

EXTERNAL AUDITOR REPORT UPDATES FOR 2015/16

1 INTRODUCTION

- 1.1 Recommendations from the Council's external auditors and other inspectors are monitored by Internal Audit for progress of implementation and their review falls within the discretion of this Committee.

2 FINAL REPORT TO THE AUDIT COMMITTEE

- 2.1 This report draws Members' attention to the findings and recommendations arising from the Final Report to The Audit Committee, Audit for the year ended 31 March 2016.
- 2.2 The draft report was presented to this Committee by Ernst & Young, the Council's external auditor, on 28 September 2016. The Final Report is attached as appendix 1.
- 2.3 The outstanding key action points, management response and progress to date have been included as appendix 2.

3 RECOMMENDATION

- 3.1. It is proposed that the Committee **RESOLVES**

That the updates to the External Audit 2015/16 key action points sheet for the Ernst & Young recommendations arising from the Final Report to The Audit Committee, Audit for the year ended 31 March 2016 be noted.



Rob Manning

Section 151 Officer

Background Papers:-

None.

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

Rochford District Council

Annual Audit Letter for the year ended 31 March 2016

October 2016

Ernst & Young LLP

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In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued “Statement of responsibilities of auditors and audited bodies 2015-16’. It is available from the Chief Executive of each audited body and via the PSAA website (www.psaa.co.uk)

The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The ‘Terms of Appointment from 1 April 2015’ issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Annual Audit Letter is prepared in the context of the Statement of responsibilities. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure – If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

A hand with white nail polish is writing on a document with a blue pen. In the background, there is a calculator, a white cup, and a laptop. A yellow rectangular box is overlaid on the left side of the image.

Executive Summary

Executive Summary

We are required to issue an annual audit letter to Rochford District Council (the Council) following completion of our audit procedures for the year ended 31 March 2016. Below are the results and conclusions on the significant areas of the audit process.

Area of Work	Conclusion
Opinion on the Council's:	Unqualified – the financial statements give a true and fair view of the financial position of the Council as at 31 March 2016 and of its expenditure and income for the year then ended
▶ Financial statements	
▶ Consistency of other information published with the financial statements	Other information published with the financial statements was consistent with the Annual Accounts.
Concluding on the Council's arrangements for securing economy, efficiency and effectiveness	<p>We concluded that you have not put in place proper arrangements to secure value for money in your use of resources. This is because the Council has not complied with Section 5 of the Accounts and Audit Regulations 2015 by not undertaking an effective internal audit to evaluate the effectiveness of its risk management and governance processes. The Council has reported publicly this weakness and is addressing it in the 2016/17 financial year.</p> <p>In our judgement this issue is evidence of weaknesses in proper arrangements for informed decision making and acting in the public interest, through demonstrating and applying the principles and values of good governance.</p>
Area of Work	Conclusion
Reports by exception:	
▶ Consistency of Governance Statement	The Annual Governance Statement was consistent with our understanding of the Council.
▶ Public interest report	We had no matters to report in the public interest.
▶ Written recommendations to the Council, which should be copied to the Secretary of State	We had no matters to report.
▶ Other actions taken in relation to our responsibilities under the Local Audit and Accountability Act 2014	We had no matters to report.

Area of Work	Conclusion
Reporting to the National Audit Office (NAO) on our review of the Council's Whole of Government Accounts return (WGA).	The Council is below the specified audit threshold of £350 million. Therefore, we did not perform any audit procedures on the consolidation pack.

As a result of the above we have also:

Area of Work	Conclusion
Issued a report to those charged with governance of the Council communicating significant findings resulting from our audit.	Our Audit Results Report was issued on 23 September 2016 and discussed with the Audit Committee on 28 September 2016.
Issued a certificate that we have completed the audit in accordance with the requirements of the Local Audit and Accountability Act 2014 and the National Audit Office's 2015 Code of Audit Practice.	Our certificate was issued on 29 September 2016.

In February 2017 we will also issue a report to those charged with governance of the Council summarising the certification work we have undertaken.

We would like to take this opportunity to thank the Council's staff for their assistance during the course of our work.

Kevin Suter

Executive Director
Luton
For and on behalf of Ernst & Young LLP, Appointed Auditor

Purpose

Purpose

The Purpose of this Letter

The purpose of this annual audit letter is to communicate to Members and external stakeholders, including members of the public, the key issues arising from our work, which we consider should be brought to the attention of the Council.

