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## EXTERNAL AUDIT OF FINANCIAL STATEMENTS 2009/10

### 1 SUMMARY

- 1.1 The purpose of this report is to invite Members to give consideration to the external auditors' report, in the attached appendix, on the results of their audit of the Council's financial statements for 2009/10.

### 2 INTRODUCTION

- 2.1 The draft financial statements for 2009/10 were approved by Council on 29 June 2010 for submission to the external auditors, PKF. Arising from the external audit, there have been a number of changes to the financial statements that have been presented to this Committee as a separate item for re-approval. The changes to the financial statements are detailed in the attached PKF report.
- 2.2 In order for the external auditors to certify the 2009/10 financial statements in accordance with statutory timescales, it is necessary for Members to give consideration to the 'Report to those charged with Governance', which is prepared by PKF who will attend this meeting to present their findings.

### 3 AUDIT FEES

- 3.1 At the meeting of this Committee on 15 June 2010, Members requested further comparisons be made of this Authority's external audit fees compared to other Authorities, based on gross rather than net figures, as the fees are partly linked to gross expenditure, and reported back to this meeting. Unfortunately, because of other time pressures particularly around final accounts and budget preparation, this work has not been completed.
- 3.2 The Essex Finance Officers' Association agreed at the beginning of this month to do a benchmarking exercise looking at audit fees and the results of this will be reported into this Committee when they are available.

### 4 2010/11 ACCOUNTS

- 4.1 The report highlights some areas for improvements around the preparation and presentation of the Council's financial statements and progress on these will be reported to this Committee.

### 5 REPRESENTATION OF THE COUNCIL

- 5.1 The Chairman of the Audit Committee has to sign an annual Statement on behalf of the Council, which is reproduced below.

**Representations of the Council**

We confirm to the best of our knowledge and belief, and having made appropriate enquiries of other officers and Members of the Council, the following representations given to you in connection with your audit of the Council's financial statements.

**Responsibility for the Financial Statements**

We acknowledge our responsibilities to make arrangements for the proper administration of the Council's financial affairs and to approve the financial statements.

**Uncorrected Misstatements**

We have considered the uncorrected misstatements in the financial statements as listed in appendix 1 to this letter, together with the explanations provided by the Head of Finance for not correcting these misstatements, and we consider them to be immaterial to the view given by the financial statements.

**Annual Governance Statement**

We confirm that the Council has conducted a review during the year of the effectiveness of its system of internal control. We are satisfied that the Annual Governance Statement appropriately reflects the circumstances of the Council and includes an outline of the actions taken, or proposed, to deal with significant internal control issues.

**6 RECOMMENDATION**6.1 It is proposed that the Committee **RESOLVES**

- (1) That the report is noted and that implementation of any action plans be reported through the audit process.
- (2) That the Chairman of the Audit Committee can sign the Statement, as outlined in this report.

Yvonne Woodward

Head of Finance

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**Background Papers:-**

None.

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If you would like this report in large print, braille or another language please contact 01702 546366.



Accountants &  
business advisers

**Rochford District Council**

**Annual Governance Report**

**2009/10**

September 2010

DRAFT

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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.

# 1 Executive summary

- 1.1 Auditing standards require that we report to Members with responsibility for financial reporting (those charged with governance) the key findings of our audit prior to issuing our opinion on the financial statements. A summary of the audit findings and conclusions is included in the table below:

Area of audit	Findings & Conclusion
<b>Financial statements</b>	
<b>Key financial systems</b>	<p>The key financial systems are generally <b>adequate</b> as a basis for preparing the financial statements. However, control weaknesses were identified during the course of our audit work.</p> <p>We were able to place reliance on the work of Internal Audit.</p>
<b>Financial statements</b>	<p><b>No material misstatements were identified</b> as a result of audit work, although several identified non-trivial misstatements were corrected.</p> <p>Two non-trivial but not material misstatements were identified that have not been adjusted for.</p> <p><b>Some areas of work are still outstanding at the time of drafting this report.</b> Should these result in any significant issues, we will give a verbal update to the Audit Committee.</p> <p>We are satisfied that the Annual Governance Statement (AGS) is not inconsistent or misleading with other information we are aware of from our audit of the financial statements.</p> <p><b>Subject to satisfactory completion of the outstanding work, we anticipate issuing an unqualified “true and fair” opinion.</b></p>
<b>Use of resources</b>	
<b>Value for money conclusion</b>	<p>We have concluded that the Council has adequate arrangements in place against the value for money criteria published by the Audit Commission and we anticipate issuing an <b>unqualified</b> value for money conclusion.</p>

## 2 Introduction

- 2.1 This report summarises the results of our audit work completed to date in respect of the financial statements and arrangements to secure economy, efficiency and effectiveness in the use of resources for the year ending 31 March 2010.
- 2.2 Our report is presented to the Members in accordance with International Auditing Standard 260 (ISA 260), which requires us to report to Members with responsibility for financial reporting (those charged with governance) the key findings from the audit, prior to issuing our opinion on the financial statements.

### Findings

- 2.3 Recommendations in response to the key findings identified by our audit of the financial statements are provided in the action plan at Appendix A. These recommendations have been discussed with appropriate officers and responses are included in the action plan.
- 2.4 We would highlight that in this report we do not provide a comprehensive statement of all weaknesses that may exist in the accounting and control systems, but only those matters which have come to our attention as a result of the audit procedures performed. We have re-reported weaknesses already reported by Internal Audit where we consider them relevant to our responsibilities as external auditor.

