
EXTERNAL AUDITOR'S ANNUAL AUDIT PLAN 2012/13

1 SUMMARY

- 1.1 This report presents PKF's updated annual audit plan (AAP) covering the audit of the 2012/13 accounts and grants.

2 INTRODUCTION

- 2.1 In its AAP, attached as appendix 1, PKF sets out its audit approach and scope in relation to the audit of the 2012/13 financial statements, value for money conclusion and grant certification work.
- 2.2 The AAP confirms that there has been no change to the audit fee for 2012/13 and that there is little scope to reduce the fee in future years.

3 EXTERNAL AUDIT ARRANGEMENTS

- 3.1 Following the Government's announcement to abolish the Audit Commission and a tender process to outsource its external audit work PKF was appointed external auditor for Rochford District Council with effect from 1 September 2012. This appointment is for a 5 year term.

4 RESOURCE IMPLICATIONS

- 4.1 The total audit fee of £62,643 represents a 40% reduction compared to the audit fee for 2011/12 and is in line with the savings made as part of the Audit Commission's procurement. The fee for the auditing of grant claims will be £14,950, a reduction of 44% on the 2011/12 fee of £26,640.

5 LEGAL IMPLICATIONS

- 5.1 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 a scale fee, where it considers that substantially more or less work was required than envisaged by the scale fee.

6 RECOMMENDATION

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

That the external auditor's Annual Audit Plan for 2012/13 be noted.

Yvonne Woodward

Head of Finance

Background Papers:-

None.

For further information please contact Yvonne Woodward on:-

Phone: 01702 318029

Email: yvonne.woodward@rochford.gov.uk

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

Audit Plan 2012/13

Rochford District Council

DECEMBER 2012



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Executive Summary

We are pleased to present our Audit Plan for the year ended 31 March 2013. This plan summarises the work that we propose to undertake in respect of our audit of Rochford District Council for the 2012/13 financial year.

SIGNIFICANT RISKS

Our audit is designed to respond to significant risks where we intend to focus additional resources in providing our opinion on the financial statements and our value for money conclusion.

Financial Statements

- management override inherent risk
- revenue recognition in relation to fees and charges

FEES

The proposed audit fee for the year is £62,643 plus VAT, which agrees to the scale fee published by the Audit Commission.

The proposed fee for the certification of claims and returns is £14,950 plus VAT, which agrees to the composite scale fee published by the Audit Commission.

The fee for 2012/13 has been reduced compared to 2011/12 to reflect the combined impact of the Audit Commission's outsourcing of its in-house Audit Practice and internal efficiency savings at the Audit Commission.

KEY OUTPUTS

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

- report on any significant deficiencies in internal controls in May 2013, if required, based on the results of our interim audit visit
- detailed report on the findings from the audit in September 2013
- opinion on the financial statements by 30 September 2013
- value for money conclusion by 30 September 2013
- opinion on the Whole of Government Accounts return by 30 September 2013
- summary of findings from the audit in the Annual Audit Letter in October 2013
- report on the results of our grants certification work before February 2014.

FORTHCOMING MERGER OF PKF AND BDO

BDO LLP and PKF (UK) LLP recently announced they have agreed to merge. The merger – now approved by partners of both firms – will complete by spring 2013. The firm, under the BDO brand, will be a leading accountancy and business advisory firm, with some 3,500 people in the UK generating revenues approaching £400million.

The merger creates a financially strong business with significant sector and geographical coverage across the UK. It will be a member of BDO International, the largest global accountancy organisation aimed at the mid-market, with revenues of over \$6bn operating in 138 countries worldwide.

Scope of the audit

PURPOSE OF THE AUDIT PLAN

The purpose of this audit plan is to:

- ensure that there is mutual understanding of the respective responsibilities relating to the audit
- provide you with an overview of the planned scope of the audit for the year ended 31 March 2013
- ensure that the areas of potential risk of material misstatement which we have identified are consistent with the areas which you perceive to be the key areas and to promote effective two-way communication between us.

We will also provide reports to management and those charged with government (the Audit Committee) on the findings of the audit which will focus on the key issues for the Council regarding internal control, financial governance, accounting arrangements and operational performance. We aim to provide management with clear recommendations to assist with governance and service improvements that will add value to the audit.

RESPECTIVE RESPONSIBILITIES

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

Code audit

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

The financial statements audit requires that we obtain assurance:

- that the financial statements comply with statutory requirements
- that proper practices have been observed in compiling the financial statements

- that they give a true and fair view of the financial position and the expenditure and income for the year
- the information given in the Explanatory Foreword to the Statement of Accounts consistent with the financial statements
- that the Annual Governance Statement is not inconsistent with our knowledge.