We have already reported the detailed findings from our audit work in our 2015/16 Audit Results Report to the 28 September 2016 Committee, representing those charged with governance. We do not repeat those detailed findings in this letter. The matters reported here are the most significant for the Council.



Responsibilities

Responsibilities

Responsibilities of the Appointed Auditor

Our 2015/16 audit work has been undertaken in accordance with the Audit Plan that we presented to the 8 March 2016 Audit Committee and is conducted in accordance with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office.

As auditors we are responsible for:

- ▶ Expressing an opinion:
 - ▶ On the 2015/16 financial statements; and
 - ▶ On the consistency of other information published with the financial statements.
- ▶ Forming a conclusion on the arrangements the Council has to secure economy, efficiency and effectiveness in its use of resources.
- ▶ Reporting by exception:
 - ▶ If the annual governance statement is misleading or not consistent with our understanding of the Council;
 - ▶ Any significant matters that are in the public interest;
 - ▶ Any written recommendations to the Council, which should be copied to the Secretary of State; and
 - ▶ If we have discharged our duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice.

Alongside our work on the financial statements, we also review and report to the National Audit Office (NAO) on your Whole of Government Accounts return. The Council is below the specified audit threshold of £350 million. Therefore, we did not perform any audit procedures on the return.

Responsibilities of the Council

The Council is responsible for preparing and publishing its statement of accounts accompanied by an Annual Governance Statement. In the AGS, the Council reports publicly each year on how far it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in year, and any changes planned in the coming period.

The Council is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

The background is a blurred office desk. On the left, a green plant is partially visible. In the center, there are several clear glass tumblers filled with water. To the right, a laptop screen displays a blue-toned interface with charts and data. In the foreground, there are papers with financial data, including a table with columns and rows of numbers, and a pen.

Financial Statement Audit

Financial Statement Audit

Key Issues

The Council's Statement of Accounts is an important tool for the Council to show how it has used public money and how it can demonstrate its financial management and financial health.

We audited the Council's Statement of Accounts in line with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office and issued an unqualified audit report on 29 September 2016.

Our detailed findings were reported to the 28 September 2016 Audit Committee.

The key issues identified as part of our audit were as follows:

Significant Risk	Conclusion
<p>Management override of controls</p> <p>A risk present on all audits is that management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly, and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.</p> <p>Auditing standards require us to respond to this risk by testing the appropriateness of journals, testing accounting estimates for possible management bias and obtaining an understanding of the business rationale for any significant unusual transactions.</p>	<p>We did not identify any evidence of material management override.</p> <p>We obtained a full list of journals posted to the general ledger during the year, and analysed these journals using criteria we set to identify any unusual journal types or amounts. We then tested a sample of journals that met our criteria and tested these to supporting documentation. We had no matters to report.</p> <p>Our review of accounting estimates did not identify any evidence of management bias. We have not identified any instances of inappropriate judgements being applied.</p> <p>We did not identify any other transactions during our audit which appeared unusual or outside the Council's normal course of business</p>
<p>Revenue and expenditure recognition</p> <p>Auditing standards also required us to presume that there is a risk that revenue and expenditure may be misstated due to improper recognition or manipulation.</p> <p>We respond to this risk by reviewing and testing material revenue and expenditure streams and revenue cut-off at the year end.</p>	<p>Our review concluded that the Council has appropriate revenue and expenditure recognition policies.</p> <p>Our review of accounting estimates did not identify any evidence of management bias.</p> <p>We did not find errors in material revenue or expenditure streams.</p>

For local authorities the potential for the incorrect classification of revenue spend as capital is a particular area where there is a risk of management override. We therefore review capital expenditure on property, plant and equipment to ensure it meets the relevant accounting requirements to be capitalised.

We did not find errors from testing cut-off processes.

Our testing did not identify any expenditure which had been inappropriately capitalised.

Other Key Findings

Conclusion

The Council succeeded in bringing forward its timetable for the preparation of the narrative report, financial statements and annual governance statement to meet the timetable for publication this year. However, the Council made two errors in publishing the required information on the website by 30 June 2016:

- The statement of accounts did not include the Cash and Cash Equivalents balance of £5.280 million on the face of the Balance Sheet as the PDF version had not picked up the relevant line from the final accounts template; and
- The published documents did not include the Narrative Statement.

