
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 2015/16.

2 INTRODUCTIONS

- 2.1 In order for the external auditors, Ernst and Young LLP, to certify the 2015/16 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

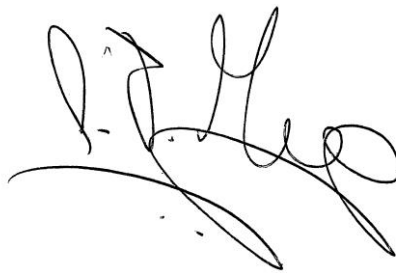
- 3.1 The financial statements are prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16. These statements will be considered in a later item on this agenda.
- 3.2 The changes to the financial statements arising from the audit are detailed in the 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.

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.



Rob Manning

Section 151 Officer

Background Papers:-

None.

For further information please contact Joseph Raveendran (Principal Accountant) on:-

Phone: 01702 546366 ext. 3101

Email: joseph.raveendran@rochford.gov.uk

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

Rochford District Council

Audit Results Report - ISA (UK and Ireland) 260
for the year ended 31 March 2016

September 2016

Ernst & Young LLP



Deliberately left blank for printing purposes

Contents

1. Executive summary	0
2. Responsibilities and purpose of our work.....	3
3. Financial statements audit	4
4. Value for money	9
Appendix A – Uncorrected audit differences	13
Appendix B – Corrected audit differences	14
Appendix C – Outstanding matters	16
Appendix D – Independence.....	17
Appendix E – Auditor fees	18
Appendix F – Draft audit report	19
Appendix G – Management representation letter	22
Appendix H – Required communications with the audit committee.....	27

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

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

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

This Audit Results Report is prepared in the context of the Statement of responsibilities. This report is intended solely for the use of the Members of the audited body. We, as appointed auditor, take no responsibility to any third party.

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

1. Executive summary

The National Audit Office's Code of Audit Practice (the Code) requires us to report to those charged with governance – the Audit Committee – on the work we have carried out to discharge our statutory audit responsibilities together with any governance issues identified. This report summarises the findings from the 2015/16 audit which is substantially complete. It includes messages arising from our audit of your financial statements and the results of the work we have undertaken to assess your arrangements to secure economy, efficiency and effectiveness in your use of resources.

Below are the results and conclusions on the significant areas of the audit process.

Status of the audit	<p>Financial Statements</p> <p>We have substantially completed our audit of the financial statements of Rochford District Council for the year ended 2015/16. Subject to satisfactory completion of the remaining items included in Appendix C we will issue an audit opinion in the form which appears in Appendix F:</p> <p>We have performed the procedures outlined in our Audit Plan and anticipate issuing an unqualified opinion on the Council's financial statements.</p> <p>Value for Money Conclusion</p> <p>We expect to conclude that you have not put in place proper arrangements to secure value for money in your use of resources, in respect of informed decision making.</p> <p>This is because the Council has not complied with Section 5 of the Accounts and Audit Regulations 2015 by not undertaking an effective internal audit to evaluate the effectiveness of its risk management and governance processes. Internal Audit has not complied with the UK Public Sector Internal Audit Standards in a number of significant areas during 2015/16. The Council did not appoint a Chief Audit Executive with the qualifications or experience required by the Standards from September 2015 to 31 March 2016 and did not put in place alternative arrangements to deliver the same impact as indicated within CIPFA Statement on the Role of the Head of Internal Audit.</p> <p>This issue is evidence of weaknesses in proper arrangements for informed decision making and acting in the public interest, through demonstrating and applying the principles and values of good governance.</p> <p>We note that the Council has reported publicly this weakness and is addressing in the 2016/17 financial year. The Council is in the process of appointing a new Chief Audit Executive and is intending to develop an internal audit programme to ensure that sufficient work will be carried out to enable an overall opinion to be given in 2016/17 on the councils systems of governance, risk management and internal control.</p> <p>Whole of Government Accounts</p> <p>Rochford District Council is below the threshold requiring a detailed audit of the consolidation pack for Whole of Government Accounts. We expect to submit confirmation of this to the NAO.</p> <p>Following the completion of our work on the Whole of Government Accounts and the completion of our remaining audit work, we expect to issue the audit certificate at the same time as the audit opinion.</p>
---------------------	---

