
EXTERNAL AUDIT REPORT TO THOSE CHARGED WITH GOVERNANCE

1 SUMMARY

- 1.1 The purpose of this report is to invite Members to give consideration to the external auditors' report on the results of their audit of the Council's financial statements for 2010/11 (appended).

2 INTRODUCTION

- 2.1 In order for the external auditors to certify the 2010/11 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 MATTERS ARISING FROM THE AUDIT

- 3.1 The financial statements are prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2010. These statements were approved in a previous item on this agenda.
- 3.2 The changes to the financial statements are detailed in the attached PKF report.

4 REPRESENTATION OF THE COUNCIL

- 4.1 The Chairman of the Audit Committee has to sign an annual statement on behalf of the Council; this letter is taken from the draft letter of representation appendix to PKF's report.

5 RECOMMENDATION

It is proposed that the Committee **RESOLVES**

- (1) That the report be 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

Background Papers:-

None.

For further information please contact Carrie Cox (Financial Services Manager/Chief Accountant) on:-

Phone: 01702 318164

Email: carrie.cox@rochford.gov.uk

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

Rochford District Council

Annual Governance Report

2010/11

September 2011

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 “those charged with governance” the key findings of our audit prior to issuing our opinion on the financial statements. In addition the Audit Commission requires us to report to you our key findings in relation to our Value for Money (VFM) conclusion work.

Findings and conclusions

- 1.2 A summary of the audit findings and conclusions is included in the table below:

Area of audit	Findings & Conclusion
Financial statements	
Key financial systems	The key financial systems are generally adequate as a basis for preparing the financial statements. Some deficiencies in control were identified in respect of the payroll system and expenditure and creditors system and have been reported separately. Overall, we were able to place reliance on the work of Internal Audit.
Financial statements	<p>There were two material misstatements of disclosures in the accounts which have been corrected. The first was an overstatement of non-distributed costs by £583,000 and the second related to the need to separately disclose £3,048,000 past service gain in respect of the pension fund as an exceptional item. Both disclosure matters related solely to the presentation of financial transactions on the face of the Consolidated Income and Expenditure Statement and had no effect on the Council’s reported outturn.</p> <p>One non-trivial but not material misstatement of £23,000 was identified that has not been adjusted. This is included in Appendix B.</p> <p>Some areas of work are still outstanding at the time of drafting this report. Should these result in any significant issues, we will give a oral update to the Audit Committee and issue a corrected Appendix B if necessary.</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>No issues were identified from the testing completed for risk based accounts work.</p> <p>Subject to satisfactory completion of the outstanding work, we anticipate issuing an unqualified “true and fair” opinion.</p>

Value for Money conclusion	
Value For Money conclusion	<p>This is based upon the following two Audit Commission criteria:</p> <ul style="list-style-type: none">- 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. <p>At the time of drafting this report we are finalising our work on the second criterion above and an oral update will be given at the Audit Committee.</p> <p>We anticipate, from the work completed to date and subject to satisfactory completion of the remaining work in progress, issuing an unqualified value for money conclusion.</p>

Acknowledgement

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

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 2011.
- 2.2 Our report is presented to the Members in accordance with the provisions of International Auditing Standard 260 ("ISA 260"), which requires us to report key findings from the audit to "those charged with governance", prior to issuing our opinion on the financial statements. We have reported to you separately on the significant deficiencies in internal control, in accordance with ISA 265.
- 2.3 The contents of this report have been discussed and agreed with the Head of Finance.

Findings

- 2.4 Recommendations in response to the findings identified during our audit of the financial statements which would have continuing relevance to next year if not corrected are provided in the action plan at Appendix A. These recommendations have been discussed with appropriate officers and management responses are included.
- 2.5 We would highlight that in this report we do not provide a comprehensive statement of all weaknesses that may exist in the financial and operational systems, but only those matters which have come to our attention as a result of the audit procedures performed. We have not restated matters reported previously in our ISA265 Letter.

Fee outturn

- 2.6 The Audit Commission's *Standing Guidance for Auditors* requires us to report the outturn fee position for the year against the budgeted fee included within your Audit Plan. The table below sets out this analysis:

Audit plan 2010/11	Planned fees £	Actual fees £
Financial statements	61,500	61,500*
Value for Money conclusion	22,500	22,500
Planning and reporting	25,900	25,900
Subtotal audit	109,900	109,900
Grants	28,000	28,000
Total	137,900	137,900

* At the time of drafting our audit is not complete. Should any additional fees arise, we will discuss the matter with management and issue an updated fee outturn to the Audit Committee.