### Independence

- 2.5 We confirm that we are not aware of any relationships that may bear on our independence and objectivity as auditors and that our independence declaration, included in the Audit Plan for 2009/10, has remained valid throughout the period of the audit.

### Acknowledgement

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

## 3 Financial statements

### Requirements

- 3.1 We are required to provide an opinion on whether your financial statements give a true and fair view of your financial position and income and expenditure and whether they have been prepared properly, in accordance with appropriate legislation and relevant accounting guidance.
- 3.2 We carry out procedures designed to obtain sufficient appropriate audit evidence to determine with reasonable confidence whether the financial statements are free from material misstatement and evaluate the overall presentation in order to ascertain whether they have been prepared in accordance with relevant legislation and accounting standards.
- 3.3 We identify the principal areas of risk of material misstatement from our knowledge of the Council, of the environment in which it operates and from discussions with management. We address these risks by carrying out appropriate audit procedures.
- 3.4 We apply an appropriate level of materiality and as such the audit cannot be relied upon to identify all risks or potential and actual misstatements. Materiality is the expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole.
- 3.5 We set a triviality level of £20,000 for the 2009/10 financial statements audit and have not reported to you any matters arising below this level.

### Reporting to those charged with governance

- 3.6 We are required to report to you:
- our assessment of and response to **significant risks** in the financial statements
  - qualitative aspects of **accounting practices** and **financial reporting**
  - **corrected** and **uncorrected misstatements**
  - final draft **letter of representation** to be agreed by management and those charged with governance
  - expected modifications to the **audit report**
  - material weaknesses in **accounting** and **internal control systems** identified during our work
  - matters required to be reported by **other auditing standards**
  - any **other audit matters** of governance interest.
- 3.7 Our comments in these areas are set out in order below.

### ***Significant risks in the financial statements***

- 3.8 Auditing standards require that we bring to your attention areas that require additional or special audit procedures in response to areas of significant risk, such as a weakness in controls or areas requiring a higher degree of estimation by management.
- 3.9 We reported to you our updated risk assessment in the 2009/10 Audit Plan issued in December 2009, which concluded that we had identified two significant risks that were likely to impact our financial statements audit. We have since undertaken a more detailed assessment of risk following our completion of the interim review of financial controls and review of the Council's draft financial statements and no further significant risks have been identified.
- 3.10 The list below sets out the significant risks and other areas of audit focus identified in our original and updated risk assessment. The significant risks identified were in respect of:
- changes in the accounting treatment of Council Tax and National Non-Domestic Rates (NNDR) under the Statement of Recommended Practice 2009 (SORP)
  - application of the correct accounting treatment for tangible fixed assets in accordance with the SORP and the Council's own accounting policies.
- 3.11 The findings from our audit work in respect of these two areas is set out below:
- Change in the accounting treatment of Council Tax and National Non-Domestic Rates (NNDR)**
- 3.12 Local authorities are now required to account for the collection of Council Tax and NNDR on an agency basis. This means that the financial statements of the Council should only reflect the amounts proportionally payable to them (within the Income and Expenditure account and debtors on the Balance Sheet) and other amounts are shown as liabilities for amounts the Council owes to other preceptors or central government.
- 3.13 As the impact of this change in accounting policy is material, the 2008/09 figures had to be restated.
- 3.14 The accounting adjustments in the Income & Expenditure account did not reflect the Council's attributable share of the surplus on the Collection Fund in accordance with the SORP. This resulted in an overstatement of the Council's Collection Fund deficit of £48,493 for 2009/10 and £76,027 for 2008/09. This also impacted on the Statement of Movement on the General Fund balance which also required the same reversing adjustments. These errors are not material and have been corrected by the Council.

- 3.15 The agency accounting changes also had implications for the Council's Cash Flow Statement, which should only include the Council's share of the cash collected from council tax payers as the remainder is attributable to precepting authorities. However, the Council adjusted the cash flow in respect of council tax payers cash collected within the Cash Flow Statement to reduce it by the proportion of benefit subsidy received that it considered attributable to the preceptors.
- 3.16 This is contrary to the guidance contained in CIPFA's Local Authority Accounting Panel Bulletin 84 which confirms that benefit subsidy is a real cash flow due to the billing authority. The misstatements of £4,094,677 for 2009/10 and £4,062,697 in 2008/09 have not been regarded as material misstatements but as a grossing up error within the Cash Flow Statement, and have been corrected by the Council.
- 3.17 The notes to the core statements include the reconciliation of the surplus on the Income and Expenditure Account to the cash flow for net revenue activities (note 29 in the original approved draft financial statements), which details the balance sheet movement of working capital items. Our testing identified that the balance sheet movements disclosed in the note were calculated prior to the restatement of debtors, creditors and the Collection Fund required as a result of the change in the SORP relating to agency accounting. This gave rise to misstatements of £568,000 in the disclosed debtors movement, £246,000 in the disclosed creditors movement and £819,000 in the disclosed movement on the collection fund detailed within the reconciliation note. These misstatements have been corrected.

