

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 2012/13.

2 INTRODUCTIONS

- 2.1 In order for the external auditors, BDO LLP, to certify the 2012/13 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 the external auditors, 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 2011. These statements were approved in a previous item on this agenda.
- 3.2 The changes to the financial statements arising from the audit are detailed in the attached 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 statement is taken from appendix VIII of the attached report.

5 RECOMMENDATION

- 5.1 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.

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ROCHFORD DISTRICT COUNCIL

FINAL REPORT TO THE AUDIT COMMITTEE

Audit for the year ended 31 March 2013

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OVERVIEW

Key audit findings

The purpose of this report is to communicate to you the significant findings from our audit of the financial statements of Rochford District Council for the year ended 31 March 2013. This overview covers those matters we believe to be significant in the context of our work. However, you should read the entirety of this report, as there may be other matters raised that you consider important.

We have largely completed our audit work and anticipate issuing an unqualified opinion subject to the outstanding matters listed on page 2.

AREA OF AUDIT	SUMMARY
Financial statements	<p>No material misstatements were identified as a result of our audit work.</p> <p>Some areas of work are still outstanding at the time of drafting this report (see page 2). Should these result in any significant issues, we will provide an update to the Audit Committee.</p> <p>Subject to satisfactory completion of the outstanding work, we anticipate issuing an unqualified true and fair opinion on the financial statements for the year ended 31 March 2013.</p>
Unadjusted audit differences	<p>There are a small number of unadjusted audit differences identified by our audit work that are detailed in Appendix II. The net effect of adjusting for these differences would be to decrease the deficit for the year by £117,000 and increase net assets by £415,000.</p>
Internal controls	<p>Auditors are required to report deficiencies in internal control which meet the criteria to be called significant under auditing standards. One deficiency that met the criteria to be termed as significant was identified (see page 12).</p>
Annual Governance Statement	<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>
Whole of Government Accounts (WGA)	<p>Our work to review the consistency of the whole of government accounts return with the audited financial statements is in progress and an oral update will be given at the Audit Committee on 24 September 2013.</p>
Value for Money Conclusion	<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 for the year ended 31 March 2013. We propose issuing an unqualified value for money conclusion.</p>

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

Audit status and timetable to completion

We set out below the current status of the audit and our timetable to completion.

AUDIT STATUS

We have largely completed our audit work in respect of the financial statements, and anticipate issuing an unqualified opinion on the financial statements.

The following matters are outstanding at the date of this report. We will update you on their current status at the Audit Committee meeting on 24 September 2013.

- completion of additional testing of the Marketplace log
- clearance of outstanding audit queries
- clearance of review points
- receipt of amended final financial statements following agreed amendments
- subsequent events review
- management representation letter, as attached in Appendix VIII to be approved and signed.

TIMETABLE TO COMPLETE

The anticipated timetable to complete is as follows:

ACTIVITY	DATE
Completion of outstanding audit work on the financial statements	20 September 2013
Audit Committee meeting	24 September 2013
Signing of financial statements (subject to completion of WGA review)	By 30 September 2013

INDEPENDENCE

INDEPENDENCE

Under Audit Commission Standing Guidance and Auditing and Ethical Standards, we are required as auditors to confirm our independence to ‘those charged with governance’. In our opinion, and as confirmed by you, we consider that for these purposes it is appropriate to designate the Audit Committee as those charged with governance.

Our internal procedures are designed to ensure that all partners and professional staff are aware of relationships that may be considered to bear on our objectivity and independence as auditors. The principal statements of policies are set out in our firm-wide guidance. In addition, we have embedded the requirements of the Standards in our methodologies, tools and internal training programmes.

The procedures require that audit engagement partners are made aware of any matters which may reasonably be thought to bear on the firm’s independence and the objectivity of the audit engagement partner and the audit staff. This document considers such matters in the context of our audit for the year ended 31 March 2013.

A summary of our fees for audit and non-audit services for the period from 1 April 2012 to date is set out below.