- 2.7 The grant claim audits are currently in progress or do not require certification until 31 December 2011 and therefore the actual fee remains an estimate of the expected final position. The final position will be reported in our grants report to be issued in February 2012.

Independence

- 2.8 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 2010/11, has remained valid throughout the period of the audit.

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 In carrying out our work we determine and apply a level of materiality. Consequently 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, or specific individual elements of the financial statements as appropriate, such as the senior officer remuneration report.
- 3.5 We are also required to set a second level of materiality (known as “performance materiality”) which is to be used when planning and performing the audit. This has to be set at a level lower than the materiality for the financial statements as a whole so as to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole.
- 3.6 We are required to report to you all uncorrected misstatements that relate to the current financial year (including those arising in previous periods that have an effect on the current year financial statements) and the effect that they have individually, or in aggregate, on the auditors’ report, except for those that are clearly trivial. For reporting purposes, we consider misstatements of less than £12,000 to be trivial to the financial statements, unless the misstatement is indicative of fraud. We will request that any non-trivial uncorrected misstatements be corrected.

Reporting to those charged with governance

- 3.7 We will report to you:
- our assessment of and response to **significant risks** in the financial statements
 - significant qualitative aspects of **accounting practices** including the application of the applicable financial reporting framework

- significant difficulties that we have encountered during the course of the audit
- significant matters discussed, or subject to correspondence with management or other employees
- **written representations** that we are requesting from you which includes the final draft letter of representation to be agreed by management and those charged with governance
- **material misstatements** that have been corrected by management
- **uncorrected non-trivial misstatements**
- expected modifications to the **audit report**
- significant deficiencies 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** relevant to the financial reporting process.

3.8 Our comments in these areas are set out in order below.

Significant risks of material misstatement in the financial statements

- 3.9 Auditing standards require that we bring to your attention areas that require special audit consideration and are, therefore, considered a significant risk. These may include weaknesses in controls or areas requiring a higher degree of judgement by management.
- 3.10 We reported to you our updated risk assessment in the 2010/11 Audit Plan issued in December 2010. 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. Our updated risk assessment was reported to you within our ISA 265 Letter issued in August 2011.
- 3.11 The findings from our review of financial statements risks and other areas of audit focus is detailed below:

Management Override

- 3.12 Management override refers to the ability of management to manipulate accounting records and prepare fraudulent financial statements by overriding what might appear to be effective internal controls. Management is in a unique position to perpetrate or conceal the effects of fraud through recording fictitious journal entries, inappropriately adjusting assumptions and changing judgments used to estimate account balances, engaging in complex transactions that are structured to misrepresent the financial position, and altering records and terms related to significant and unusual transactions. Therefore, 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 Audit Plan.
- 3.13 Our review of management journals and accounting estimates did not indicate any material management bias or override of controls in preparing the financial statements.

Implementation of International Financial Reporting Standards (IFRS)

- 3.14 The introduction of IFRS as the financial reporting framework for local authorities is both a significant change in terms of accounting treatment and in the overall presentation of the financial statements. It requires a review of material classes of transactions, balances and disclosures where the accounting treatment differs from that previously recognised under the UK GAAP based Statement of Recommended Practice. This requires restatement of the opening balances at 1 April 2009, restatement of the 2009/10 accounts and review of the correct accounting treatment of transactions in 2010/11.
- 3.15 Overall the Council has put in place appropriate arrangements to adopt IFRS and to restate its previous UK GAAP based accounts, although our audit identified some required amendments to a few disclosures and notes within the financial statements as set out in the paragraphs 3.32 to 3.34.

Accounting for non-current assets (property, plant & equipment)

- 3.16 Historically capital accounting has been an area of weakness giving rise to significant risk of material misstatement. In 2010/11 the level of risk was further increased by the implementation of IFRS, specifically regarding the accounting treatment and disclosure of valuations, depreciation and impairment. We have worked closely with the Council to secure improvements to their capital accounting arrangements during the year.
- 3.17 No issues arose from our substantive testing of depreciation, revaluations and impairments.