#### Accounting for tangible fixed assets

- 3.18 We carried out testing to provide assurance over the accounting treatment of fixed assets within the financial statements, and to assess the effectiveness of the Council's arrangements to mitigate risks of material misstatement in the following areas:
- **Valuation:** For each class of asset, the valuation basis was reviewed and found to be in accordance with the SORP. All valuations had been provided by Savills Property Valuers Limited who are members of the Royal Institute of Chartered Surveyors (RICS).
  - **Disposals:** Testing confirmed the completeness of this disclosure and that there were no disposals during the year.
  - **Depreciation:** Testing undertaken on the Council's depreciation charge in the year identified that it had been understated by £58,153. This was because depreciation had not been applied on the re-valued amount of the fixed assets, but rather on the carried forward net book value. This misstatement arose from an incorrect formula within the Council's spreadsheet based Fixed Asset Register. This misstatement is not material but its correction impacted on the Income and Expenditure Account.

- **Impairment:** An assessment of price movements by Savills suggested that properties had generally increased in value compared to the prior year. However, our testing of revaluations identified that the impairment charges had been incorrectly overstated by £95,658 because accumulated depreciation had not been treated correctly when accounting for the revaluation of individual assets. The correction of this error has implications for the accounting entries in the revaluation reserve in respect of revaluation gains (£380,902) and depreciation (£12,035). These misstatements are not material but have been corrected by the Council.
- **Disclosure:** Last year the Council's Microsoft Excel based Fixed Asset Register did not meet the requirements set out in the SORP guidance notes. The errors identified in the formulae in the spreadsheets have been amended by the Council and the Fixed Asset Register is now SORP compliant.

### Management override

- 3.19 In addition to the risks above, we are required to consider management override of controls to be a significant risk in all audit engagements under auditing standards as discussed in our 2009/10 Audit Plan. Journals and estimates were reviewed and tested and no issues arose.

### Areas of audit focus

- 3.20 In addition our risk assessment identified some areas of audit focus, which were:
- Assessing the Council's response to the impact of the credit crunch on the valuation of land and building fixed assets and the recoverability of debtors. Our findings in respect of asset valuations are as set out above and there were no matters arising from our review of the recoverability of debtors and the levels of bad debt provision.
  - Reviewing the level of earmarked reserves held. There were no matters arising from this review.
  - Assessing the Council's progress in preparing for the implementation of International Financial Reporting Standards. Our assessment is detailed below in paragraphs 3.55 and 3.56.

## ***Accounting practices and financial reporting***

### **Application of accounting policies**

- 3.21 The financial statements have been prepared in accordance with the accounting policies of the SORP. The key changes introduced by the 2009 SORP were:
- the change in accounting policy for the treatment of Council Tax and NNDR
  - the introduction of service concession arrangements under International Financial Reporting Interpretations Committee (IFRIC) 12
  - the introduction of Statutory Instrument 3322/2009 and requirement to disclose remuneration information for senior officers earning over £50,000.
- 3.22 We reviewed the Council's application of these changes and concluded that they had been appropriately accounted for and disclosed, with the exception of the treatment of Council Tax and NNDR under the new agency arrangement, as reported above.

### **Accounts preparation process**

- 3.23 The draft financial statements were approved by Council on 29 June 2010 which was in line with the statutory deadline. Areas of technical issues such as the senior officer remuneration disclosure, along with the format and presentation of the Annual Governance Statement had been discussed in advance of the audit demonstrating the Council's improved proactive approach to the accounts process.
- 3.24 As part of our planning for the audit, we prepared a detailed document request which outlined the information that we would require to complete the audit. The Council provided us with access to all electronic working papers on 12 July 2010, the first day of the audit.
- 3.25 The following issues were identified from the accounts preparation process:

### **Accounts closedown**

- 3.26 We recommended last year that the use of the financial ledger system, Dimensions, was developed to enable all accounting entries required to produce the year end financial statements to be posted in Dimensions.
- 3.27 In response, the Council planned to extend the use of Dimensions in the closedown and accounts preparation processes. Due to capacity issues this did not happen and the Council continued to operate a manual process using Excel spreadsheets to amend the final output from Dimensions at the year end.

- 3.28 The use of a spreadsheet based methodology for compiling the financial statements requires significant manual intervention which increases the risk of material misstatement of the financial statements through human error and we continue to recommend a change of practice in this respect.

#### **Use of management estimates**

- 3.29 We have reviewed the Council's use of management estimates and are satisfied that they are reasonable. These were:

- actuarial assumptions for the pension fund liability
- valuation of fixed assets
- recoverability of debtor balances
- creation and retention of earmarked reserves.

- 3.30 During the course of our review we noted that the instructions provided to Savills, the Council's Valuer, did not request a review of the reasonableness of the useful economic lives attributed to the properties revalued this year. Instead a reasonableness review was carried out by the Head of Finance. We concluded that the useful economic lives used were reasonable but would recommend that, in future, the Valuer's professional opinion be sought.

#### **Corrected and uncorrected misstatements**

- 3.31 As part of our audit approach, all material balances were subject to audit testing and agreement, on a sample basis, to supporting documentation. Issues arose in respect of the areas of the financial statements set out below, which we bring to your attention.