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 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 2012/13 is:
- 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 plan a programme of value for money audit work based upon our risk assessment.

Whole of government accounts

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

The WGA return is audited in accordance with Audit Commission specified procedures and requires additional assurance to confirm that counter-party data is properly and accurately recorded. We provide an assurance report to the National Audit Office to confirm that the WGA return is consistent with the audited financial statements and that it is properly prepared.

Certification of grant claims and returns

As an agent of the Audit Commission we will undertake a review of grant claims and returns above the audit threshold in accordance with the certification instruction issued by the Audit Commission. We express a conclusion whether

the claim or return: is in accordance with the underlying records (claims and returns above the minimum level and below the threshold); or is fairly stated and in accordance with the relevant terms and conditions (claims and returns over the threshold).

Co-operation with other bodies

The *Code* requires co-operation between auditors and other regulatory bodies, including the National Audit Office, to facilitate an efficient audit. In preparing this plan, we have assumed that the Council has provided us permission to discuss issues relevant to the audit with regulators and other auditors.

ENGAGEMENT PARTNER

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

Risk assessment

We are committed to targeting work to where it will have the greatest effect, based upon assessments of risk and performance. This means planning our audit work to address areas of risk relevant to our audit responsibilities and reflecting this in the audit fees. The determination of significant risks is a matter for auditors' professional judgment.

For each of the significant risks identified, we consider the arrangements put in place to mitigate the risk and plan our work accordingly. Current and emerging risks that do not impact on our audit are also discussed with management so that we may add value to the risk assessment process and highlight any areas of concern to the Council.

If you consider there to be other significant risks of material misstatement in the financial statements or, arrangements for securing economy, efficiency and effectiveness in the use of resources, whether due to fraud or error, please let us know.

FINANCIAL STATEMENTS AUDIT RISKS

Summarised below are the significant financial statement risks that impact on our audit of which we are currently aware. More detail on our proposed approach to addressing these risks can be found in Appendix A.

Management override inherent risk

Auditing standards presume that a risk of management override of controls is present in all entities and require us to respond to this risk by testing the appropriateness of accounting journals and other adjustments to the financial statements, reviewing accounting estimates for possible bias and obtaining an understanding of the business rationale of significant transactions that appear to be unusual.

Revenue recognition in relation to fees and charges

Auditing standards presume that there are risks of fraud and error in revenue recognition. These risks may arise from the use of inappropriate accounting policies, failure to apply the Council's stated accounting policies or from an inappropriate use of estimates in calculating revenue.

We have considered the Council's sources of income in this context and have determined that there is a significant risk in relation to the recognition of revenue arising from fees and charges. We will respond to this risk by substantively testing a sample of fees and charges income to ensure that this income is correctly reflected in the financial statements.

USE OF RESOURCES AUDIT RISKS

We have undertaken our value for money risk assessment for 2012/13. This takes into account matters arising from the completion of the 2011/12 audit and additional audit knowledge gained from our regular liaison meetings and planning processes. We have also considered the impact of other regulators' work throughout the year as part of our evaluation of the arrangements to secure economy, efficiency and effectiveness in the use of resources.

While we have not identified any significant use of resources audit risks at the time of writing, we will maintain a watching brief over the localisation of council tax benefit and local business rate retention. Both schemes are due to be implemented from 1 April 2013 and represent a substantial challenge for local government both financially and operationally.

Fees

FEE SUMMARY

The fee for the Code audit of the Council for the year is £62,643 plus VAT. This is based on our current assessment of the risks and the work required under the Code.

Audit area	Proposed fee 2012/13	Outturn fee 2011/12
Scale audit fee	£62,643	£104,405
Additional risk based work	-	-
Total Code audit fee	£62,643	£104,405
Certification of claims and returns, including grants report	£14,950	£26,640
Non-code assurance and advisory work	-	-

Code audit

The initial scale fee for 2012/13 has been determined by the Audit Commission as £62,643, which is lower than the 2011/12 fee to reflect the combination of outsourcing the Audit Commission's in-house Audit Practice and internal efficiency savings at the Audit Commission. It has not been necessary to make any amendments to the scale fee for 2012/13.

Due to the size of the Council, relative scale of the audit and the fact that the indicative fee proposed is the scale fee, there is little scope to reduce the audit fee in future years.

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.

Grants certification

The Audit Commission has published the indicative fee for certification work for each local authority (see table above). The Audit Commission has the power to determine the fee for certification work above or below the indicative fee where it

considers that more or less work was required than originally envisaged. This will be based on information provided as part of the Audit Commission's overall monitoring arrangements.