We did not consider any further formal reporting was required as the Council corrected the omissions by early July 2016. We judged this would give the public sufficient time to consider all documents fully.

Management completed its working papers to support the financial statements in the week of 18 July 2016. Management also created further working papers in response to our queries during the audit and had difficulty in fulfilling our request in respect of our analytic tools.

Best practice is for all working papers to be prepared at the time of sign off of the financial statements to 30 June each year. As the timetable moves to 31 May in 2017/18, management needs to bring forward its preparations to meet this date.

Note 28: Grant income records that management has credited to the Net Cost of Services within the Comprehensive Income and Expenditure Statement (CIES) £0.222 million for a Disabled Facilities Grant.

The Code of Accounting Practice (the Code) sets out that all capital grants should be shown as a grant within Taxation and Non-Specific Grant Income and Expenditure. Those charged with governance and management have not corrected the financial statements for this item and set out the reasons why in the letter of representation to us. The uncorrected error had no impact on the Council's useable reserves.

During our audit, we noted that within Note 7: Adjustments between Accounting Basis and Funding Basis under Regulations, several sums did not agree as expected to other disclosure notes within the financial statement,

In addition, the published PDF version of the financial statements omitted a number of lines and so did not cast.

Management sought external accounting support to review the entries made and advise on the accounting treatment. Management subsequently amended Note 7 to ensure disclosure of all lines omitted from the published PDF version and to ensure internal agreement with other notes within the financial statements.

Arising from this work, management has corrected the CIES and Creditors in the Balance Sheet for the sums under review. The impact has been to reduce the General Fund by £0.402 million from £1.578 million to £1.176 million. This is above the Council's minimum level for General Reserves of £1 million. Management had based the Medium Term Financial Plan and therefore the Council's savings plans on a General Fund position of £1.176 million. Therefore there is no impact for the Medium Term Financial Plan.

In closing the accounts, management were concerned about the entry of £0.402m and recorded the sum as a balancing item within Note 7 and alerted EY to the sum.

However, management should not rely on audit to resolve problems that may arise within the Council's accounts. Should such issues arise in future years, management should review the capacity of the finance team to correct these errors fully and seek external support, if required, at an early stage

Our initial review of the financial statements identified that there were no provisions disclosed in the Balance Sheet, which is unusual compared with other district council accounts.

Management has amended the financial statements to include a provision note within the Balance Sheet and at Note 18b to record Rochford's 2015/16 £128,000 share of its provision for business rates appeals. Previously the sum had been netted off within Note 16 Short Term Debtors. Management has also disclosed an accounting policy to cover this item.

In revising note 16 short Term debtors, management has provided a new line in accordance with the Code of Accounting Practice to show the gross value of Short Term Debtors (Other Entities and Individuals to the value of £2.6 million) and the associated Provision for Doubtful Debts (£1.1 million), which were netted off previously.

Management has also amended Note 31 Contingent Liabilities to summarise possible liabilities rather than to specify a likely estimate as originally disclosed. However, our audit identified that at least two of the contingent liabilities previously disclosed should be classified as provisions. Management agree with this conclusion.

We note that management has voluntarily set up a reserve to cover payments should they arise. However, the Code of Audit Practice, in line with international Accounting Standard 37 requires a provision to be recognised where the following exist:

- An authority has a present obligation (legal or constructive) as a result of a past event;
- It is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- A reliable estimate can be made of the amount of the obligation. The Standard notes that it is extremely rare that a reliable estimate cannot be made.

We did not seek amendment for the provisions we identified as the sums this year are immaterial. However, management should apply the concept within international Accounting Standard 37 to its treatment of provisions and contingent liabilities from 2016/17 onwards. Where cases may be confidential, the Council may wish to disclose a general legal provision to present these sums as other councils do.

In previous years, the Council has not set aside sums to fund a Minimum Revenue Provision (MRP). An MRP is required in order to set aside a provision for the repayment of debt to finance the capital programme. The calculation is based on the opening balancing position on the Capital Financing Requirement (CFR).

Based on the current figure the sum is not material. However, our audit indicated that there may be errors in the calculation of the CFR and as such we have asked management during 2016/17, to:

- Review the calculations for the CFR back to 2004 if necessary;
- Review whether funding has been correctly applied in those years;
- Establish what CFR should be; and
- If required set out an MRP policy and start setting aside a provision from 2016/17.