#### **Corrected non-trivial misstatements**

- 3.32 Non-trivial misstatements were identified in the following areas and corrected by the Council:

- **Collection Fund:** Our findings were as described above in paragraph 3.14.
- **The Cash Flow Statement and supporting notes:** Our findings were as described above in paragraphs 3.15 to 3.17.
- **Fixed asset depreciation and impairment charges:** Our findings were as described above in paragraph 3.18.
- **Long term creditors:** Our review of the implementation of the new agency accounting practices for Council Tax and NNDR in the SORP identified that the Council had correctly determined the share of the council tax balance owing to precepting bodies. However, the split between long-term and current liabilities was incorrectly apportioned, both in the current year and the restated comparatives. Adjustments of £307,000 and £276,000 respectively were made.

- **Housing benefit bad debt provision** (for the recovery of overpayments made to benefit claimants): Our review of the implementation of the new agency accounting practices for Council tax and NNDR in the SORP identified that the Council had correctly determined the share of the council tax balance owing to precepting bodies. However, the split between long-term and current liabilities was incorrectly apportioned, both in the current year and the restated comparatives. Adjustments of £307,000 and £276,000 respectively were made.
- 3.33 Due to the range and nature of corrected misstatements the Council has decided to re-present the amended financial statements for approval. We understand that this will be done by the Audit Committee on 29 September, using delegated authority.

#### **Uncorrected non-trivial misstatements**

- 3.34 We set out at Appendix B all of the non-trivial misstatements which we noted during the course of our audit and which management do not intend to adjust. These are discussed further below:
- **Income and debtors:** Our cut-off testing on a sample of transactions, which is designed to ensure that amounts receivable by the Council have been accounted for in the corrected financial year, identified an understatement of income and debtors of £802. Our extrapolation of the **potential** additional misstatement of income and debtors, based on the error rate within the sample we tested, is £25,437.
  - **Expenditure and creditors:** Similarly to income and debtors, our cut off testing on a sample of transactions identified an overstatement of expenditure and creditors of £28,993. Our net extrapolation of the **potential** additional misstatement of these balances is £125,744.
- 3.35 The letter of representation at Appendix C includes written representation, both from the Head of Finance and on behalf of the Council, of the reason for not making the amendments should any be identified.

#### ***Letter of representation***

- 3.36 The draft letter of representation has been attached as Appendix C. We do not anticipate any changes being required before providing our opinion on the financial statements.

#### **Audit report**

- 3.37 Subject to satisfactory resolution of the following outstanding issues and final clearance of the audit, we anticipate issuing an unqualified audit opinion on the financial statements:
- post balance sheet events review
  - completion of our review of the corrected cash flow statement

- consideration of the impact of the results of substantive testing of housing and council tax benefits work on the financial statements
- clearance of manager and partner review queries.

3.38 We will provide a verbal update on these outstanding issues at the Audit Committee on 29 September.

## Accounting and internal control systems

### *Key financial systems*

3.39 We have reviewed the key financial systems, which contribute to the preparation of materially accurate financial statements, to assess the extent to which we can place reliance on them for this purpose. 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 financial statements
- the robustness of your accounts preparation processes.

3.40 In assessing the reliability of systems as a basis for providing financial information that is free from material misstatement, we reviewed the systems notes for each financial system that were prepared by Internal Audit and we evaluated the controls within those systems, with particular focus on assessing whether the controls in place to mitigate significant risks are suitably designed and operating as intended to meet their objective.

3.41 Your key financial systems are:

- |                                |                                     |
|--------------------------------|-------------------------------------|
| - Main accounting              | - Council tax                       |
| - Cash and bank                | - Housing and council tax benefits  |
| - Payments and creditors       | - National non domestic rates       |
| - Income and debtors           | - Investments and investment income |
| - Payroll and employment costs | - Fixed assets                      |
| - Information technology       |                                     |

3.42 We also have a responsibility to give specific consideration to the potential risk of material misstatement of your financial statements due to fraud and error, including the risk of fraudulent financial reporting. This requires us to:

- review internal controls that are designed to prevent, or detect and correct, misstatements in the financial statements
- review the arrangements for preparing the financial statements
- select and test transactions and balances, including review of significant balances against expectations and substantiate individual items

- assess the significant estimates and judgements made by officers in preparing the accounts
  - consider the adequacy of presentation and disclosures included in the financial statements.
- 3.43 The primary responsibility for ensuring that your internal control frameworks are robust enough to prevent and detect material fraud and corrupt practices lies with management and those charged with governance.

### **Fraud risks**

- 3.44 In order to identify the fraud risks, and the controls you have put in place to mitigate those risks, we have:
- discussed your anti fraud and corruption arrangements with officers, and those charged with governance
  - considered the extent to which the work of Internal Audit is designed to detect material misstatements in the financial statements arising through fraud
  - made enquiries regarding instances of actual fraud you have brought to our attention.
- 3.45 During the course of our audit inquiries it was brought to our attention that the controls operating over car parking income had highlighted differences between cash collected and the expected amounts during the period May 2009 to May 2010. Investigations by Internal Audit were inconclusive as to the reasons for the differences. We understand from Internal Audit that additional control procedures have now been implemented and the differences have ceased.

### **Internal audit**

- 3.46 Where possible, we have placed reliance on Internal Audit's work and thereby avoided unnecessary duplication of audit effort. To ensure this approach was valid, we have undertaken the following:
- reviewed Internal Audit's working papers and reports
  - considered the robustness of the key financial systems on the evidence of this work
  - re-performed Internal Audit's evaluation of controls and a sample of its testing of the effectiveness of controls, to ensure that its conclusions are soundly based.
- 3.47 We were able to place reliance on Internal Audit's work for the testing of the effectiveness of specific controls.