Disclosure of contingent liabilities

- 3.18 We assessed that there was a significant risk of inadequate disclosure of any contingent liability relating to a litigation issue arising from the tendering of the Materials Recycling Facility contract, because of the difficulties inherent in the Council determining the potential outcomes of this.

- 3.19 We reviewed the latest legal opinion and other documentation to determine the potential liability of the Council at the balance sheet date and whether appropriate disclosures have been made. We agreed a revised narrative for the disclosure.

Accounting practices

Application of accounting policies

- 3.20 The key change introduced by the 2010 Code of Practice on Local Authority Accounting in the United Kingdom (the Code) was the introduction of an IFRS based set of financial statements, resulting in a number of significant changes in accounting practice:
- Grants and contributions for capital purposes will be recognised as income immediately rather than being deferred and released to revenue to match depreciation, where grant conditions have been met
 - The main financial statements have changed, and there are additional requirements regarding segment reporting
 - There is a greater emphasis on component accounting, and a greater emphasis on derecognising parts of an asset that are replaced
 - Property leases are classified and accounted for as separate leases of land and buildings. Local Councils will also need to assess whether other arrangements contain the substance of a lease
 - Investment properties are measured at fair value, with gains and losses recognised in Surplus or Deficit rather than through the revaluation reserve
 - Impairment losses will be taken initially to the revaluation reserve to the extent that there is a balance on that reserve relating to the specific asset
 - The Code introduces a new classification of non-current assets held for sale. Specific criteria apply to this classification
 - All employee benefits are accounted for as they are earned by the employee. This will require accruals for items such as holiday pay
 - The definition of associates is based on the ability to control rather than actual control, and may lead to a change in the group boundary
- 3.21 The Council has dealt with the implementation of these changes, where applicable, in an appropriate manner and supported an early audit of the changes made.
- 3.22 International Accounting Standard 16 requires that all property, plant and equipment assets should be componentised when they are revalued. The Council has not applied componentisation on the grounds of materiality. We are satisfied that, if componentisation were applied to the Council's assets, this would not have had a material impact on its reported financial position.

The financial statements preparation process

- 3.23 The requirement for Members to approve the draft financial statements by 30 June was removed by the Accounts and Audit Regulations 2011, however these regulations introduced the requirement for the Responsible Financial Officer to sign and present the financial statements for audit by 30 June 2011. The financial statements were signed and presented for audit on 22 June 2011.
- 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 files of comprehensive working papers on 8 August 2011, in line with the agreed timetable.

Testing of transactions and balances

- 3.25 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 following matters, which we bring to your attention:

Creditors

- 3.26 Testing of the creditors balance identified an amount of £23,000 which was a reserve transfer and not a valid creditor. Management has chosen not to amend this misstatement and it has been recorded in Appendix B as an uncorrected misstatement.

Non-distributed costs

- 3.27 Testing identified that £583,000 of expenditure included within non-distributed costs should have been recharged across the other service headings within the Consolidated Income and Expenditure Statement. The Finance Manager completed a notable amount of work to improve the process for producing the accounts through greater automation of allocations. Unfortunately this misstatement occurred due to a link error picking up an incorrect code in the spread sheets used to automate the production of the financial statements. The spread sheets have been corrected and the Council has made an adjustment to the financial statements to rectify this misstatement.
- 3.28 The majority of the income that had been included within non-distributed costs related to the pensions past service gain, amounting to £3,048,000. To better comply with the requirements of the Best Value Accounting Code of Practice (BVACOP) and IAS 1, the Council has made an adjustment to show this gain separately as an exceptional item on the face of the CIES within net cost of services.
- 3.29 Whilst they are both material in amount, neither of these matters has an impact on the Council's reported financial outturn position.

Appropriateness of management accounting estimates

- 3.30 We have no matters to report.