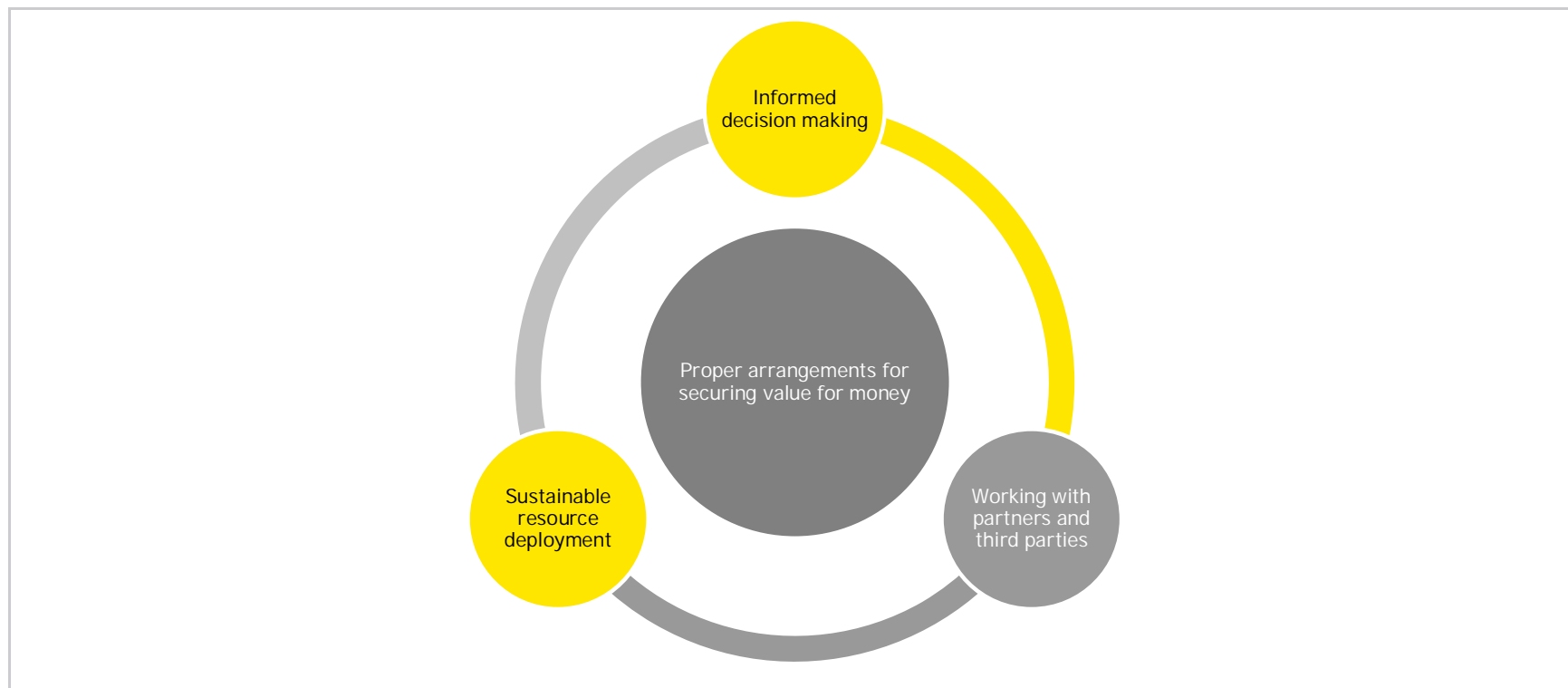
Value for Money

Value for Money

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

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

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



Sustainable Resource Deployment

In our March 2016 Audit Plan, we identified one significant risk in relation to our value for money conclusion. The significant risk concerned sustainable resource deployment and the Council's cumulative budget gap in the Medium Term Financial Plan (MTFP) over the next three years. We have performed the procedures outlined in our Audit Plan to address this risk and our work did not identify any significant matters in relation to the Council's arrangements.

In this regard, we therefore concluded that the Council had adequate arrangements in place.

Informed Decision Making

Subsequent to issuing the Audit Plan and after receipt of the report on the Head of Internal Audit's opinion, we have identified a further significant risk in relation to the Council's arrangements for maintaining an effective internal audit service. This relates to Informed decision making: Undertaking an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes.

In this regard we concluded that you had not put in place proper arrangements to secure value for money in your use of resources.

