

ANNUAL AUDIT LETTER FOR 2012/13

1 INTRODUCTION

- 1.1 This report draws Members' attention to the following document from BDO, the Council's external auditor: the Annual Audit Letter 2012/13.

2 ANNUAL AUDIT LETTER 2012/13

- 2.1 This letter summarises the work carried out by the external auditor in respect of the year ending 31 March 2013. Detailed findings and recommendations were reported to this Committee in September 2013.
- 2.2 This letter was originally brought to Members' attention in the Members' Bulletin of 1 November 2013 and a copy was placed in the Members' Library. The letter has also been published separately on the Council's website. The Annual Audit Letter is attached as appendix 1.

3 RECOMMENDATION

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

That the Annual Audit Letter for 2012/13 be noted.

Yvonne Woodward

Head of Finance

Background Papers:-

None.

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ROCHFORD DISTRICT COUNCIL

Annual Audit Letter 2012/13

October 2013

EXECUTIVE SUMMARY

Background

This Annual Audit Letter summarises the key issues arising from the work that we have carried out during the year. It is addressed to the Council but is also intended to communicate the significant issues we have identified, in an accessible format, to key external stakeholders and members of the public.

It is the responsibility of the Council to publish this on the Council's website.

Responsibilities of auditors and the council

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing auditors to local public bodies in England.

As the external auditors, we have a broad remit covering financial and governance matters. We target our work on areas which involve significant amounts of public money and on the basis of our assessment of the key risks to the Council achieving its objectives.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

Scope of the audit

Our main responsibility as the appointed auditor is to plan and carry out an audit that meets the requirements of the Audit Commission's Code of Audit Practice (the Code). Under the Code, we are required to review and report on:

- the Council's Statement of Accounts
- whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

We are also required to review and report on the Council's Annual Governance Statement, Whole of Government Accounts (WGA) submission, grant claims and returns certification work and whether we have exercised our statutory powers under the Audit Commission Act 1998 in any matter.

Our work on the audit of the grant claims and other returns is in progress and we will report the findings from this work separately.

Key findings

STATEMENT OF ACCOUNTS	
1	<p>We issued an unqualified true and fair opinion on the financial statements on 24 September 2013.</p> <p>No material misstatements were identified during the audit. There were a small number of unadjusted audit differences identified by our audit work; the net effect of adjusting for these differences would be to decrease the deficit for the year by £152,000 and increase net assets by £450,000.</p> <p>We noted one deficiency that met the criteria to be termed as significant, which was in relation to the absence of segregation of duties with the Payment and Income team.</p>
	USE OF RESOURCES
2	<p>We are satisfied that, in all significant respects, the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.</p> <p>We issued an unqualified value for money conclusion on 24 September 2013.</p>
	OTHER MATTERS
3	<p>We are satisfied that the Annual Governance Statement is not inconsistent or misleading with other information we were aware of from our audit of the financial statements and complies with “Delivering Good Governance in Local Government” (CIPFA / SOLACE).</p> <p>The Council’s WGA is below the threshold for full assurance review, and we completed a short-form assurance review which confirmed that the “net funded pension balance” and the “property, plant and equipment carrying amount at 31 March 2013” was consistent with the audited financial statements.</p>

GRANT CLAIMS	
4	<p>The 2011/12 Housing and Council Tax Benefit Subsidy claim was subject to qualification, but the number of errors identified compared to previous years had reduced. The National Non-Domestic Rates return was certified without qualification.</p> <p>Our work on the audit of the grant claims and other returns for 2012/13 is in progress and we will report the findings from this work in December 2013.</p>

Our aim is to deliver a high standard of audit which makes a positive and practical contribution that supports the Council’s own agenda. We recognise the value of your co-operation and support and would like to take this opportunity to express our appreciation for the assistance and co-operation provided during the course of the audit.

STATEMENT OF ACCOUNTS

1 OPINION

We issued an unqualified true and fair opinion on the financial statements on 24 September 2013.

Financial statements

The following misstatements were identified and corrected during the audit:

- reclassification of £1.8m of cash held in a current account from short term investments to cash and cash equivalents. This also affected the face of the cash flow statement
- overstatement of £0.6m of the net book value of property, plant and equipment due to the incorrect valuation being used for buildings valued on a depreciated replacement cost basis. Associated adjustments were also made to the revaluation gains and losses relating to the affected assets.
- a number of disclosures and presentation amendments were also made to the final audited financial statements.

Four current year misstatements were identified that were not corrected in the final published financial statements:

- **Waste disposal income:** our testing identified that income had been overstated by £24,000 and assets at the year end had been understated by £193,000
- **Accruals:** our testing identified a net understatement of expenditure and liabilities of £17,000
- **Prepayments:** our testing identified an extrapolated (i.e. estimated by projecting the value of errors found in the sample population across the whole of the balance population)

overstatement of expenditure and an understatement of assets of £90,000

- **Marketplace log:** Our testing identified a net overstatement of expenditure and liabilities of £125,000

The overall impact of correcting for these remaining misstatements would result in the Council reporting a £152,000 lower deficit for the year and would include net assets by £450,000. Management considered that these uncorrected misstatements did not have a material impact on the financial statements, either individually or in aggregate, and the Audit Committee accepted their assertion that the misstatements need not be corrected for this reason. We consider that these misstatements did not have a material impact on our opinion on the financial statements.

Internal controls

We noted one deficiency that met the criteria to be termed as significant, which was in relation to the absence of segregation of duties with the Payment and Income team.

Management has agreed to review this deficiency, with alternative controls to be put in place, which will be reviewed by Internal Audit. We consider that this deficiency did not have a material impact on our opinion on the financial statements.