We confirm that we are not aware of any relationships that may bear on our independence and objectivity as auditors of the financial statements and that our independence declaration, included in the Audit Plan for 2012/13, has remained valid throughout the period of the audit.

	£
Code Audit fee	62,643
Grants certification fees (estimate)	15,350*
Fees for non-audit services	-
TOTAL FEES	77,993

* Please note that this figure 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.

AUDIT SCOPE AND OBJECTIVES

The audit scope is determined by the Audit Commission's Code of Audit Practice for Local Government and covers:

- audit of the financial statements in accordance with International Standards on Auditing (UK and Ireland), Practice Note 10: audit of public sector bodies in the United Kingdom (October 2010), and guidance issued by the Audit Commission.

This requires that we form an opinion on whether:

<p>1 The financial statements give a true and fair view of the state of the Council's affairs as at 31 March 2013 and of the income and expenditure for the year then ended</p>	<p>2 The financial statements have been properly prepared in accordance with statutory requirements and proper practices have been observed in their compilation</p>	<p>3 The financial statements have been prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting</p>	<p>4 The information given in the Statement of Accounts and Explanatory Foreword is consistent with the financial statements</p>
<p>5 The Annual Governance Statement is not inconsistent with our knowledge and complies with "Delivering Good Governance in Local Government" (CIPFA / SOLACE)</p>	<p>6 The audited body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources and for:</p> <ul style="list-style-type: none">• securing financial resilience• challenging how it secures economy, efficiency and effectiveness	<p>7 The Whole of Government Accounts return is consistent with the audited financial statements and that it is properly prepared</p>	

FINANCIAL STATEMENTS

Key audit and accounting matters

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 properly prepared, we carry out risk based 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 carrying out our work we determine and apply a level of materiality. 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 individual elements of the financial statements as appropriate. Consequently, the audit cannot be relied upon to identify all risks or potential or actual misstatements. Materiality may relate to both quantitative and qualitative matters and for quantitative considerations the numerical level materiality is assessed at may be different for different information in the financial statements. Nevertheless, within this context, Appendix III gives an indication of the quantitative levels used for planning purposes. Materiality is re-assessed every year in the context of authoritative audit practice.

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 opinion in the auditor's report, except for those that are clearly trivial. For reporting purposes, we consider misstatements of less than £12,000 to be trivial and have not reported them, unless the misstatement is indicative of fraud.

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 only restate weaknesses already reported by Internal Audit where we consider these to be significant deficiencies. Recommendations in response to the key findings identified by our audit of the financial statements are provided in the action plan at Appendix V. These recommendations have been discussed with appropriate officers and their responses are included.

AUDIT RISK AREAS			
RISK	RELATED CONTROLS	WORK PERFORMED	CONCLUSION
MANAGEMENT OVERRIDE	ISA (UK&I) 240 requires us to presume that a risk of management override of controls is present and significant in all	We reviewed the appropriateness of journal entries and other adjustments	We did not identify any significant transactions that are outside the normal course of business for the Council or that otherwise appear to be

AUDIT RISK AREAS

RISK	RELATED CONTROLS	WORK PERFORMED	CONCLUSION
REVENUE RECOGNITION - FEES AND CHARGES	entities. By its nature, there are no controls in place to mitigate the risk of management override.	made in the preparation of the financial statements. We also reviewed accounting estimates for evidence of possible bias.	unusual. Our work on accounting estimates has not identified any evidence of bias. Journal entries were appropriate and supported.
	ISA (UK&I) 240 assumes that there is a rebuttable presumption that there is a material risk of fraud arising from revenue recognition. We have rebutted this presumption for all income streams except for fees and charges income. We have confirmed that the Council has put in place controls to ensure the occurrence, completeness and accuracy of the income from these sources.	We substantively tested an extended sample of fees and charges income to ensure that accounting policies had been correctly applied in determining the point of recognition of income and that income was completely and accurately recorded.	Our testing of fees and charges income identified an invoice raised in 2012/13 for £217,000 in relation to inter authority agreement income for 2011/12 avoided waste disposals where the income should have been accrued in 2011/12. The 2012/13 income was £193,000, although an invoice was not raised for this until 2013/14 and the income was not included within 2012/13, nor included as a debtor at the year end. Whilst the income recognised in 2012/13 of £217,000 was not significantly different to the income that should have been recognised in 2012/13 of £193,000, there is a larger impact on reserves as a debtor of £193,000 should have been recognised at the year end. This error has been considered in the unadjusted audit differences section below on page 9.