The Council has reported publicly this weakness and is addressing it in the 2016/17 financial year.

Our key findings and observations from our value for money work are set out below.

Key Findings

Consideration of arrangements for deployment of resources to achieve planned and sustainable outcomes

The Council published its Medium Term Financial Plan (MTFP) in February 2016. The Council identified a cumulative funding gap of £2.893 million to 31 March 2021.

Delivery of the MTFP depends at present on the receipt of £1.2 million incentivised funding each year from Essex County Council. This sum is not guaranteed. To deliver balanced budgets, the MTFP details savings concepts of £2.363 million leaving a budget gap of £0.5 million by 31 March 2021. Management has risk assessed the savings concluding that achievement of £1.994 savings is likely, with £0.369 at risk, but none at high risk of delivery. We note that savings concepts are discussed with Members and that the Council is to refine its MTFP in Autumn 2016.

We have reviewed:

- The robustness of any assumptions used in medium term planning;
- The Council's approach to prioritising resources whilst maintaining services; and
- The savings plans and concepts in place, and assessing the likelihood of whether these can provide the Council with the required savings/ efficiencies over the medium term.

The Robustness of any Assumptions used in Medium Term Planning

We concluded that the MTFP identifies the key assumptions expected to underpin the 2016/17 budget. Assumptions include:

- Reductions in future levels of Revenue Support Grant;
- Using New Homes Bonus (NHB) to provide core funding to support the Council's transformation agenda, rather than the base budget;

- Pay inflation, inflation for other costs and fees and charges; and
- Business rates retention income and council tax increases.

We consider that management can improve the MTFP by introducing sensitivity analysis to the assumptions and scenario analysis to help guide Members to determine options for budget setting and precept levels.

The Council's Approach to Prioritising Resources whilst Maintaining Services

The savings concepts follow good practice in covering transformation projects, efficiency savings, income generation and reviewing service provision to address the budget gap. In making decisions on service provision the Council reports internally to the Executive on current performance aligned to its corporate objectives. To enhance decision making, the Section 151 Officer is to produce an integrated finance and performance report in 2016/17. To aid transparency, the Council should bring its public reporting of performance targets on the website up to date. The Council needs to bridge the £0.5m budget gap by 31 March 2021.

The Savings Plans and Concepts in Place

As at the end of 31 March 2016, the revised General Fund balance is £1.176 million, forecast to reduce to £1.071 million in 2017/18. This sum remains above the level of £1.0 million, which the Section 151 Officer recommends the minimum level for the General Fund balance. The Council also has earmarked reserves of £2.919 million at 31 March 2016. The sum includes £1.4 million for the NHB this year, which if available, the Council will use in-year to fund transformational projects. As a result management forecast that earmarked reserves will fall to £1.1 million in 2016/17 before increasing to £1.8 million by 31 March 2018. To 2018/19, should no savings plans materialise, the use of forecast reserves to fund the gap would leave £0.7 million in the General Reserve. The Council needs to consider carefully all income streams including council tax in maintaining its reserves in the future.

Conclusion

Bridging the budget gap to ensure the Council's future financial viability presents a significant challenge for the Council. We have concluded that the Council is responding well to the financial challenges it is facing, but could improve arrangements for sensitivity and scenario analysis in its budget setting, its public reporting of performance and continuing to review all sources of income to increase reserves.

Informed Decision Making: Undertaking an effective Internal Audit to evaluate the Effectiveness of its Risk management, Control and Governance Processes.

The previous external auditors reported that following a major restructure of the Council, based on the days recorded in the 2015/16 Audit Plan, the Council should closely monitor the sufficiency of depth of Internal Audit coverage for 2015/16.

The Assistant Director (Legal Services) reported to the December 2015 Audit Committee on Internal Audit's self-assessed level of compliance with Public Sector Internal Audit Standards. This highlighted that Internal Audit did not comply with the standards in a number of key aspects.

After the December 2015 meeting, the Council invited the Essex County Council Internal Audit Team to undertake a peer review of the Council's internal audit and counter fraud services. This review assessed structure, skills, working practices, coverage and impact. The peer review identified further areas for Internal Audit to improve.

The Head of Internal Audit's annual opinion on the overall adequacy and effectiveness of the Council's framework of governance, risk management and internal control during 2015/16, issued to 21 June 2016 Audit Committee, concluded that 'due to the limitations in the coverage of Internal Audit work completed in 2015/16, I cannot provide an overall opinion on the Council's systems of governance, risk management and internal control.