Adequacy of disclosures

- 3.31 We identified some departures from the expected presentation of the financial statements or where notes and other disclosures had not been presented in accordance with the Code. All disclosure errors have been amended by the Council.
- 3.32 The following items were amended as a result of not being presented in accordance with the Code:
- The Council did not disclose the 1 April 2009 balances within the Balance Sheet notes to the financial statements as required by IFRS 1. There were some notes such as property, plant and equipment where this information was disclosed to reconcile opening and closing balances, but there were other notes such as debtors and creditors where this information was not disclosed. The Council has amended all relevant notes to show the 1 April 2009 balances.
 - The revaluation gains and losses included within the Property, Plant & Equipment note (12) had not been split out to show the amounts taken to the Revaluation Reserve and the amounts posted to the CIES. The Council corrected this disclosure for both the current year and prior year comparatives.
 - The debtors note (16) showed the individual classes of debtors gross of the bad debt provision. The Code requires that each of the classes of debtors is shown net of the bad debt provision and that the bad debt provision is not separately disclosed. The Council corrected this disclosure for both the current year and prior year comparatives.
 - The Trust Funds note had been omitted from the draft financial statements. This was included in a subsequent version.
- 3.33 There were some disclosures that the Council produced in line with the example financial statements included within the Code, but which we judged required amendment to achieve proper compliance with international accounting standards (IASs):
- The Cash Flow notes were not in line with IAS 7 as the disclosures were judged to be inadequate in depth and structure. This has been amended.
 - The financial instruments note 15 was not in line with IAS 32 as the incorrect headings had been used for categories and classifications within the pro-forma. This has been amended.

Written representations

- 3.34 We are required by ISAs to obtain written confirmation from you of certain representations that have been made during the course of our audit. 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.

Identified misstatements

- 3.35 As part of our audit approach, all material balances were subject to audit testing and agreement, on a sample basis, to supporting documentation. To assist you in fulfilling your governance responsibilities, which include maintaining oversight of the financial reporting process and the system of internal control, we have set out below the misstatements identified during our audit.

Material misstatements corrected by management

- 3.36 These were as follows, the detail of which has been reported above:
- £583,000 expenditure incorrectly included within non distributed costs when it should have been recharged to service lines (paragraph 3.27)
 - £3,048,000 past service gain requiring separate identification as an exceptional item (paragraph 3.28).
- 3.37 Neither correction had an impact on the Council's reported outturn financial position.

Uncorrected non-trivial misstatements

- 3.38 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.
- 3.39 We will obtain written representation from the Audit Committee of the reasons for not making these adjustments as noted in Appendix C.

Audit report

- 3.40 Subject to satisfactory resolution of the following outstanding issues and final clearance of the audit, we anticipate issuing an unqualified audit opinion on the accounts:
- Receipt of evidence to support the validity and accuracy of some disclosures in the notes to the accounts
 - Completion of a small amount of substantive testing of the validity and accuracy of income and expenditure transactions.
- 3.41 We will provide an oral update on these outstanding issues at the Audit Committee.

Accounting and internal control systems

- 3.42 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.
- 3.43 In assessing the reliability of systems as a basis for providing financial information that is free from material misstatement, we prepared systems notes for each financial system 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.
- 3.44 Your key financial systems are:
- Main accounting
 - Cash and bank
 - Payments and creditors
 - Non-contracting income and debtors
 - Payroll and employment costs
 - Information technology
 - Council tax
 - Housing and council tax benefits
 - National Non Domestic Rates
 - Investments and investment income
- 3.45 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 accounts
 - 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.
- 3.46 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.

Risks of material misstatement due to fraud

- 3.47 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 accounts arising through fraud

- made enquiries regarding instances of actual fraud you have brought to our attention.

Internal audit

3.48 Where possible, we have sought to use 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.

Conclusions

3.49 Overall, we were able to place reliance on Internal Audit's work for the testing of the effectiveness of specific controls. We liaised with Internal Audit with respect to a small number of areas where we were not initially able to rely on their work and agreed on a suitable way forward.

3.50 We concluded that the key financial systems are generally adequate as a basis for preparing the financial statements. Deficiencies in control that were considered significant in the context of the audit of the financial statements have been reported separately to those charged with governance within our ISA 265 report issued in August 2011. These related to payroll and payments to creditors.

3.51 Other control weaknesses, all of which had already been reported by Internal Audit, have been discussed with Internal Audit and Management.

3.52 We did not identify any significant fraud risks that affected our audit programme for the financial statements.

Matters required to be reported by other auditing standards

3.53 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

3.54 The Council has a responsibility to publish an Annual Governance Statement, including the outcome of a review of its effectiveness, with its 2010/11 financial statements.

- 3.55 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.

4 Value for money conclusion

- 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, or “VFM”).