- 3.48 As a result of our work, we have concluded that the key financial systems are generally adequate as a basis for preparing the financial statements. However, we would like to draw to your attention the following control failures which arose from work performed to underpin our opinion on the financial statements:
- 3.49 Internal control failures identified and previously reported by Internal Audit are as follows:
- **Payroll:** There was no circulation of an establishment list to Heads of Service to confirm the existence and completeness of employees included on the payroll. Whilst there are strong controls in place over the processing of starters and leavers this supplementary control is recommended.
- 3.50 Other internal control failures pertinent to our audit that we wish to bring to your attention are:
- **Payroll:** Documentary evidence of the independent check of the upload of system parameters that affect the calculation of items such as tax, statutory deductions, and gross pay rates was not retained. Consequently we were unable to conclude that the control had operated effectively.
  - **Council tax:** There was a significant backlog in empty property visits going back, in some cases, to 2008. All outstanding visits requested had been completed by January 2010, nevertheless the backlog gave rise to a lapse in the effectiveness of this control which is designed to ensure that empty property relief is only paid in appropriate circumstances.
  - **Council tax:** Two of the ten council tax refunds tested by Internal Audit had not been authorised by an appropriate officer.
- 3.51 We were able to conclude that none of the control failures identified above resulted in a material misstatement of the financial statements.

### ***Matters required to be reported by other auditing standards***

- 3.52 There are no other matters arising from our work that we are required by other auditing standards to bring to the attention of those charged with governance.

### **Other audit matters of governance interest**

#### ***Annual governance statement***

- 3.53 The Council has a responsibility to publish an Annual Governance Statement, including the outcome of a review of its effectiveness, with its 2009/10 financial statements.

- 3.54 We have reviewed the Annual Governance Statement and the supporting review of effectiveness that has been undertaken and we are satisfied that the Statement is not inconsistent with the evidence provided in the review of effectiveness and our knowledge of the Council.

***International financial reporting standards***

- 3.55 International Financial Reporting Standards (IFRSs) will be adopted in local government from 2010/11 and will require transitional arrangements to be put in place by the Council. Management should prepare for the adoption of IFRSs based on the Treasury timescales and ensure that staff have sufficient knowledge of IFRSs to restate the current financial statements.
- 3.56 The Council has made some progress since the previous Audit Commission IFRS survey in November 2009. An initial impact assessment has been completed with a further review due to take place to consider asset register requirements and other practical implications. An initial high level consideration of contracts and leases has also commenced to ensure all the relevant standards and guidance have been considered. The opening balance sheet restatement work is yet to be started, but is planned to be completed by the end of December 2010 along with the preparation of skeleton draft IFRS statements. However, resourcing issues have resulted in the Council's progress against its timetable slipping.

## 4 Use of resources

- 4.1 We are required to be satisfied that proper arrangements have been made to secure economy, efficiency and effectiveness in the use of resources (value for money) and to include our conclusions on this in our Audit Report.
- 4.2 In June 2010 the Government announced the abolition of Comprehensive Area Assessment. As a result the Audit Commission announced changes to its use of resources approach, effective immediately, which included removal of the requirement to give a score for each of the key lines of enquiry (KLOE) use of resources assessments in local government bodies. It was still necessary, however, for auditors to complete sufficient key lines of enquiry use of resources assessment work to support their statutory duty to give a value for money conclusion on the adequacy of arrangements to secure economy, efficiency and effectiveness in the Council's use of resources.
- 4.3 In practice, much of the use of resources assessment had already been completed at the time of the announcement, in order to meet the prior deadline of submitting indicative scores to the Audit Commission by 21 April 2010. The outcome of our considerations as to whether the Council had adequate arrangements in respect of each key line of enquiry assessment criteria is set out in the table at 4.7 below.
- 4.4 Our findings in respect of the work completed to the date when the removal of the scoring of judgements was announced showed that the Council had continued to improve its arrangements in the year in those KLOE previously assessed. In the new "sustainability" area, a strategic approach was identified with baseline assessment and outcomes from actions taken demonstrated.

### Value for money conclusion

- 4.5 Our value for money conclusion is based on considering our judgements from the results of our work on the key lines of enquiry and our risk based audit work, as well as consideration of the processes underpinning your review of the effectiveness of your controls as described in the Annual Governance Statement.

## Use of resources risks

- 4.6 The findings from our review of use of resources risks identified in our audit plan are summarised as follows:

Risk area	Findings and Conclusion
<p><b>Health inequalities follow up</b></p>	<p>Rochford LSP has strengthened its arrangements for tackling health inequalities. Further improvements are needed, but it has a stronger base for delivery and for having an impact on health inequalities in the future than demonstrated when we carried out our previous review.</p> <p>Progress against our original recommendations are largely assessed as “green” (indicating strong progress with the LSP on track to fulfil the recommendation) or “amber” (indicating reasonable progress but with more to do).</p>

- 4.7 Our judgements against the value for money conclusion criteria as to whether adequate arrangements are in place are set out in the table overleaf:

Value for money key lines of enquiry conclusion criteria	Yes/No
1. Does the organisation plan its finances effectively to deliver its strategic priorities and secure sound financial health?	Yes
2. Does the organisation have a sound understanding of its costs and performance and achieve efficiencies in its activities?	Yes
3. Is the organisation's financial reporting timely, reliable and does it meet the needs of internal users, stakeholders and local people?	Yes
4. Does the organisation commission and procure quality services and supplies, tailored to local needs, to deliver sustainable outcomes and value for money?	Yes
5. Does the organisation produce relevant and reliable data and information to support decision making and manage performance?	Yes
6. Does the organisation promote and demonstrate the principles and values of good governance?	Yes
7. Does the organisation manage its risks and maintain a sound system of internal control?	Yes
8. Is the organisation making effective use of natural resources?	Yes
9. Does the organisation manage its assets effectively to help deliver its strategic priorities and service needs?	Yes
10. Does the organisation plan, organise and develop its workforce effectively to support the achievement of its strategic priorities?	Yes

### ***Overall conclusion***

- 4.8 Our overall conclusion is that adequate arrangements are in place to secure value for money.

## Appendix A: Action Plan

(Please note this Action Plan includes some more minor issues not reported in the main body of our report)

Conclusions from work	Recommendations	Priority	Management response	Responsibility	Timing
<b>Accounting practices and financial reporting</b>					
The Council has had Dimensions (its financial ledger system) in place since 2006/07. However, its full capability is not currently being utilised. Instead the Council is using a number of Microsoft Excel spreadsheets to manually amend the output from Dimensions at year end, increasing the risk of material misstatement due to human error.	1. Utilise the full potential of Dimensions by including all transactions required for the preparation of the financial statements within it, or consider replacing the financial ledger system.	High	Progress on this had been held up because of staffing issues.  It will continue to be developed for 2010/11 accounts.	Financial Services Manager	July 2011

Conclusions from work	Recommendations	Priority	Management response	Responsibility	Timing
<p>Testing carried out on the Cash and Bank balance identified that the Council held an Alliance and Leicester Account with a balance of £170.09 which was not disclosed as a cash and bank balance, but rather as a creditor.</p> <p>Although trivial, this practice is not compliant with financial reporting standards and could result in a non-trivial error in future years.</p>	<p>2. Disclose all amounts in current bank accounts as bank and cash balances, ensuring that all are reconciled to the financial ledger at year end.</p>	<p>Medium</p>	<p>Accepted.</p> <p>This account is a holding account for Girobank payments and the balance is paid over to Rochford District Council's bank account on receipt of the bank statement. Only about 16 council tax payers use the account during the whole year and the balances at the end of the last 3 years have been below £2,000; and bearing in mind the figures in the accounts are quoted to the nearest £1,000, we consider there is a low risk of a non-trivial error.</p>	<p>Financial Services Manager</p>	<p>July 2010</p>

Conclusions from work	Recommendations	Priority	Management response	Responsibility	Timing
<p>The valuation instructions given by the Council to Savills, its external Valuer, did not request a review of the reasonableness of estimated residual useful economic lives.</p> <p>This increases the risk of inappropriate useful economic lives being used in accounting for fixed assets which could lead to material misstatement of the financial statements.</p>	<p>3. Instruct the Valuer to give a view on the reasonableness of the useful economic lives of assets being subject to revaluation.</p>	<p>Medium</p>	<p>Accepted.</p>	<p>Financial Services Manager</p>	<p>May 2011</p>

Conclusions from work	Recommendations	Priority	Management response	Responsibility	Timing
<p>The recharge of Rayleigh Accommodation Expenditure has been completed using an historic percentage basis. The Council was unable to provide supporting evidence to substantiate the split of this recharge to the various service areas.</p> <p>Without an accurate allocation of costs for all recharges the financial statements could be materially misstated and not comply with the regulations of the BVACOP.</p>	<p>4. Review and record the basis of apportionment for this recharge.</p>	<p>Medium</p>	<p>Accepted.</p> <p>Recharges are reviewed annually on a risk based approach.</p> <p>It is already appreciated that recharges affect the cost of individual services. The direct costs for Rayleigh accommodation totalled £93,000 in 2009/10, 2% of the £4.3m total apportioned overheads. Rayleigh Accommodation is recharged to only 4 cost centres and is considered a low risk recharge. It will be reviewed this year.</p>	<p>Senior Accountant</p>	<p>February 2011</p>

Conclusions from work	Recommendations	Priority	Management response	Responsibility	Timing
<b>Accounting and internal control systems</b>					
<p>Documentary evidence of the independent check of the upload of system parameters that affect the calculation of items such as tax, statutory deductions, and gross pay rates was not retained.</p> <p>Without retention of evidence of the operation of a control we are unable to conclude that controls are operating effectively which often results in increased substantive audit procedures.</p>	<p>5. Retain for audit evidence of the independent checks undertaken on the entry of the system parameters.</p>	Medium	<p>Although independent checks have been carried out, they were not signed in 2009/10. For 2010/11 the documentation was checked and signed to confirm dual control.</p>	Payments & Income Manager	Implemented