Accounting Practices and Financial Reporting Framework

Financial statements preparation process

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. The 2012/13 financial statements were signed and presented for audit on 7 June 2013.

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 5 August 2013, in line with the agreed timetable. Further working papers in response to queries were obtained during the course of the audit.

Audit issues and impact on opinion

We have no matters to report.

Accounting policies

The following changes have been introduced by the 2012/13 Code of Practice on Local Authority Accounting in the United Kingdom (the 'Code'), resulting in changes in accounting practice:

- objective of the financial statements and the qualitative characteristics of financial information as a result of the publication of the first phase of the International Accounting Standards Board's (IASB's) The Conceptual Framework for Financial Reporting 2010 (the Conceptual Framework)
- encouraging local authorities to prepare the Explanatory Foreword taking into consideration the requirements of the Government's Financial Reporting Manual (FRM)
- amendments in relation to IFRS 7 Financial Instruments:

Audit issues and impact on opinion

The Government Grants policy reported in the financial statements has been changed this year and now states that the un-ring fenced grants received by the Authority will be recognised in the period to which it relates rather than when it is received. This does not comply with the requirements of the Code, which requires that where a grant is received, and there are no conditions attached to the grant, the amount should be recognised immediately.

The main justification provided by officers is that complying with the Code would result in differences between the financial statements and the figures published by the Government and the subsequent need to explain these differences to members. This is not a

Disclosures (transfers of financial assets).

sufficient reason for a departure from the Code. However, application of the policy has not led to a material misstatement in the financial statements in the current year.

Accounting estimates

We review material accounting estimates identified as having high estimation uncertainty or which are subject to a significant degree of judgement by management, and assess the reasonableness of the assumptions applied by management when deciding whether to recognise amounts in the accounts or the value at which these are recognised.

We consider the following to be material accounting estimates with high estimation uncertainty:

- valuation of property
- estimated pension liability
- provision for bad and doubtful debts

Audit issues and impact on opinion

Valuation of property

Land and buildings are required to be carried at fair value which is either existing use value, depreciated replacement cost for specialised properties or open market value. The Council revalues its other land and buildings over a five year rolling programme and does not adjust for price indices between formal valuations unless there is indication of material changes.

Management makes valuation adjustments to land and buildings based on valuation reports and useful economic lives provided by an independent firm of valuers with specialist knowledge and experience valuing local authority estates, which has regard to local prices and building tender indices in the public sector.

We are satisfied that the valuer is suitably independent of the Council, objective and experienced in undertaking this work. Our review of the valuations provided, when compared to other price index information available, and useful economic lives allocated to buildings and significant components showed that they are not unreasonable.

Estimated pension liability

The net pension liability of the Council comprises its share of the market value of assets held in the Essex Pension Fund and the estimated future liability to pay pensions for its current, deferred

and retired members of the pension scheme.

An actuarial estimate of the pension fund liability is calculated by an independent firm of actuaries with specialist knowledge and experience. Their estimate has regard to local factors such as mortality rates and expected pay rises along with other assumptions around inflation.

Management has agreed the assumptions made by the actuary to support the estimate and these are disclosed in the financial statements. We have requested written representations from the Council to confirm that the assumptions applied by the actuary are reasonable and consistent with its knowledge of the business of the Council.

We are satisfied that the actuary is suitably independent of the Council, objective and experienced in undertaking this work. Our review of the assumptions applied in estimating the pension liability suggest that these are generally not significantly different from those being applied by the actuaries of other local authorities.

