
EXTERNAL AUDITOR'S ANNUAL AUDIT PLAN FOR 2013/14 AND PLANNING LETTER FOR 2014/15

1 SUMMARY

- 1.1 This report presents the Council's external auditor's Annual Audit Plan (AAP) covering the audit of the 2013/14 accounts and certification of claims and returns and the Planning Letter 2014/15, which reports the proposed fees and programme of work for the 2014/15 financial year.

2 INTRODUCTION

- 2.1 In its AAP, attached as appendix 1, BDO sets out its audit approach and scope in relation to the audit of the 2013/14 financial statements, value for money conclusion and grant certification work.
- 2.2 The Planning Letter, attached as appendix 2, sets out the proposed fees and audit arrangements for 2014/15.

3 EXTERNAL AUDIT ARRANGEMENTS

- 3.1 When the Audit Commission was abolished and external audit work outsourced, PKF (UK) LLP was confirmed as appointed external auditor for Rochford District Council with effect from 1 September 2012 for a 5 year term. PKF has subsequently merged with BDO LLP under the BDO brand. The Audit Commission has undertaken due diligence and advised that it is satisfied that the new merged firm will continue to meet the Commission's requirements. The Audit Commission Board confirmed that it had novated PKF's contract to BDO with effect from 28 March 2013.

4 RESOURCE IMPLICATIONS

- 4.1 The AAP confirms that the proposed core audit fee for 2013/14 is £62,643, which agrees to the scale fee published by the Audit Commission. The proposed fee for the certification of claims and returns is £10,912, which agrees to the composite scale fee published by the Audit Commission.
- 4.2 The Planning Letter sets out the proposed fees for 2014/15, which is £62,643 and is the same as the fee proposed for 2013/14. The proposed certification fee for 2014/15 has not yet been confirmed.
- 4.3 If BDO needs to propose any amendments to the audit fee during the course of the audit or where its assessment of risk and complexity are significantly different from those reflected in the proposed fee, it will first discuss this with the Head of Finance and seek approval from the Audit Commission for a proposed variation of fee.

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**

- (1) That the external auditor's Annual Audit Plan for 2013/14 be noted.
- (2) That the external auditor's Planning Letter 2014/15 be noted.

Y. Woodward

Yvonne Woodward
Head of Finance

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

AUDIT PLAN 2013/14 TO THE AUDIT COMMITTEE

Audit for the year ended 31 March 2014

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EXECUTIVE SUMMARY

We are pleased to present our Audit Plan for the year ending 31 March 2014. This plan summarises the work that we propose to undertake in respect of our audit of Rochford District Council for the 2013/14 financial year.

Significant Risks

Our audit is designed to respond to significant risks and identify where we intend to focus our resources in providing our opinion on the financial statements and our value for money conclusion. Summarised below are the significant risks that impact on our audit of which we are currently aware:

AREA OF AUDIT	SUMMARY OF SIGNIFICANT RISKS
Financial statements	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.

Fees

As set out in our Planning Letter 2013/14, the proposed core 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 £10,912 plus VAT, which agrees to the composite scale fee published by the Audit Commission.

Key outputs

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

REPORT	DATE
Report on any significant deficiencies in internal controls, if required, based on the results of our interim audit visit	July 2014
Final report to those charged with governance	September 2014
Independent auditor's report including: <ul style="list-style-type: none"> Opinion on the financial statements Value for money conclusion Certificate 	By 30 September 2014
Assurance statement on the Whole of Government Accounts return	By 3 October 2014
Summary of findings from the audit in the Annual Audit Letter	October 2014
Report on the results of our grant claims and returns certification work	January 2015

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 ending 31 March 2014
- 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 governance on the findings of the audit which will focus on the significant matters arising from the audit of the Council regarding internal control, financial governance and reporting and accounting arrangements. We aim to provide management with clear recommendations that will add value to the Council.

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.

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. Communication may take the form of discussions or, where appropriate, be in writing. The audit is not designed to identify all matters that may be relevant to you.

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

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 have discussed possible risk of material misstatement arising from fraud with the following individuals:

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

Please let us know if there are any other actual, suspected or alleged instances of fraud of which you are aware.

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

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 Statement of Accounts is consistent with the financial statements
- That the Annual Governance Statement is not inconsistent with our knowledge.

As part of our audit we obtain an understanding of the Council'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 to 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 where they intend to provide assurance over key controls within the financial systems.

We will communicate to management any deficiencies in internal control identified during the audit. Where those deficiencies are significant, we will also communicate 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 £16,000 to be trivial, unless the misstatement is indicative of fraud. We are required to bring to your attention unadjusted audit differences that are more than trivial that the Audit Committee are required to consider and we will request that you correct them.

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 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 has proper arrangements for challenging how it secures economy, efficiency and effectiveness; 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. 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 in accordance with the certification instruction issued by the Audit Commission. We express a conclusion as to 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).

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.