Conclusions from work	Recommendations	Priority	Management response	Responsibility	Timing
<p>Circulation to Heads of Service of an Establishment List was not undertaken due to ongoing work around the corporate restructure process.</p> <p>The absence of this control increases the risk of incorrect or inappropriate payroll payments being made.</p>	<ol style="list-style-type: none"> <li>6. Circulate an Establishment List to Heads of Service at least every six months.</li> <li>7. Require Heads of Service to evidence their review of the accuracy of the circulated Establishment List by signing it and returning it to the Human Resources department.</li> <li>8. Retain the evidenced Establishment Lists for audit.</li> </ol>	Medium	<p>Accepted in principle but not using the old Excel based Establishment List.</p> <p>The Council has invested in its integrated HR and payroll system (Team Spirit) to modernise processes and information available so that Heads of Service (HoS) receive timely and useful data. Once fully functional HoS will be required to review establishment using an audit trail report from Team Spirit, replacing the old Establishment List.</p> <p>This is expected to be in place by November 2010 and will operate alongside current controls over starters, leavers and amendments.</p>	Heads of Service	November 2010

Conclusions from work	Recommendations	Priority	Management response	Responsibility	Timing
<p>Testing identified that not all refunds awarded to council tax payers had been signed as authorised.</p> <p>The authorisation provides positive confirmation that the refund is valid and has been checked by an appropriate officer. In absence of this authorisation there is a risk over the validity and accuracy of refunds.</p>	<p>9. Remind authorised officers of their responsibility to check and sign all refunds awarded.</p>	<p>Medium</p>	<p>The finding is accurate but, to clarify the position, there were no issues in respect of identification of refunds due to charge payers which were all raised and approved by two separate officers. The deficiency identified relates to the physical authorisation by signature of the payment runs.</p> <p>Whilst no formal recommendation was made by Internal Audit, the fact that not all required signatures were in place was discussed with line management in February 2010.</p>	<p>Revenues &amp; Benefits Manager</p>	<p>Implemented</p>

Conclusions from work	Recommendations	Priority	Management response	Responsibility	Timing
<p>IT access is not restricted for those officers with super user permissions.</p> <p>When this type of access is permitted there is a non-rebuttable risk of management override of that system.</p>	<p>10. Introduce a process for independent sample checking of the accuracy and appropriateness of changes made by super-users, when the user performs a function that is not ordinarily within their remit to perform and results in proper segregation of duties not being observed.</p>	<p>Medium</p>	<p>A monthly audit report will be produced to list when the admin log-in is used and what was carried out. This will be reviewed by the Head of Finance.</p>	<p>Payments &amp; Income Manager</p>	<p>September 2010</p>

## Appendix B: Uncorrected misstatements

The table below details the potential differences recorded during the audit that have not been adjusted for within the financial statements:

Uncorrected misstatements	Income Over/ (Under) £'000	Expenses (Over)/ Under £'000	Assets (Over)/ Under £'000	Liabilities Over/ (Under) £'000	Reserves Over/ (Under) £'000
<p><b>Misstatements of fact (specific misstatements)</b></p> <p>Being the overstatement of expenditure and creditors arising from incorrect application of cut off procedures.</p>		(29)		29	
<p><b>Potential misstatements (estimation)</b></p> <p>Being the net extrapolated value of potential additional overstatement of expenditure and creditors arising from incorrect application of cut off procedures.</p> <p>NB: This excludes the value of the misstatement of fact identified above)</p> <p>Being the extrapolated value of potential additional understatement of income and debtors arising from incorrect application of cut off procedures.</p>	(24)	(126)	24	126	
<p><b>Total net misstatements</b></p> <p>- Net (overstatement) of costs</p> <p>- Net understatement of net assets</p>		(131)		131	

## Appendix C: Draft letter of representation

PKF (UK) LLP  
Farringdon Place  
20 Farringdon Road  
London  
EC1M 3AP

29 September 2010

Dear Sirs

### **Financial statements of Rochford District Council for the year ended 31 March 2010**

#### ***Representations of the Head of Finance***

I confirm to the best of my knowledge and belief, and having made appropriate enquiries of other officers and members of the Council, the following representations given to you in connection with your audit of the Council's financial statements for the year ended 31 March 2010.

#### **Responsibility for the financial statements**

I acknowledge as the Head of Finance and s151 Officer my responsibilities for the financial statements.

#### **Completeness of information**

All the accounting records have been made available to you for the purpose of your audit and all the transactions undertaken by the Council have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of all management and committee meetings (held during the year and up to the date of this letter) have been made available to you.

#### **Internal control**

I acknowledge my responsibility for the design, implementation and maintenance of internal control relevant to the preparation and presentation of the financial statements that are free from misstatement, whether arising from fraud or error.

#### **Fraud**

I have disclosed to you the results of my assessment of the risk that the financial statements could be materially misstated as a result of fraud.

I am not aware of any fraud or suspected fraud affecting the financial statements, nor have any allegations of fraud or suspected fraud affecting the financial statements been communicated to me by employees, former employees, councillors, regulators or others.

#### **Compliance with law and regulations**

I am not aware of any possible or actual instances of non-compliance with laws or regulations whose effects should be considered when preparing financial statements of the Council.

**Transactions with related parties**

I confirm that I have put in place appropriate arrangements to identify related party transactions.

I am satisfied that the disclosure in the financial statements of related party transactions is appropriate and complete and contains all the elements necessary for an understanding of the financial statements.

**Contingent liabilities**

I am not aware of any significant contingent liabilities, including pending claims, proceedings or litigation involving the Council that have not already been disclosed in the financial statements.