We noted that the Annual Governance Statement considers all the work, reports and investigations throughout 2015/16 and concludes that 'although there is limited Internal Audit work to provide an independent assurance opinion, it is considered the arrangements and processes described above provide sufficient collective evidence the Council has adequate governance arrangements.'

We have reviewed the Council's reports and discussed with management. We are not aware of any significant failings in governance from our audit work.

However, the Council has not complied with Section 5 of the Accounts and Audit Regulations 2015 by not undertaking an effective internal audit to evaluate the effectiveness of its risk management and governance processes. Internal Audit has not complied with the UK Public Sector Internal Audit Standards in a number of significant areas during 2015/16. The Council did not appoint a Chief Audit Executive with the qualifications or experience required by the Standards from September 2015 to 31 March 2016 and did not put in place alternative arrangements to deliver the same impact as indicated within CIPFA Statement on the Role of the Head of Internal Audit.

We therefore have concluded that in all significant respects, Rochford District Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2016, with the exception of the matter reported above,

This is because the omission in respect of Internal audit during 2015/16 provides evidence of weaknesses in proper arrangements for informed decision making and acting in the public interest, through demonstrating and applying the principles and values of good governance.

We note that the Council has reported publicly the weaknesses described and is addressing in the 2016/17 financial year. The Council is in the process of appointing a new Chief Audit Executive and is intending to develop an internal audit programme to ensure that sufficient work will be carried out to enable an overall opinion to be given in 2016/17 on the Council's systems of governance, risk management and internal control.



Other Reporting Issues

Other Reporting Issues

Whole of Government Accounts

The Council is below the specified audit threshold of £350 million. Therefore, we did not perform any audit procedures on the consolidation pack.

Annual Governance Statement

We are required to consider the completeness of disclosures in the Council's annual governance statement, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it is misleading.

Management has amended the annual government statement for minor omissions from the Code of Practice and to provide the Head of Internal Audit Opinion in full.

Report in the Public Interest

We have a duty under the Local Audit and Accountability Act 2014 to consider whether, in the public interest, to report on any matter that comes to our attention in the course of the audit in order for it to be considered by the Council or brought to the attention of the public.

We did not identify any issues which required us to issue a report in the public interest.

Written Recommendations

We have a duty under the Local Audit and Accountability Act 2014 to designate any audit recommendation as one that requires the Council to consider it at a public meeting and to decide what action to take in response.

We did not identify any issues which required us to issue a written recommendation.

Objections Received

We did not receive any objections to the 2015/16 financial statements from member of the public.

Other Powers and Duties

We identified no issues during our audit that required us to use our additional powers under the Local Audit and Accountability Act 2014.

Independence

We communicated our assessment of independence in our Audit Results Report to the 8 March 2016 and 28 September 2016 Audit Committees. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning regulatory and professional requirements.

Control Themes and Observations

We have adopted a fully substantive approach and have therefore not tested the operation of controls.

A close-up, shallow depth-of-field photograph of a person's hands holding binoculars. The person's face is blurred in the background, focusing attention on the binoculars and the hands. A bright yellow rectangular box is overlaid on the left side of the image, containing the text "Focused on your future".

Focused on your
future

Focused on your future

Area	Issue	Impact
EU referendum	<p>Following the majority vote to end the UK's membership of the European Union (EU) in the EU Referendum held on 23 June 2016 there is a heightened level of volatility in the financial markets and increased macroeconomic uncertainty in the UK. For entities in the public sector, there is likely to be an impact on investment property valuations if confidence in the wider UK property market falls; and the valuation of defined benefit pension obligations may also be affected. It is too early to estimate the quantum of any impact of these issues, but there is likely to be significant ongoing uncertainty for a number of months while the UK renegotiates its relationships with the EU and other nations.</p>	<p>Many of the issues and challenges that face the UK public sector will continue to exist, not least because continued pressure on public finances will need responding to. Additionally it may well be that the challenges are increased if the expected economic impacts of the referendum and loss of EU grants outweigh the benefits of not having to contribute to the EU and require even more innovative solutions.</p> <p>We are committed to supporting our clients through this period, and help identify the opportunities that will also arise. We will engage with you on the concerns and questions you may have, provide our insight at key points along the path, and provide any papers and analysis of the impact of the referendum on the Government and Public Sector market.</p>
Faster close	<p>From the 2017/18 financial year, the deadline for preparing the financial statements will move to 31 May from 30 June. In addition, the deadline for completing the statutory audit will move to 31 July from 30 September.</p>	<p>The faster closedown timetable requires the Council to adjust their timetables for preparing the accounts, as well as the budget setting process and the timing of committee meetings.</p> <p>It requires upfront planning to identify areas of the accounts that can be prepared earlier, before the 31 March, and there will be a need to establish robust basis for estimations across a wider number of entries in the financial statements.</p> <p>For the 2016/17 audit, we are working with officers to bring our work forward to support the transition ahead of the new deadlines in 2017/18.</p>