USE OF RESOURCES

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CONCLUSION

We are satisfied that, in all significant respects, the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. We issued an unqualified value for money conclusion on 24 September 2013.

Our principal work in arriving at our value for money conclusion was comparing the Council's performance against the requirements specified by the Audit Commission in its guidance:

- the organisation has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future
- the organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

Our work considered the outcome from the Audit Commission's financial ratio tool and value for money profiles tool as well as a review of the medium term financial strategy, performance reports, integration reports on progress and strategic and operational planning documents. Discussions were held with key officers to confirm and update our knowledge as part of the process. We also updated our knowledge of the Council's governance arrangements, financial, performance and risk management arrangements.

Financial resilience

The Council also has a good track record of achieving budgets and its financial management arrangements remain adequate with no contra-indicators that would indicate a weakened position in terms of maintaining financial resilience. The General Fund Balance as at 31 March 2013 was £881,000, which is a reduction of £27,000 against estimates. This was after an increase for the year of £62,000. However, the increase of £62,000 was after £225,000 had been transferred from earmarked reserves. The Council's policy on reserves is to risk assess the minimum level of General Fund reserves required each year as part of the budgeting process. The minimum recommended level for 2012/13 was £800,000 and the outturn position of £881,000 remains above this level.

The aggregate of the General Fund Reserve and earmarked GF reserves as at 31 March 2013 are £3,089,000 which is 7.8% of gross revenue expenditure for the year.

From review of current documentation, the Council is on track to deliver its 2013/14 budget, with £100,000 of total required savings of £500,000 to be identified as part of the revised budget process. The medium term financial strategy indicates that the Council will be in a position to make contributions to the General Fund Reserve over the medium term, building it up to an estimated £1,266,000 by the end of 2018/19.

The Council already outsources a number of services in order to achieve savings and has been actively reviewing the on-going value for money (VFM) of these arrangements.

Challenging economy - efficiency - effectiveness

A peer review was carried out by the Local Government Association during the year and the resulting report concluded that the Council was "seen as an extremely good partner and has entered into and leads a range of significant countywide and more local partnerships". This review also considered the financial planning undertaken by the Council and recommended that a four year integrated savings plan, between the corporate plan and the medium term financial strategy, be developed. The Council are currently working towards implementing this recommendation and have undertaken a number of reviews in the year and carried out benchmarking to help drive this plan.

The Council's internal review of its position against the Audit Commission's Profiling Tool did not identify any areas of concern where action was not already being taken, evidencing a proactive approach to identifying potential areas for VFM improvement. Our own independent review concluded that there were reasonable explanations for areas in which the Council's performance was an outlier compared to those of its nearest neighbours (these continue to be consistent year on year).

Our review did not identify any contra-indicators that would lead us to conclude that the Council's strategic and operational management arrangements had deteriorated and there is evidence that arrangements for securing and challenging VFM, as previously assessed, have continued to operate as expected in the areas of strategic and financial planning and monitoring, benchmarking activity and risk and performance management.

OTHER MATTERS

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REPORT BY EXCEPTION

We have no other matters to report.

Annual Governance Statement

We are satisfied that the Annual Governance Statement is not inconsistent or misleading with other information we were aware of from our audit of the financial statements and complies with “Delivering Good Governance in Local Government” (CIPFA / SOLACE).

Whole of Government Accounts

The Council’s WGA is below the threshold for full assurance review, and we completed a short-form assurance review which confirmed that the “net funded pension balance” and the “property, plant and equipment carrying amount at 31 March 2013” was consistent with the audited financial statements.

GRANT CLAIMS AND RETURNS CERTIFICATION

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SUMMARY FINDINGS

The 2011/12 Housing and Council Tax Benefit Subsidy claim was subject to qualification, but the number of errors identified compared to previous years had reduced. The National Non-Domestic Rates return was certified without qualification.

Summary

We issued our most recent Grant claims and returns certification report in December 2012, which included the results of the audited returns for 2011/12. We certified two returns amounting to over £36 million.

Our report noted that the Housing and Council Tax Subsidy claim was subject to qualification, but that fewer errors were identified than in previous years. We continued to work closely with Internal Audit who completed baseline audit testing for this claim. We re-performed a sample of Internal Audit's testing and concluded that we could rely on their work for certification purposes.

The National Non-Domestic Rates (NNDR) return was certified without qualification.

To date, we have certified the NNDR return for 2012/13 without qualification or amendment.

Our work on the audit of the Housing and Council Tax Subsidy claim for 2012/13 is in progress and we will report the findings from this work in December 2013.

APPENDIX

Reports issued

We issued the following reports in respect of the 2012/13 financial year.

REPORT	DATE
Audit Plan	December 2012
Grant claims and returns certification report	December 2012
Final Audit Report	September 2013
Annual Audit Letter	October 2013


Fees update

We reported our original fee proposals in our Audit Plan issued in December 2012. Our fees to date and any variance to the original proposal are shown below.

AUDIT AREA	PROPOSED FEES £	FEES UPDATE £
Scale fee	62,643	62,643
Certification work	14,950	<i>(note 1)</i> 15,350
Total fees for audit services	77,593	77,993
Non audit fees	0	0

Note 1 - Our work on the audit of the grant claims and other returns is in progress and we will report the findings from this work and the final fees separately.

The current scale fees have increased from the proposed fees as a result of the certification work fee, which has been amended since the fee reported in our Audit Plan due to there being an error in the original calculation made by the Audit Commission. This is the revised Audit Commission published scale fee.



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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