statements.

Where we propose any modifications to the audit opinion or emphasis of matter paragraphs in the auditors' report, we will report this to you along with the reasons for the modifications.

Internal controls and significant financial systems

International Standards on Auditing (UK and Ireland) require auditors to obtain a detailed understanding of an organisation, its environment, risk assessment processes, the information systems, internal controls and monitoring activities. This must be sufficient to identify and assess the risks of material misstatement of the financial statements whether due to fraud or error and be sufficiently well documented to enable the auditor to design and perform further audit procedures based on identified risks.

Where the audit intends to rely on identified controls to reduce risk or the level of detailed testing the auditor must also undertake tests of the operating effectiveness of the relevant controls. The key financial systems upon which the accounts are based will therefore require additional testing and review in order to arrive at our opinion on the financial statements.

Your significant financial systems are:

- Main accounting
- Cash and bank
- Payments and creditors
- Income and debtors
- Payroll and employment costs
- Information technology
- Council tax
- Housing and council tax benefits
- National Non-Domestic Rates
- Investments and investment income

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

Working with Internal Audit

The Audit Commission expects appointed auditors and Internal Audit departments to work together to ensure that audit work is most effectively targeted in well-managed councils, thereby minimising duplication and the overall level of audit resource input.

Fraud risk assessment

We have a responsibility to consider specifically the potential risk of material misstatement of your financial statements as a result of fraud and error, including the risk of fraudulent financial reporting.

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

We will make appropriate enquiries and review the counter fraud arrangements in place in order to identify the fraud risks, and the controls you have put in place on which we will seek to place reliance to mitigate those risks.

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

Whole of government accounts (WGA)

As part of the WGA process we are required to review and report on the consolidation pack you have prepared for submission. The actual procedures to be performed have been developed by the Audit Commission in discussion with the National Audit Office. Our work involves ensuring consistency between the audited accounts and the consolidation pack, and the agreement of balances with other bodies.

Value for money conclusion

The Code requires auditors to issue a conclusion on whether the audited body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. This is known as the value for money (VFM) conclusion.

The Commission has reviewed its approach to auditors' VFM work so that from 2010/11 auditors will give their statutory VFM conclusion based on the following two reporting criteria:

- The organisation has proper arrangements in place for securing financial resilience.
- The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

The focus of the criteria for 2010/11 are:

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

We will also follow up on audit work from previous years to assess progress in implementing agreed recommendations.

Local risk-based work

Local risk-based work is proposed to address audit risks relating to the accounts opinion or Value for Money Conclusion where normal levels of work are considered insufficient to fully address risk exposures.

Appendix C: Communication with those charged with governance

To: Audit Committee, Rochford District Council

Auditors appointed by the Audit Commission are subject to the *Code of Audit Practice* (the Code) which includes the requirement to comply with International Standards on Auditing (ISA) when auditing the financial statements. ISA (UK & Ireland) 260 – Communication with those charged with governance requires auditors to communicate to those charged with governance, at least annually, all relationships that may bear on the firm's independence and the objectivity of the audit engagement partner and audit staff.

The revised ISA does not define 'those charged with governance' as there are such a diverse range of arrangements across all types of entity. However it does state that "The auditor shall determine the appropriate person(s) within the entity's governance structure with whom to communicate." In the case of Rochford District Council it has been agreed that the appropriate addressee of communications from the auditor to those charged with governance is the Audit Committee. The auditor reserves the right, however, to communicate directly with the Council on matters which are considered to be of sufficient importance.

Auditors are required by the Code to:

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

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

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

- any staff involved on Commission work who wish to engage in political activity should obtain prior approval from the Engagement Partner
- audit staff are expected not to accept appointments as lay school inspectors
- firms are expected not to risk damaging working relationships by bidding for work within an audited body's area in direct competition with the body's own staff without having discussed and agreed a local protocol with the body concerned
- auditors are expected to comply with the Commission's statements on firms not providing personal financial or tax advice to certain senior individuals at their audited bodies, auditors' conflicts of interest in relation to PFI procurement at audited bodies, and disposal of consultancy practices and auditors' independence
- auditors appointed by the Commission should not accept engagements which involve commenting on the performance of other Commission auditors on Commission work without first consulting the Commission
- auditors are expected to comply with the Commission's policy for both the Partner and the second in command (Manager) to be changed on each audit at least once every five years
- audit suppliers are required to obtain the Commission's written approval prior to changing any Audit Partner in respect of each audited body
- the Commission must be notified of any change of second in command within one month of making the change. Where a new Partner or second in command has not previously undertaken audits under the Audit Commission Act 1998 or has not previously worked for the audit supplier, the audit supplier is required to provide brief details of the individual's relevant qualifications, skills and experience.

Statement by the appointed auditor

In relation to the audit of the financial statements for Rochford District Council for the financial year ending 31 March 2011, we are able to confirm that the Commission's requirements in relation to independence and objectivity, outlined above, have been complied with.

Under the requirements of ISA (UK & Ireland) 260 – Communication with those charged with governance, we are not aware of any relationships that may bear on the independence and objectivity of the audit engagement partner and audit staff which are required to be disclosed.