Audit differences	<p>We have identified one unadjusted audit difference within the draft financial statements, which management have chosen not to adjust. We ask the Audit Committee to consider approving management's rationale as to why this correction has not been made and, if approved, include this in the Letter of Representation. Appendix A to this report sets out the uncorrected misstatements. We do not consider this item to be material to our audit opinion. The adjustment would not impact on useable reserves.</p> <p>Our audit identified a number of further audit differences which our team have highlighted to management for amendment. These have been corrected during the course of our work and further details are provided at Appendix B. These adjustments have reduced useable reserves by £0.402 million.</p>
Scope and materiality	<p>In our audit plan presented to the 8 March 2016 Audit Committee, we communicated that we would perform our audit procedures using a materiality of £0.7 million. Using the draft results for the financial year and we have confirmed this sum as the basis for our work.</p> <p>The threshold for reporting audit differences which impact the financial statements has fallen slightly from £0.036 to £0.034 million. The basis of our assessment is 2% of gross operating expenditure.</p> <p>We also identified the following areas where misstatement at a level lower than our overall materiality level might influence the reader. For these areas we developed an audit strategy specific to these areas, the areas identified and audit strategy applied include:</p> <ul style="list-style-type: none"> • Remuneration disclosures including any severance payments, exit packages and termination benefits. We checked the bandings reported in the financial statements, tested the completeness of the disclosures and checked that the disclosures made were compliant with the Code of Practice. We checked transactions back to the payroll system and supporting documentation. • Related party transactions. Our audit strategy was to obtain and review declarations from senior officers and members of the Council for any material disclosures and make sure that the disclosure was compliant with the Code. We carried out a sample check of Companies House searches on contracts from the Council's contract register to identify whether any key decision-makers in the Council had an interest in the company, to test the completeness of the disclosure. <p>We carried out our work in accordance with our Audit Plan. However, since issuing our audit plan in March 2016, we identified a significant risk to the Value for Money Conclusion. The significant risk related to the Council's arrangements for informed decision making, concerning:</p> <ul style="list-style-type: none"> • The Council's arrangements for undertaking an effective internal audit to evaluate the effectiveness of its internal control, risk management and governance processes
Significant audit risks	<p>We identified the following audit risks during the planning phase of our audit, and reported this to you in our audit plan:</p> <ul style="list-style-type: none"> • Risk of fraud in revenue recognition; and • Risk of management override. <p>The 'addressing audit risks' section of this report sets out how we have gained audit assurance over these issues.</p>

Other reporting issues	<p>We wish to report the following matters:</p> <ul style="list-style-type: none"> • The Council published the relevant documents on the website in time for the public inspection period beginning 1 July 2016, although there were initial omissions of the Cash and Cash Equivalents Balance of £5.280 in the Balance Sheet and the narrative statement; • Management prepared working papers for the week of 18 July but best practice is to do this for the signing of the financial statements by the Section 15 Officer for 30 June next year and 31 May in 2017/18. We also had to request further working papers to complete our work, which delayed our audit; and • During our audit we identified that within Note 7: Adjustments between Accounting Basis and Funding Basis under Regulations several sums did not agree as expected to other disclosure notes within the financial statements. Management sought external accounting support to review the accounting entries and resolve the associated internal balancing problems within the financial statements. Should such issues arise in future years, management should review the capacity of the finance team to correct these errors fully and seek external support, if required, at an early stage.
Control observations	<p>We have adopted a fully substantive approach and have therefore not tested the operation of controls.</p>

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

Kevin Suter (senior statutory auditor)
 For and on behalf of Ernst & Young LLP, Appointed Auditor
 Luton
 September 2016

2. Responsibilities and purpose of our work

The Council's responsibilities

The Council is responsible for preparing and publishing its Statement of Accounts, accompanied by the Annual Governance Statement (AGS). In the AGS, the Council reports publicly on the extent to which it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period.

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

Purpose of our work

Our audit was designed to:

- Express an opinion on the 2015/16 financial statements and the consistency of other information published with them;
- Report on an exception basis on the Annual Governance Statement;
- Consider and report any matters that prevent us being satisfied that the Council had put in place proper arrangements for securing economy, efficiency and effectiveness in the use of resources (the value for money conclusion); and
- Discharge our statutory duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice.