Provision for bad and doubtful debts

We have reviewed the methodology applied by the Council in estimating the allowance for doubtful debts across all categories of debtor. There has been no change to the method applied when compared to the prior year and we are satisfied that these methods are not unreasonable.

Disclosures

We review material accounting disclosures, to confirm that they are in compliance with the requirements of the Code.

Audit issues and impact on opinion

A number of presentational and disclosure amendments have been made to the draft financial statements, which include:

- asset disposals had all been included within 'other land and buildings' within the Property, plant and equipment note (Note 12) but were not all land and buildings and therefore required reclassification in the note.
- a post balance sheet event took place that required inclusion of a disclosure regarding the Council's decision made post year end to sell Acacia House rather than retaining it as an investment property.

Misstatements

We identified a number of departures from the expected presentation of the 2012/13 financial statements, or where notes and other disclosures had not been presented in accordance with the Code and requested management correct these in order to achieve compliance.

Audit issues and impact on opinion

The following misstatements identified by the audit have been amended by management:

- reclassification of £1.8m of cash held in a current account from short term investments to cash and cash equivalents on the balance sheet. This also affects 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 have also been made to the revaluation gains and losses relating to the affected assets.

Unadjusted audit differences

We are required to report to you unadjusted audit differences that relate to the current financial year (including those arising in previous periods that have an effect on the current year financial

Audit issues and impact on opinion

New Homes Bonus

Our prior year audit found that the Council had received a payment of grant for the 2012/13 new homes bonus of £22,000 in March 2012

statements) and the effect that they have individually, or in aggregate, on the auditors' report, except for those that are clearly trivial. These are set out below and their potential impact is summarised at Appendix II.

but did not account for this income in 2011/12. However, the Code requires that where a grant is received, and there are no conditions attached to the grant, the amount should be recognised immediately. This error also impacts upon the current year income, which has been overstated by £22,000, although there is no continuing misstatement in the balances as at 31 March 2013.

Derecognition of capital works

Our prior year audit found that during the year the Council replaced the electrical and heating systems components of the building at the South Street offices and had derecognised (written out of the books) the replaced components using guideline component percentages of the total property value, provided by the Valuer, to estimate their value. The guideline percentages used were not specific to South Street. Our view was that a more appropriate estimation of the value of components to be derecognised would be based on the actual capitalised cost of these works, as described in the Code. The impact of the difference in these two estimation techniques was that property, plant and equipment was understated by £158,000, and loss on disposal (derecognition) overstated by the same amount. This error also impacts upon the current year, to the extent that the building has not been revalued at 31 March 2013. The non revalued element of the £158,000 is £59,000, with net assets and reserves being understated by this amount.

Waste disposal income

As referred to in our conclusion for the revenue recognition risk on page 5 above, income has been overstated by £24,000 and assets at the year end have been understated by £193,000.

Accruals

Our testing of post year end payments identified an invoice that

related to 2012/13 and had been paid after the year end, but had not been accrued for correctly. This error was discussed with officers and they confirmed that this error arose because the sundry creditor listing had not been constructed until after 2 April 2013 and all of the payments made on 2 April 2013 had not been included as sundry creditors at the year end. This error could therefore be isolated to payments made on 2 April 2013 and the total error is that expenses and liabilities are understated by £17,000.

Marketplace log

The Council utilises a Marketplace log to estimate the accruals required at the year end. This log details the orders that are on Marketplace that have not yet been paid. Emails are sent to each of the departments asking officers to check the details in the log and to remove any orders where the goods or services have not been received in the year and therefore an accrual is not required. Our testing from this log identified a number of invoices where orders had been accrued for but the goods or services had not been received during 2012/13. Finance staff are currently reviewing the log in detail to enable an accurate adjustment to be proposed to the financial statements. At the time of drafting this report the maximum likely error amounted to £180,000 and this has been reflected in the table of unadjusted audit differences on page 17. An oral update will be given to the Audit Committee regarding the outcome of this additional work and any adjustments that arise.