Area	Issue	Impact
Appointment of auditors	<p>The current audit contracts expire on the completion of the 2017/18 audit. The expiry of contracts also marks the end of the current mandatory regime for auditor appointments.</p> <p>After this, the Council can exercise choice about whether they decide to opt in to the authorised national scheme, or whether to make other arrangements to appoint their own auditors.</p> <p>In July 2016, the Secretary of State for Communities and Local Government specified Public Sector Audit Appointments limited (PSAA) as an appointing person under regulation 3 of the Local Audit (Appointing Person) Regulations 2015.</p> <p>PSAA will be able to appoint an auditor to relevant authorities that choose to opt into its national collective scheme.</p>	<p>Appointment of auditors for the 2018/19 financial year is required by 31 December 2017.</p> <p>The Council should consider whether they intend to opt into the appointed person scheme to appoint your auditors from 2018/19 or if the Council should make their own arrangements following the legislative requirements.</p>

Appendix A

Audit Fees

Appendix A Audit Fees

Our March 2016 Audit Plan recorded planned fees for 2015/16 in line with the scale fee set by the PSAA Ltd.

Description	Final Fee 2015/16 £	Planned Fee 2015/16 £	Scale Fee 2015/16 £	Final Fee 2014/15 £
Total Audit Fee – Code work	To be confirmed*	47,657	47,657	63,543
Total Audit Fee – Certification of claims and returns	To be confirmed**	8,184	8,184	11,360
Non-Audit Work	750***	0	0	0

*As reported in the Audit Results Report to those charged with governance, we have undertaken extra work as a result of:

- The technical review of the Minimum Revenue Provision and Note 7: Adjustments between Accounting Basis and Funding basis under Regulations;
- The request for extra working papers during the audit; and
- Extra work to address the significant risk arising in respect of the Value for Money Conclusion qualification as regards the Council's arrangements for Internal Audit.

We anticipate a scale fee variation will be necessary, which we will discuss in the first instance with the Section 151 Officer. Any extra fee is subject to approval by PSAA Ltd.

**Our certification of the housing benefits claim takes place in October and November 2016. We will confirm the final fees charged in our certification report to be issued to the Council in February 2017.

***We have undertaken non-audit work outside of the PSAA's requirements to deliver training to Members at the 15 June 2016 Audit Committee.