In addition, this report contains our findings related to the areas of audit emphasis and any views on significant deficiencies in internal control or the Council's accounting policies and key judgments.

Alongside our work on the financial statements, we also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of our review and the nature of our report are specified by the National Audit Office.

3. Financial statements audit

Addressing audit risks

We identified the following audit risks during the planning phase of our audit, and reported these to you in our Audit Plan. Here, we set out how we have gained audit assurance over those issues.

A significant audit risk in the context of the audit of the financial statements is an inherent risk with both a higher likelihood of occurrence and a higher magnitude of effect should it occur and which requires special audit consideration. For significant risks, we obtain an understanding of the entity's controls relevant to each risk and assess the design and implementation of the relevant controls.

Significant Risks (including fraud risks)	Audit procedures performed	Assurance gained and issues arising
<p>Risk of fraud in revenue recognition</p> <p>Under ISA240 there is a presumed risk that revenue may be misstated due to improper recognition of revenue.</p> <p>In the public sector, this requirement is modified by Practice Note 10, issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.</p> <p>For local authorities the potential for the incorrect classification of revenue spend as capital is a particular area where there is a risk of management override.</p>	<ul style="list-style-type: none"> Reviewed and tested revenue and expenditure recognition policies; Reviewed and discussed with management any accounting estimates on revenue or expenditure recognition for evidence of bias; Developed a testing strategy to test material revenue and expenditure streams; Reviewed and tested revenue cut-off at the period end date; and Reviewed capital expenditure on property, plant and equipment to ensure it meets the relevant accounting requirements to be capitalised. 	<ul style="list-style-type: none"> Our review concluded that the Council has appropriate revenue and expenditure recognition policies; Our review of accounting estimates did not identify any evidence of management bias; We did not find errors in material revenue or expenditure streams; We did not find errors from testing cut-off processes; Our testing did not identify any expenditure which had been inappropriately capitalised.
<p>Risk of management override</p> <p>As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.</p> <p>For local authorities the potential for the incorrect classification of revenue spend as capital is a particular area where there is a risk of management override.</p>	<ul style="list-style-type: none"> Tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements Reviewed accounting estimates for evidence of management bias covering Property, Plant and Equipment, Pension Liability and NNDR Appeals Provision; and Evaluated the business rationale for any significant unusual transactions. 	<ul style="list-style-type: none"> We did not identify any material misstatements, evidence of management bias or significant unusual transactions in our testing. Our review of accounting estimates did not identify any evidence of management bias. We did not identify any significant unusual transactions.

Other Risks	Audit procedures performed	Assurance gained and issues arising
<p>During our audit, we noted that within Note 7: Adjustments between Accounting Basis and Funding Basis under Regulations several sums did not agree as expected to other disclosure notes within the financial statement, specifically::</p> <ul style="list-style-type: none"> £0.402 million: Adjustment relating to items not debited or credited to CIES; £0.300 million: Application of Grants to Capital Financing transferred to the Capital Adjustment Account; and £0.152 million: Amount by which Council Tax (CT) & National Non Domestic rating (NNDR) DR income credited to the CIES is different from CT & NNDR income calculated for the year in accordance with statutory requirements <p>In addition, Note 7 the published PDF version of the financial statements omitted a number of lines and so did not cast.</p>	<p>We undertook work to determine the correct accounting entries based on the figures within financial statements. We concluded that the Note 7 was misstated and requested the Council to review the accounting entries.</p> <p>Management sought external accounting support to review the entries made and advise on the accounting treatment.</p> <p>Management has subsequently amended Note 7 to ensure disclosure of all lines omitted from the published PDF version, to ensure internal agreement with other notes within the financial statements.</p> <p>Arising from this work, management has corrected the CIES and Creditors in the Balance Sheet for the sums under review. The entries are in explained in Appendix B. The impact has been to reduce the General Fund by £0.402 million.</p>	<p>We have assurance that Note 7 is fairly stated and agrees to the relevant sums within the financial statements.</p> <p>Management were concerned about the entry of £0.402m and recorded the sum as a balancing item within Note 7. Management alerted EY to the sum.</p> <p>However, management should not rely on audit to resolve problems that may arise within the Council's accounts.</p> <p>Should such issues arise in future years, management should review the capacity of the finance team to correct these errors fully and seek external support, if required, at an early stage.</p>

Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we are required to communicate to you significant findings from the audit and other matters that are significant to you oversight of the Council's financial reporting process, including the following:

- Qualitative aspects of your accounting practices; estimates and disclosures;
- Matters specifically required by other auditing standards to be communicated to those charged with governance. For example, issues about fraud, compliance with laws and regulations, external confirmations and related party transactions;
- Any significant difficulties encountered during the audit; and
- Other audit matters of governance interest

We wish to report the following matters:

- The Council succeeded in bringing forward its timetable for the preparation of the narrative report, financial statements and annual governance statement to meet the timetable for publication this year. However, the Council made two errors in publishing the required information on the website by 30 June 2016:
 - The statement of accounts did not include the Cash and Cash Equivalents balance of £5.280 million on the face of the Balance Sheet as the PDF version had not picked up the relevant line from the final accounts template; and
 - The published documents did not include the Narrative Statement.

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

- The Council completed its working papers to support the financial statements in the week of 18 July 2016. In addition, management created further working papers in response to our queries during the audit and had difficulty in fulfilling our request in respect of our analytic tools. Best practice is for all working papers to be prepared at the time of sign off of the financial statements to 30 June each year. As the timetable moves to 31 May in 2017/18, management needs to bring forward its preparations to meet this date.
- Management has amended the narrative report highlights risks to enhance financial and performance information in line with Update to the Code of Practice on Local Authority Accounting issued in February 2016.
- The revised Annual Governance Statement records the Head of Internal Audit's opinion in full and includes minor disclosure points to bring in line with the Code of audit Practice.
- Our initial review of the financial statements identified that there were no provisions disclosed in the Balance Sheet, which is unusual compared with other district council accounts. Management has amended the financial statements to include a provision note within the Balance Sheet and at Note 18b to record Rochford's 2015/16 £128,000 share of its provision for business rates appeals. Previously the sum had been netted off within Note 16 Short Term Debtors. Management has also disclosed an accounting policy to cover this item.
- In revising note 16 short term debtors, management has provided a new line in accordance with the Code of Accounting Practice to show the gross value of Short Term Debtors (Other Entities and Individuals to the value of £2.6 million) and the associated Provision for Doubtful Debts (£1.1 million), which were netted off previously.
- Management has also amended Note 31 Contingent Liabilities to summarise the possible liabilities rather than to specify a likely estimate. However, our audit identified that at least two of the contingent liabilities previously disclosed should be classified as provisions. Management agree with this conclusion. We note that management has voluntarily set up a reserve to cover payments should they arise. However, the Code of Audit Practice, in line with international Accounting Standard 37 requires a provision to be recognised where the following exist:
 - an authority has a present obligation (legal or constructive) as a result of a past event;
 - it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
 - a reliable estimate can be made of the amount of the obligation. The Standard notes that it is extremely rare that a reliable estimate cannot be made.

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

- In previous years, the Council has not set aside sums to fund a Minimum Revenue Provision (MRP). An MRP is required in order to set aside a provision for the repayment of debt to finance the capital programme. The calculation is based on the opening balancing position on the Capital Financing Requirement (CFR). Based on the current figure the sum is not material. However, as our audit indicated that there may be errors in the calculation of the CFR, we have asked management during 2016/17, to:
 - Review the calculations for the CFR back to 2004 if necessary;
 - Review whether funding has been correctly applied in those years;
 - Establish what CFR should be; and
 - If required set out an MRP policy and start setting aside a provision from 2016/17.

Control themes and observations

It is the responsibility of the Council to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility as your auditor is to consider whether the Council has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

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

We have reviewed the Annual Governance Statement and can confirm that, as amended, it not misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Council.

Request for written representations

We have requested a management representation letter to gain management's confirmation in relation to a number of matters, as outlined in Appendix G. In addition to the standard representations, we have requested the following specific representations, for areas where cannot otherwise gain audit assurance:

- Use of a Specialist
 - We have requested representation that Members and management did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and that Members and management are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists;
- Estimates
 - For the estimates for Property, Plant and Equipment and Pension Liabilities we have requested representation from Members and management that the estimates appropriately reflect their intent and ability to make judgments, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for the revenue and expenses during the year on behalf of the entity; and
- Retirement Benefits
 - We have requested representation from Members and management that the actuarial assumptions underlying the scheme liabilities are consistent with the knowledge Members and management of the business and that all significant retirement benefits and all settlements and curtailments have been identified and properly accounted for.