Overall impact

The impact of correcting these items would decrease the reported deficit for the year by £117,000 and increase net assets by £415,000.

Matters required to be reported by other auditing standards

Whole of Government Accounts (WGA)

We are required to perform tests with regard to the WGA return prepared by the Council for use by the Department of Communities and Local Government for the consolidation of the local government accounts, and by HM Treasury at Whole of Government Accounts level. This work requires checking the consistency of the WGA return with the audited financial statements, and reviewing the consistency of income and expenditure transactions and receivables and payable balances with other government bodies.

Audit issues and impact on opinion

We have not yet completed our testing on the Council's WGA return. An oral update will be provided to members at the Audit Committee.

Annual Governance Statement

We have reviewed the draft Annual Governance Statement and are satisfied that it is not inconsistent or misleading with other information we are aware of from our audit of the financial statements, the evidence provided in the Council's review of effectiveness and our knowledge of the Council.

Audit issues and impact on opinion

We have no matters to report.

CONTROL ENVIRONMENT

We are required to report to you, in writing, matters that meet the criteria in Auditing Standards to be termed significant deficiencies in internal control that we have identified during the audit. These matters are limited to those which we have concluded are of sufficient importance to merit being reported to you.

For our audit of controls within the accounting systems we relied upon work on controls carried out by Internal Audit. We reviewed the work carried out by Internal Audit to establish whether we were able to rely upon it and concluded that we could rely upon the work of Internal Audit.

As the purpose of the audit is for us to express an opinion on the Council's financial statements, you will appreciate that our audit cannot necessarily be expected to disclose all matters that may be of interest to you and, as a result, the matters reported may not be the only ones which exist. As part of our work, we considered internal control relevant to the preparation of the financial statements such that we were able to design appropriate audit procedures. This work was not for the purpose of expressing an opinion on the effectiveness of internal control.

SIGNIFICANT DEFICIENCIES

AREA	OBSERVATION	IMPLICATION	RECOMMENDATION	MANAGEMENT RESPONSE
RECEIVABLES SIGNIFICANT DEFICIENCY	Following a reorganisation within the Payment and Income Team, all members of the team are able to raise invoices and post receipts.	The absence of a segregation of duties increases the risk of fraud.	Ensure individuals within the Payments and Income Team are not able to both raise sales invoices and post receipts or introduce additional safeguards.	The size of the team and the requirement to ensure adequate cover for all functions means that strict segregation of duties is no longer practical. Alternative controls will be put in place which will be reviewed by Internal Audit.

We made the observations reported to you above during the course of our normal audit work.

USE OF RESOURCES - KEY AUDIT MATTERS

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).

In accordance with our Audit Plan, 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 to auditors. This is based on the following two reporting criteria:

- the organisation has proper arrangements in place for securing financial resilience
- the organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

The focus of the criteria for 2012/13 is:

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

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 and strategic and operational planning documents. Discussions were held with key officers to confirm and update our knowledge as part of this process.

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

Audit issues and impact on opinion

We have no matters to report.

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 and 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,

Audit issues and impact on opinion

We have no matters to report.

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.

BDO CONCLUSION

Our value for money conclusion is based on considering our overall risk assessment, focusing on the two criteria set by the Audit Commission, 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.

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 for the year ending 31 March 2013. We propose issuing an unqualified value for money conclusion.