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ED None

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Appendix 2

CONCLUSIONS FROM WORK	CONCLUSION/ RECOMMENDATION	MANAGEMENT RESPONSE	RESPONSIBLE OFFICER	TIMING
<p>The Council succeeded in bringing forward its timetable for the preparation of the narrative report, financial statements and annual governance statement to meet the timetable for publication this year. However, the Council made two errors in publishing the required information on the website by 30 June 2016:</p> <ul style="list-style-type: none"> · The statement of accounts did not include the Cash and Cash Equivalents balance of £5.280 million on the face of the Balance Sheet as the PDF version had not picked up the relevant line from the final accounts template; and · The published documents did not include the Narrative Statement. 	<p>We did not consider any further formal reporting was required as the Council corrected the omissions by early July 2016. We judged this would give the public sufficient time to consider all documents fully.</p>	<p>Agree, Rochford District Council will continue to strive to achieve the stricter timetable for closure and reporting by 2018/19 with a continual drive to reduce the time required, through a streamlined year end process</p> <p>The errors will not be repeated as a separate approval check by the Principal Finance Manager and then the Section 151 will now be completed.</p> <p>30 June 2016 was the first submission of a narrative statement and as such was under estimated the length of time it would take to produce. Going forwards this will be timetabled much earlier in the closure process</p>	S151 Officer	Mar-17
<p>Management completed its working papers to support the financial statements in the week of 18 July 2016. Management also created further working papers in response to our queries during the audit and had difficulty in fulfilling our request in respect of our analytic tools.</p>	<p>Best practice is for all working papers to be prepared at the time of sign off of the financial statements to 30 June each year. As the timetable moves to 31 May in 2017/18, management needs to bring forward its preparations to meet this date.</p>	<p>Agreed, this will form part of the streamlined year end process</p>	S151 Officer	Mar-17
<p>Note 28: Grant income records that management has credited to the Net Cost of Services within the Comprehensive Income and Expenditure Statement (CIES) £0.222 million for a Disabled Facilities Grant.</p>	<p>The Code of Accounting Practice (the Code) sets out that all capital grants should be shown as a grant within Taxation and Non-Specific Grant Income and Expenditure. Those charged with governance and management have not corrected the financial statements for this item and set out the reasons why in the letter of representation to us. The uncorrected error had no impact on the Council's useable reserves.</p>	<p>Disagree. Rochford District Council has refuted this item due to our own interpretation of the code from CIPFA. The disclosure will not be relevant in 2016/17 onwards due to the changes in the reporting requirements. Therefore no further action</p>	S151 Officer	COMPLETE
<p>During our audit, we noted that within Note 7: Adjustments between Accounting Basis and Funding Basis under Regulations, several sums did not agree as expected to other disclosure notes within the financial statement, In addition, the published PDF version of the financial statements omitted a number of lines and so did not cast.</p>	<p>In closing the accounts, management were concerned about the entry of £0.402m and recorded the sum as a balancing item within Note 7 and alerted EY to the sum. However, management should not rely on audit to resolve problems that may arise within the Council's accounts. Should such issues arise in future years, management should review the capacity of the finance team to correct these errors fully and seek external support, if required, at an early stage</p>	<p>Rochford District Council alerted Ernst & Young to this issue and then pulled in expertise from Essex County Council (as part of the s151 arrangement).</p> <p>If there is a future technical issue that cannot be resolved "in house" then as long as the s151 arrangement with ECC is in place, then the specialist technical support will be available</p>	S151 Officer	COMPLETE

Our initial review of the financial statements identified that there were no provisions disclosed in the Balance Sheet, which is unusual compared with other district council accounts.	Management has amended the financial statements to include a provision note within the Balance Sheet and at Note 18b	Agree, Rochford District Council will continue this practice in future years	S151 Officer	Mar-17
Bridging the budget gap to ensure the Council's future financial viability presents a significant challenge for the Council. We have concluded that the Council is responding well to the financial challenges it is facing, but could improve arrangements for sensitivity and scenario analysis in its budget setting, its public reporting of performance and continuing to review all sources of income to increase reserves.	Improve Budget sensitivity & scenario analysis	Agree, the budget has several scenarios and sensitivity analysis', but these are not always passed on the members. This will form part of the budget away days in future budget rounds	S151 Officer	Mar-17
	Improve public Reporting of Performance	Agree, the Performance reporting of the Council has been integrated with Finance and the Transformation programme, further consideration needs to be made what of this can be made public		
	Continue to review all sources of income	Agree, new process in place to inform Assistant Directors of all income streams on a regular basis		
The Council has not complied with Section 5 of the Accounts and Audit Regulations 2015 by not undertaking an effective internal audit to evaluate the effectiveness of its risk management and governance processes. Internal Audit has not complied with the UK Public Sector Internal Audit Standards in a number of significant areas during 2015/16. The Council did not appoint a Chief Audit Executive with the qualifications or experience required by the Standards from September 2015 to 31 March 2016 and did not put in place alternative arrangements to deliver the same impact as indicated within CIPFA Statement on the Role of the Head of Internal Audit.	We note that the Council has reported publicly the weaknesses described and is addressing in the 2016/17 financial year. The Council is in the process of appointing a new Chief Audit Executive and is intending to develop an internal audit programme to ensure that sufficient work will be carried out to enable an overall opinion to be given in 2016/17 on the Council's systems of governance, risk management and internal control	Agree. Rochford District Council has recognised this issue, which is now being addressed by the new Chief Audit Executive agreement with Essex County Council, the updated Audit plan and the large changes in the Internal Audit approach	Assistant Director, Democratic Services	Mar-17