VFM risks

- 4.2 The findings from our review of use of resources risks identified in our Annual Audit Plan are summarised as follows:

Financial pressures

Financial resilience

- 4.3 Along with all other Councils, Rochford District Council was notified of a reduction in central government revenue funding of 14.5% (or £720,000)¹, with further reductions in the subsequent years. Forecast spending reductions are 12.5% (or £1.7m) in 2011/12² which is a slightly higher reduction than other District Councils across the Country, which are all facing similar financial pressures.
- 4.4 Although the Council are looking at utilising some reserves to achieve savings, saving and efficiency initiatives have been identified to fund the gap in 2011/12, partly through larger savings schemes such as management restructure but also through smaller but more original schemes such as selling payroll services to a neighbouring local authority, a practice which the Council is looking to expand. The Council already outsources a number of services in order to achieve savings.
- 4.5 The Council has a track record of achieving its efficiency plans and making required savings, this remained the case in 2010/11. From review of current documentation, the Council is on track to deliver its 2011/12 objectives and targets and management are now focussing on the medium term.

Challenging economy, efficiency and effectiveness

- 4.6 At the time of drafting this report we are finalising our work in this area of the VFM conclusion and an oral update will be given at the Audit Committee.

VFM conclusion

- 4.7 Our VFM conclusion is based on considering our preliminary judgements from the review of arrangements to deliver against the Code criterion and the results of risk based audit work, as well as consideration of the processes underpinning your review of the effectiveness of your controls as described in your Annual Governance Statement.

¹ Source: CLG – RA and SSG returns 2010/11 and 2011/12

² Source: Audit Commisison Financial Resillience Survey

4.8 The table below sets out our conclusions for each of the VFM Code criteria:

	Code criterion	Criterion met
1	The organisation has proper arrangements in place for securing financial resilience.	Yes
2	The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.	To be confirmed

Overall conclusion

4.9 We anticipate, from the work completed to date and subject to satisfactory completion of the remaining work in progress, issuing an unqualified value for money conclusion.

Appendix A: Action Plan

Conclusions from work	Recommendations	Priority	Management response	Responsibility	Timing
Financial statements					
<p>The Valuer's report stated that valuation was undertaken in accordance with UK GAAP.</p> <p>This is an inappropriate basis for valuations for 2010/11 as IFRS has been implemented. However, our testing confirmed that, because of the nature of the Council's assets, there would have been no differences in valuation had the basis used been IFRS.</p>	1. Amend the instructions to the Valuer to direct that valuations be undertaken in accordance with IFRS.	Low	<p>The timing of the valuers report was originally to be used for the 2009/10 accounts when UK GAAP was relevant.</p> <p>New instruction in place.</p>	Financial Services Manager	In place
<p>There were some disclosure errors identified during our audit that would have been avoided had the Council utilised <i>LAAP 88 - Closure of the 2010/11 Accounts and related matters</i> which is a technical update paper issued by CIPFA to support councils in preparing their accounts.</p>	2. Review LAAP bulletins and technical updates prior to preparing the financial statements to identify all key changes and technical issues relating implementation of the Code and reflect them within the draft financial statements.	Medium	<p>Accepted.</p> <p>Time pressures when producing the accounts, with the change to full system based accounts, detailed work on capital accounts and implementation of IFRS, meant that assumptions were made that the Code guidance notes and CIPFA training sessions would be sufficient.</p>	Financial Services Manager	June 2012

Conclusions from work	Recommendations	Priority	Management response	Responsibility	Timing
Financial systems					
<p>For the control weaknesses identified within our separate ISA 265 report dated August 2011, Internal Audit have already raised recommendations for the majority of the issues raised other than around:</p> <ul style="list-style-type: none"> - Confirmation of establishment lists - Authorisation of New Starters - Authorisation of Payroll Payments 	3. Obtain positive confirmation of the accuracy of establishment lists from Departmental Heads at least twice a year.	High	Accepted.	People and Policy Manager	March 2012
	4. Define and operate alternate formal arrangements for authorisation of new starter forms in the event that a member of staff is on leave.		Starters - This was an isolated incident on one day and we disagree with the assessment of it as a high risk. Within a small organisation, there will be occasions when a member of staff is off and alternative arrangements have to be made; not every eventuality can be included in procedures. In this case, the 2 starters were input and authorised by two separate staff in the Finance Team.	Financial Services Manager	In place
	5. All Payroll reports must be appropriately authorised prior to payments being processed. In the event that a member of staff is not available, appropriate arrangements should be put in place to ensure that this authorisation is delegated to an alternate, appropriate officer.		With regard to authorisation of payroll payments, although one control in the process had not been consistently evidenced, the reports are generated as part of a process that has multiple review points with final authorisation of the payments made by the Head of Finance or her deputy which was evidenced in all cases.	Financial Services Manager	In place