APPENDICES

APPENDIX I: DEFINITIONS

TERM	MEANING
The Council	Rochford District Council
Management	The person(s) responsible for achieving the objectives of the Council and who have the authority to establish policies and make decisions by which those objectives are to be pursued. Management is responsible for the financial statements, including designing, implementing, and maintaining effective internal control over financial reporting.
Those charged with governance	The person(s) with responsibility for overseeing the strategic direction of the Council and obligations related to the accountability of the entity. This includes overseeing the financial reporting process. Those charged with governance for the Council are the Audit Committee.
ISAs (UK & Ireland)	International Standards on Auditing (UK & Ireland)
IAS	International Accounting Standards
IFRS	International Financial Reporting Standards as adopted by the European Union
Materiality	The size or nature of a misstatement that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable user of the financial statements would have been changed or influenced as a result of the misstatement.
Code	Code of Practice on Local Authority Accounting in the United Kingdom 2012/13
CIES	Comprehensive Income and Expenditure Statement
SeRCoP	Service Reporting Code of Practice for Local Authorities 2012/13
WGA	Whole of Government Accounts

APPENDIX II: UNADJUSTED AUDIT DIFFERENCES

We are required to bring to your attention unadjusted audit differences that the Audit Committee are required to consider. A schedule of such adjustments is included below and, with the exception of the errors that relate to prior year misstatements, we request that you corrected them. Identified misstatements for the current year should, where practicable, be corrected even if not material.

There are five unadjusted audit differences identified by our audit work for the current year, which would decrease the draft deficit on the CIES by £117,000 and increase net assets by £415,000. Management considered these identified misstatements to be immaterial in the context of the financial statements taken as a whole. We concur with this judgement.

	CURRENT YEAR			PRIOR YEAR		NET ASSETS OR RESERVES (OVER) / UNDER £'000
	CIES DEFICIT (OVER) / UNDER £'000	INCOME OVER / (UNDER) £'000	EXPENSES (OVER) / UNDER £'000	INCOME OVER / (UNDER) £'000	EXPENSES (OVER) / UNDER £'000	
UNADJUSTED AUDIT DIFFERENCES						
Deficit for the year before adjustments	3,726					11,334
Impact of prior year misstatements (no adjustment required in 2012/13)						
(1) Being a grant for £22,000 in relation to the New Homes Bonus that was received in advance in March 2012, with no conditions in place. This should therefore have been recognised as income in 2011/12 and not 2012/13.	22	22		(22)		
(2) Being the overstatement of the value of heating and electrical components derecognised following capital works on the Council's South Street Offices.						59
Misstatements identified in the current						

UNADJUSTED AUDIT DIFFERENCES	CIES DEFICIT (OVER) / UNDER £'000	CURRENT YEAR		PRIOR YEAR		NET ASSETS OR RESERVES (OVER) / UNDER £'000
		INCOME OVER / (UNDER) £'000	EXPENSES (OVER) / UNDER £'000	INCOME OVER / (UNDER) £'000	EXPENSES (OVER) / UNDER £'000	
year						
(3) Being the understatement of expenditure and liabilities due to invoices being identified that had not been correctly accrued for.	17		17			(17)
(4) Being the overstatement of income and understatement of debtors resulting from the waste disposal income not being appropriately accounted for.	217 (193)	217 (193)		(217)		193
(5) Being the maximum likely overstatement of expenditure and creditors in relation to the issue identified with the Marketplace log.	(180)		(180)			180
TOTAL UNADJUSTED DIFFERENCES	(117)	46	17	(239)		415
Deficit for the year and net assets if adjustments accounted for	3,609					11,749

APPENDIX III: MATERIALITY

MATERIALITY	
Balance Sheet planning materiality, not impacting on the CIES	£995,000
CIES Planning materiality	£399,000
Balance Sheet final materiality, not impacting on the CIES	£995,000
CIES final materiality	£399,000
Clearly trivial threshold	£12,000

Planning materiality of £995,000 for the Council was based on 2.5% of gross expenditure, and the CIES planning materiality was calculated on 1% of gross expenditure. The figure was based on the full year outturn per the draft financial statements and we have no reason to revise this figure for our final materiality level.

APPENDIX IV: INDEPENDENCE

INDEPENDENCE - ENGAGEMENT TEAM ROTATION		
SENIOR TEAM MEMBERS	NUMBER OF YEARS INVOLVED	ROTATION TO TAKE PLACE IN YEAR ENDED
RICHARD BINT - Audit engagement partner	4	N/A
CLARE REED - Audit manager	2	N/A

INDEPENDENCE - THREATS TO INDEPENDENCE AND APPROPRIATE SAFEGUARDS

We have not identified any potential threats to our independence as auditors of the 2012/13 financial statements.