**Pension fund assumptions**

I confirm that the actuarial assumptions underlying the valuation of the Local Government Pension Scheme (LGPS) scheme liabilities, as applied by the scheme actuary, are reasonable and consistent with my knowledge of the Council. These assumptions include:

- |  |      |
|--|------|
| • Rate of inflation  | 3.3% |
| • Rate of increase in salaries                                       | 4.8% |
| • Rate of increase in pensions                                       | 3.3% |
| • Rate for discounting scheme liabilities                            | 5.6% |
| • Take up option to convert the annual pension into retirement grant | 50%  |

I also confirm that the actuary has applied up-to-date mortality tables for life expectancy of scheme members in calculating scheme liabilities.

**Uncorrected misstatements**

You have brought to my attention uncorrected misstatements in the financial statements as listed in Appendix 1 to this letter. I do not wish to correct these misstatements as I consider them to be immaterial to the view given by the financial statements.

**Subsequent events**

There have been no events since the balance sheet date which necessitate revision of the figures included in the financial statements or inclusion of a note thereto that have not already been disclosed. Should any material events occur, which may necessitate revision of the figures included in the financial statements or inclusion of a note thereto, I will advise you accordingly.

Yours faithfully

**Yvonne Woodward**  
**Head of Finance**

***Representations of the Council***

We confirm to the best of our knowledge and belief, and having made appropriate enquiries of other officers and members of the Council, the following representations given to you in connection with your audit of the Council's financial statements.

**Responsibility for the financial statements**

We acknowledge our responsibilities to make arrangements for the proper administration of the Council's financial affairs and to approve the financial statements.

**Uncorrected misstatements**

We have considered the uncorrected misstatements in the financial statements as listed in Appendix 1 to this letter together with the explanations provided by the Head of Finance for not correcting these misstatements, and we consider them to be immaterial to the view given by the financial statements.

**Annual Governance Statement**

We confirm that the Council has conducted a review during the year of the effectiveness of its system of internal control. We are satisfied that the Annual Governance Statement appropriately reflects the circumstances of the Council and includes an outline of the actions taken, or proposed, to deal with significant internal control issues.

Yours faithfully

**Cllr Mockford**  
**Audit Committee Chair**

Signed on behalf of the Council

**Note: Appendix 1 referred to in this letter relates to Appendix B in this report**

## Appendix D: Draft independent auditors' report

### Independent auditors' report to the Members of Rochford District Council

#### *Opinion on the accounting statements*

We have audited the accounting statements of Rochford District Council for the year ended 31 March 2010 under the Audit Commission Act 1998. The accounting statements comprise the Statement of Accounting Policies, the Income and Expenditure Account, the Statement of Movement on the General Fund Balance and its related note, the Statement of Total Recognised Gains and Losses, the Balance Sheet, the Cash Flow Statement, the notes to the core financial statements, the Collection Fund Income and Expenditure Account, and the notes to the Collection Fund Income and Expenditure Account. These accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of Rochford District Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 49 of the Statement of Responsibilities of Auditors and of Audited Bodies published by the Audit Commission in April 2008.

#### **Respective responsibilities of the Head of Finance and auditors**

The Head of Finance responsibilities for preparing the Statement of Accounts and accounting statements in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice is set out in the Statement of Responsibilities for the Statement of Accounts.

Our responsibility is to audit the accounting statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the accounting statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of the financial position of the Council and its income and expenditure for the year.

We review whether the Annual Governance Statement (governance statement) reflects compliance with 'Delivering Good Governance in Local Government: A Framework' published by CIPFA/SOLACE in June 2007. We report if it does not comply with proper practices specified by CIPFA/SOLACE or if the statement is misleading or inconsistent with other information we are aware of from our audit of the accounting statements. We are not required to consider, nor have we considered, whether the governance statement covers all risks and controls. Neither are we required to form an opinion on the effectiveness of the Council's corporate governance procedures or its risk and control procedures.

We read other information published in the Statement of Accounts, and consider whether it is consistent with the audited accounting statements. This other information comprises the Joint Welcome from the Leader of the Council and the Chief Executive, the Explanatory Foreword and the Glossary. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the accounting statements. Our responsibilities do not extend to any other information.

### **Basis of audit opinion**

We conducted our audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounting statements. It also includes an assessment of the significant estimates and judgments made by the Council in the preparation of the accounting statements, and of whether the accounting policies are appropriate to the Council's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the accounting statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounting statements.

### **Opinion**

In our opinion the accounting statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of the financial position of the Council as at 31 March 2010 and its income and expenditure for the year then ended.

### ***Conclusion on arrangements for securing economy, efficiency and effectiveness in the use of resources***

#### **Council's Responsibilities**

The Council 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 regularly to review the adequacy and effectiveness of these arrangements.

## Auditors' Responsibilities

We are required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the Council for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion in relation to proper arrangements, having regard to relevant criteria for principal local authorities specified by the Audit Commission and published in May 2008 and updated in October 2009. We report if significant matters have come to our attention which prevent us from concluding that the Council has made such proper arrangements. We are not required to consider, nor have we considered, whether all aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

## Conclusion

We have undertaken our audit in accordance with the Code of Audit Practice and having regard to the criteria for principal local authorities specified by the Audit Commission and published in May 2008 and updated in October 2009, and the supporting guidance, we are satisfied that, in all significant respects, the Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2010.

## Certificate

We certify that we have completed the audit of the accounts in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

**Richard Bint**  
**Partner for and on behalf of PKF (UK) LLP**  
London, UK

29 September 2010