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
Factual misstatements brought forward from the prior period, which have an impact on the current period The overstatement of creditors in 2009/10 arising from incorrect application of cut off procedures.		29			(29)
Factual misstatements Transfer to reserves incorrectly included within creditors.				23	(23)
Judgemental misstatements					
Projected misstatements (extrapolation of errors)					
Total net misstatements					
- Net understatement of costs		29			
- Net overstatement of net assets				23	(52)

Appendix C: Draft letter of representation

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

29 September 2011

Dear Sirs

Financial statements of Rochford District Council for the year ended 31 March 2011

This representation letter is provided in connection with your audit of the financial statements of Rochford District Council for the year ended 31 March 2011 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view, have been properly prepared in accordance with the relevant financial reporting framework and have been prepared in accordance with the requirements of applicable law.

I confirm to the best of my knowledge and belief, and having made appropriate enquiries of directors and management of the Council, the following representations given to you in connection with your audit of the Council's financial statements:

FINANCIAL STATEMENTS

Responsibility for the financial statements

I acknowledge as the Head of Finance and s151 Officer my responsibilities for the financial statements and for ensuring that these are prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom.

Accounting policies

I confirm that the selection and application of the accounting policies used in the preparation of the financial statements are appropriate.

Significant assumptions

The following significant assumptions used in making accounting estimates, including those measured at fair value, are reasonable:

- See pension fund assumption below.
- Depreciation
- Bad Debt Provision

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 other than as disclosed in the financial statements.

Contingent liabilities

I am not aware of any significant contingent liabilities, including pending claims, proceedings or litigation involving the Council.

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 business. These assumptions include:

- | | |
|--|-------|
| • Rate of inflation (RPI) | 3.4% |
| • Rate of inflation (CPI) | 2.9% |
| • Rate of increase in salaries | 4.4% |
| • Rate of increase in pensions | 2.9% |
| • Rate for discounting scheme liabilities | 5.5% |
| • Take up option to convert the annual pension into retirement grant | 50.0% |

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. 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. The Head of Finance is responsible for the preparation of the financial statements in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom.

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

Councillor Mrs 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 auditor's report

Independent auditor's report to the Members of Rochford District Council

Opinion on the accounting statements

We have audited the accounting statements of Rochford District Council (the Council) for the year ended 31 March 2011 under the Audit Commission Act 1998. The accounting statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement and Collection Fund and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2010/11 (based on International Financial Reporting Standards).

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 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Council and the Council's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Head of Finance and auditor

As explained more fully in the Head of Finance's Responsibilities Statement, the Head of Finance is responsible for the preparation of the Council's Statement of Accounts, that include the accounting statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the accounting statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the accounting statements

An audit involves obtaining evidence about the amounts and disclosures in the accounting statements sufficient to give reasonable assurance that the accounting statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Council's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Head of Finance; and the overall presentation of the accounting statements. In addition, we read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited accounting statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on accounting statements

In our opinion the accounting statements:

- give a true and fair view of the state of Rochford District Council's affairs as at 31 March 2011 and of its income and expenditure for the year then ended; and
- have been properly prepared in accordance with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2010/11.

Opinion on other matter

In our opinion, the information given in the Explanatory Foreword for the financial year for which the accounting statements are prepared is consistent with the accounting statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the governance statement on which we report to you if, in our opinion the governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007.

Conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in the use of resources

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves that the Council has made proper arrangements 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 relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

Respective responsibilities of the Council and auditor

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 to review regularly the adequacy and effectiveness of these arrangements.

Our responsibility requires us to review and, where appropriate, examine evidence that is relevant to the Council's corporate performance and financial management arrangements. It therefore excludes arrangements relating specifically to the delivery of front-line services, unless we have identified a significant risk with implications for corporate arrangements.

We report if significant matters have come to our attention which prevent us from concluding that the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. 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.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2010, as to whether the Council has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2011.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2010, we are satisfied 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 2011.

Certificate

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

Richard Bint

for and on behalf of PKF (UK) LLP

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

29 September 2011