We confirm that the firm complies with the APB Ethical Standards and, in our professional judgement, is independent and objective within the meaning of those Standards.

In our professional judgement the policies and safeguards in place ensure that we are independent within the meaning of all regulatory and professional requirements and that the objectivity of the audit engagement partner and audit staff is not impaired.

Should you have any comments or queries regarding this confirmation we would welcome their discussion in more detail.

APPENDIX V: ACTION PLAN

FINANCIAL STATEMENT RECOMMENDATIONS				
CONCLUSIONS FROM WORK	RECOMMENDATIONS	MANAGEMENT RESPONSE	RESPONSIBILITY	TIMING
Our testing has identified that the Marketplace log used to calculate accruals at the year end is not fully complete or accurate, leading to errors within the financial statements. This log is reliant on departments within the Council providing accurate information.	Sample test the information provided by the various departments for inclusion in the Marketplace log prior to calculating the estimate of accruals to be included in the financial statements.	Accepted	Senior Accountant	May 2014

INTERNAL CONTROL RECOMMENDATIONS				
CONCLUSIONS FROM WORK	RECOMMENDATIONS	MANAGEMENT RESPONSE	RESPONSIBILITY	TIMING
Following a reorganisation within the Payment and Income Team, all members of the team are able to raise invoices and post receipts. The absence of a segregation of duties increases the risk of fraud.	Ensure individuals within the Payments and Income Team are not able to both raise sales invoices and post receipts or introduce additional safeguards.	The size of the team and the requirement to ensure adequate cover for all functions means that strict segregation of duties is no longer practical. Alternative controls will be put in place which will be reviewed by Internal Audit.	Financial Services Manager	November 2013

APPENDIX VI: FEES SCHEDULE

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 our Audit Plan.

We will carry out a detailed comparison of actual audit costs incurred against planned costs when we have completed the audit and discuss any impact on the planned fee of £62,643 with management, before we report the final fee outturn.

APPENDIX VII: STATUTORY AND PROFESSIONALLY REQUIRED COMMUNICATIONS

COMMUNICATION REQUIRED	DATE COMMUNICATED	TO WHOM	METHOD
	24 September 2013	Management and those charged with governance	Report to Audit Committee
Potential effect on the financial statements of any material risks and exposures, such as pending litigation, that are required to be disclosed in the financial statements.	Not an issue	Not an issue	Not an issue
Misstatements, whether or not recorded by the entity	✓	✓	✓
The final draft of the representation letter	✓	✓	✓
Material uncertainties related to events and conditions that may cast significant doubt on the entity's ability to continue as a going concern	Not an issue	Not an issue	Not an issue
Disagreements with management about matters that, individually or in aggregate, could be significant to the entity's financial statements or our audit report	Not an issue	Not an issue	Not an issue
Expected modifications to our audit report or inclusions of emphasis of matter / other matter	Not an issue	Not an issue	Not an issue
Significant deficiencies in internal control	Not an issue	Not an issue	Not an issue
Any other matters warranting attention by those charged with governance, such as questions regarding management integrity, and fraud involving management	Not an issue	Not an issue	Not an issue
Management judgements and accounting estimates	✓	✓	✓
Other information in documents containing audited financial information	✓	✓	✓
Consultation with other accountants	Not an issue	Not an issue	Not an issue
Major issues discussed with management	Not an issue	Not an issue	Not an issue

APPENDIX VIII: DRAFT REPRESENTATION LETTER

BDO LLP
16 The Havens
Ransomes Europark
Ipswich
Suffolk
IP3 9SJ

xx September 2013

Dear Sirs

Financial statements of Rochford District Council for the year ended 31 March 2013

This representation letter is provided in connection with your audit of the financial statements of Rochford District Council for the year ended 31 March 2013 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 officers of the Council, the following representations given to you in connection with your audit of the Council's financial statements:

FINANCIAL STATEMENTS

Responsibility for financial statements

I acknowledge as the Head of Finance and s151 Officer my responsibilities for the Statement of Accounts, which include 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 and have been prepared in accordance with the requirements of applicable law.