ASSUMPTIONS

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, to an adequate standard, and we are able to place full reliance on this work
- there are no significant changes to your main financial systems or internal controls
- you will provide the information requested in our records required listing in accordance with the agreed deadline and that there will be no significant departures from the timetable
- 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 Audit Commission or National Audit Office instructions or guidance.

The fee assumes efficient co-operation as set out above and is set at the minimum level to carry out the audit. Subject to prior approval by the Audit Commission, we reserve the right to increase fees, subject to prior approval from the Audit Commission, should the above assumptions not be met or where we encounter unexpected problems, or issues arise, causing significant additional work. Time spent dealing with problems or matters arising is usually that of senior people and hence the cost will often, necessarily, be disproportionate to the original fee.

BILLING ARRANGEMENTS

Your audit fee is being billed as follows:

	Amount billed £
September 2012	31,321.50
December 2012	15,660.75
March 2013	15,660.75
Total	62,643.00

Fees for grants certification and time spent dealing with any questions and objections from local electors will be billed when work is complete.

Key outputs

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

Output	Dates
Financial statements	
Review of internal controls	March 2013
Final audit visit	August 2013
Audit opinion covering: <ul style="list-style-type: none"> • ‘true and fair’ opinion on the financial statements • information in the Statement of Accounts being consistent with auditor’s knowledge • Annual Governance Statement prepared in accordance with guidance and not inconsistent with auditor’s knowledge 	Clearance meeting to be held early September 2013 Audit Committee September 2013 Opinion deadline 30 September 2013
Opinion on the Whole of Government Accounts return	Submission by 30 September 2013
Use of resources	
Review of economy, efficiency and effectiveness	April – August 2013
Value for money conclusion	Deadline 30 September 2013
Grants	
Audit of grant claims and returns	August – December 2013
Reporting	
Report on any significant deficiencies in internal controls (if required)	May 2013
Annual Governance Report to the Audit Committee	September 2013
Annual Audit Letter	October 2013
Grants report	Before February 2014

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

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

We will communicate matters of governance interest that have come to our attention as a result of the performance of the audit. The audit is not designed to identify all matters that may be relevant to you. Communication may take the form of discussions or, where appropriate, be in writing.

Our contact for communications will be the Head of Finance. When communicating with the Head of Finance we will consider all individuals representing those charged with governance as informed and our responsibilities for communicating relevant matters will be discharged.

INTERNAL CONTROLS AND SIGNIFICANT FINANCIAL SYSTEMS

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

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

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

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.

MATERIALITY AND TRIVIALITY

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

For reporting purposes, we consider misstatements of less than £12,000 to be trivial, unless the misstatement is indicative of fraud.

FRAUD RISK ASSESSMENT

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

- Yvonne Woodward – Head of Finance
- Tracey Metcalf – Audit and Performance Manager

Please keep us informed of any other actual, suspected or alleged instances of fraud of which you are aware.

INDEPENDENCE AND OBJECTIVITY

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

In relation to the audit of the financial statements for Rochford District Council for the financial year ending 31 March 2013, we are able to confirm that the Audit Commission’s requirements in relation to independence and objectivity have been complied with and we are not aware of any relationships that would affect our independence. Should this change we will update you accordingly.

QUALITY OF SERVICE

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.

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

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

Appendix A – Financial statements risk assessment matrix

	Audit risk identified from planning	Accounts area and assertions	Audit response
1	<p>Management override</p> <p>Auditing standards presume that a risk of management override of controls is present in all entities and require us to respond to this risk by testing the appropriateness of accounting journals and other adjustments to the financial statements, reviewing accounting estimates for possible bias and obtaining an understanding of the business rationale of significant transactions that appear to be unusual.</p>	<p>Financial statement level risk across all account headings and assertions</p>	<p>We will carry out audit procedures to review significant journals and other adjustments in preparing the financial statements, review the reasonableness of assumptions used by management when including accounting estimates, and obtain an understanding of unusual transactions.</p>
2	<p>Revenue recognition</p> <p>Auditing standards presume that there are risks of fraud and error in revenue recognition. These risks may arise from the use of inappropriate accounting policies, failure to apply the Council's stated accounting policies or from an inappropriate use of estimates in calculating revenue.</p>	<p>Occurrence and cut-off of income</p>	<p>We will substantively test a sample of income received and debtor accruals to ensure that accounting policies have been correctly applied in determining the point of recognition of income. We will review supporting evidence to ensure income transactions recognised in the financial statements have taken place and that their value is accurately reflected.</p>