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, Simon Michaels. 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 <http://www.audit-commission.gov.uk/about-us/contact-us/complaints>

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 2014, 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.

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.

Summarised below are the significant audit risks that impact on our audit of which we are currently aware.

FINANCIAL STATEMENTS AUDIT RISKS			
RISK	RISK DETAIL	ACCOUNTS AREA AND ASSERTIONS	AUDIT RESPONSE
MANAGEMENT OVERRIDE	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.	Financial statement level risk across all account headings and assertions.	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.

AUDIT TIMETABLE

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

OUTPUT	DATES
FINANCIAL STATEMENTS	
Review of internal controls	March - April 2014
Final audit visit	August - September 2014
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 is prepared in accordance with guidance and not inconsistent with auditor's knowledge • Opinion on the Whole of Government Accounts return. 	Clearance meeting to be held late August 2014 By 30 September 2014 By 3 October 2014
USE OF RESOURCES	
Review of economy, efficiency and effectiveness	January 2014 - April 2014
Value for money conclusion	By 30 September 2014

OUTPUT	DATES
GRANTS	
Audit of grant claims and returns	September to November 2014
REPORTING	
Report on any significant deficiencies in control (if required)	May 2014
Final report to those charged with governance	September 2014
Annual Audit Letter	October 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.

The matters raised in our report prepared in connection with the audit are those we believe should be brought to your attention. They do not purport to be a complete record of all matters arising. This report is prepared solely for the use of the council and may not be quoted nor copied without our prior written consent. No responsibility to any third party is accepted.

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ROCHFORD DISTRICT COUNCIL

Planning Letter 2014/15

April 2014

PROPOSED FEES

Scope of the audit

We are required to report to you our proposed fees and programme of work for the 2014/15 financial year.

The fee is based on the work required under the Audit Commission's *Code of Audit Practice* ('Code') and our assessment of audit resource required to complete this work, taking into account the strength of your control environment, coverage of internal audit work and previous audit experience.

The Code audit fee covers:

- Audit of the financial statements
- Value for money conclusion
- Whole of Government Accounts return.

The audit also includes certification of grant claims and returns on behalf of the Audit Commission.

Indicative fees

The indicative fee does not include any time required to investigate questions or objections from members of the public. 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.

Fees

AUDIT AREA	PROPOSED FEE 2014/15 (£)	PROPOSED FEE 2013/14 (£)	ACTUAL FEE 2012/13 (£)
Code audit fee	62,643	62,643	62,643
Certification fee	TBC	10,912	(1) 16,550
Total audit fees	TBC	73,555	79,193

⁽¹⁾ The proposed certification fee for 2012/13 was set at £15,350. This was increased for the additional work required on the housing and council tax benefit subsidy. This is subject to approval by the Audit Commission.

Fee variations

The proposed Code audit fee for 2014/15 of £62,643 is not varied from the Audit Commission indicative scale fee. The proposed certification fee for 2014/15 has not yet been confirmed.

A separate audit plan will be issued early in 2015 once we have completed our detailed risk assessment and the audit of the 2013/14 financial statements. This will detail the significant audit risks that we have identified and our planned audit procedures to respond to those risks.

If we need to propose any amendments to the audit fee during the course of the audit or where our assessment of risk and complexity are significantly different from those reflected in the proposed fee, we will first discuss this with the Head of Finance and seek approval from the Audit Commission for a proposed variation of fee. If necessary, we will also prepare a report outlining the reasons why the fee needs to change for discussion with the Audit Committee.

AUDIT ARRANGEMENTS

Planned outputs

We plan to issue the following reports and opinions over the course of the audit:

REPORT	DATE
Detailed audit plan	January 2015
Report on any significant deficiencies in internal controls, if required, based on the results of our interim audit visit	May 2015
Final report to those charged with governance	September 2015
Independent auditor's report including: <ul style="list-style-type: none"> Opinion on the financial statements Value for money conclusion 	September 2015
Whole of Government Accounts assurance statement and report to the NAO	October 2015
Summary of findings from the audit in the annual audit letter	October 2015
Grant claims and returns certification report	December 2015

Audit team

The key members of the audit team will be:

Engagement Lead - Richard Bint

email: richard.bint@bdo.co.uk

Tel: 0207 893 2199

Richard will be responsible for the overall delivery of the audit including the quality of outputs and liaison with senior management.

Engagement Manager - Clare Reed

email: clare.reed@bdo.co.uk

Tel: 01473 320781

Clare will manage and co-ordinate each aspect of the audit and will be the key contact with the Finance team.

Team Leader - Charlie Lovlee

email: charlie.lovlee@bdo.co.uk

Tel: 01473 320774

Charlie will lead the delivery of the financial statements audit.

Client satisfaction

We are committed to providing you with exceptional client service. If you are in any way dissatisfied, or would like to discuss how we can improve our service, please contact Richard in the first instance. Alternatively, you may wish to contact our Managing Partner, Simon Michaels. 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").

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