Significant assumptions

I confirm that the significant assumptions used in making accounting estimates, including those measured at fair value, are reasonable.

(a) 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) | 3.3% |
| • Rate of inflation (CPI) | 2.5% |
| • Rate of increase in salaries | 4.3% |
| • Rate of increase in pensions | 2.5% |
| • Rate for discounting scheme liabilities | 4.1% |
| • Take up option to convert the annual pension into retirement grant | 50% |

I also confirm that the actuary has applied up-to-date mortality tables for life expectancy of scheme members in calculating scheme liabilities.

(b) Fair value measurements and disclosures

I confirm that the valuation at which land and buildings are carried in the financial statements is a reasonable approximation of their fair values, on the bases required by the Code of Audit Practice.

Accounting policies

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

Plans or intentions

I confirm that the Council has no plans or intentions that may materially alter the carrying value and, where relevant, the fair value measurements or classification of assets and liabilities reflected in the financial statements.

Litigation and claims

I have disclosed to you all known actual or possible litigation and claims, the effects of which should be considered when preparing the financial statements and these have been accounted for and disclosed in accordance with the applicable financial reporting framework.

Related parties

I confirm that related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of the applicable financial reporting framework.

Subsequent events

All events occurring subsequent to the date of the financial statements for which the applicable financial reporting framework requires adjustment or disclosure have been adjusted or disclosed.

Uncorrected misstatements

You have brought to my attention potential misstatements in the financial statements as listed in the appendix to this letter. I do not wish to amend the financial statements to reflect any of these items as I believe that they are immaterial both individually and in aggregate to the view given by the financial statements as a whole.

Going concern

I confirm that I am satisfied that it is appropriate for the financial statements to have been drawn up on the going concern basis. In reaching this conclusion I have taken into account all relevant matters of which I am aware and have considered a future period of at least one year from the date on which the financial statements will be approved.

INFORMATION PROVIDED

Completeness of information

All the accounting records have been made available to you for the purpose of your audit. I have provided you with all other information requested and given unrestricted access to persons within the Council from whom you determined it necessary to obtain audit evidence. 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.

All transactions undertaken by the Council have been recorded in the accounting records and are reflected in the financial statements.

There is no relevant audit information needed by you in connection with preparing your audit report of which you are unaware.

Internal Control

I acknowledge my responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

I have communicated to you all significant deficiencies in internal control of which I am aware.

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 have disclosed to you my knowledge of fraud or suspected fraud affecting the Council involving management, employees who have significant roles in internal control or others where the fraud could have a material effect on the financial statements

I have disclosed to you my knowledge of any allegations of fraud, or suspected fraud affecting the financial statements communicated to me by employees, former employees, analysts, regulators or others.

Compliance with laws and regulations

I am not aware of any actual or possible instances of non-compliance with laws and regulations whose effects should be considered when preparing the financial statements of the Council.

Related parties

I confirm that I have disclosed to you the identity of the Council's related parties, related party relationships and transactions of which I am aware.

Liabilities, contingent liabilities or guarantees

There are no liabilities, contingencies or guarantees to third parties other than those disclosed in the financial statements.

Title to assets

The Council has satisfactory title to all assets and there are no liens or encumbrances on the assets except for those disclosed in the financial statements.

Contractual agreements

The Council has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance.

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 Statement of Accounts, which include the financial statements. The Head of Finance is responsible for the preparation of the Statement of Accounts, which include 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 Toby Mountain
Audit Committee Chair

For and on behalf of Rochford District Council



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 company and may not be quoted nor copied without our prior written consent. No responsibility to any third party is accepted.

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