We have also requested within our letter of representation at Appendix G a response by the Audit Committee for the Council's reasons for not correcting misstatements a sum of £0.222 million, which we believe to be incorrectly credited the Net Cost of Services, rather than Taxation and Non Specific grant income.

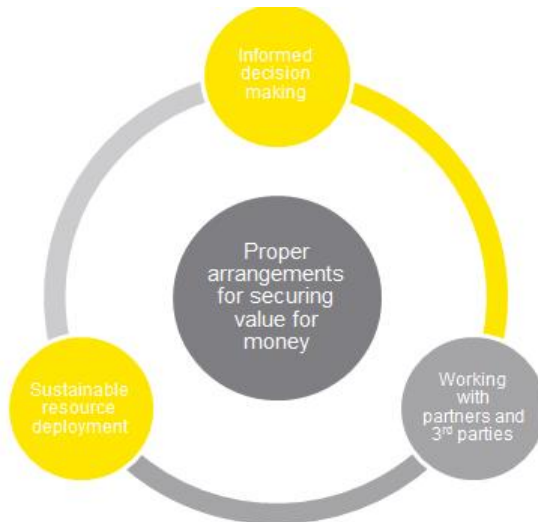
Whole of Government Accounts

Alongside our work on the financial statements, we also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of our review and the nature of our report are specified by the National Audit Office.

Rochford District Council is below the threshold which does not require the detailed audit of the consolidation pack.

We will update the Audit Committee verbally on any progress on this area between the date of issue of this report and the meeting on 28 September 2016. At this stage, we have no issues to report to you.

4. Value for money



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

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

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

Overall conclusion

At the planning stage of our audit we identified a significant risk in relation to these arrangements covering:

- Sustainable resource deployment: Achievement of savings needed over the medium term.

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

We have performed the original procedures outlined in our audit plan, and procedures to address the additional risk.

We identified the following significant weaknesses in the Council's arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

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

This is therefore, evidence of weaknesses in proper arrangements for informed decision making and acting in the public interest, through demonstrating and applying the principles and values of good governance

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

Significant risks

The table below presents the findings of our work in response to the risk area outlined above.

VFM risk identified within our audit plan	Impacts arrangements for:	Key findings
<p>Sustainable resource deployment: Achievement of savings needed over the medium term</p> <p>The Council faces significant financial challenges over the next three to four years, with a forecasted underlying budget gap of £2.8m by 2020-21.</p> <p>Given the scale of the savings needed, there is a risk that savings plans to bridge this gap are not robust and/or achievable.</p>	<p>Deploying resources in a sustainable manner</p>	<p>The Council published its Medium Term Financial Plan (MTFP) in February 2016. The Council identified a cumulative funding gap of £2.893 million budget gap to 31 March 2021.</p> <p>Delivery of the MTFP depends at present on the receipt of £1.2 million incentivised funding each year from Essex County Council. This sum is not guaranteed. To deliver balanced budgets, the MTFP details savings concepts of £2.363 million leaving a budget gap of £0.5 million by 31 March 2021. Management has risk assessed the savings concluding that achievement of £1.994 savings is likely, with £0.369 at risk, but none at high risk of delivery. We note that savings concepts are discussed with Members and that the Council is to refine its MTFP in September 2016.</p> <p>We have reviewed:</p> <ul style="list-style-type: none"> • The robustness of any assumptions used in medium term planning; • The Council's approach to prioritising resources whilst maintaining services; and • The savings plans and concepts in place, and assessing the likelihood of whether these can provide the Council with the required savings/efficiencies over the medium term. <p>We have concluded that The MTFP identifies the key assumptions expected to underpin the 2016/17 budget. Assumptions include:</p> <ul style="list-style-type: none"> • Reductions in future levels of Revenue Support Grant; • Using New Homes Bonus (NHB) to provide core funding to support the Council's transformation agenda, rather than the revenue base budget; • pay inflation, inflation for other costs and fees and charges; and • business rates retention income and council tax increases. <p>We consider that the management can improve the MTFP by introducing sensitivity analysis to the assumptions and scenario analysis to help guide Members to determine options for budget setting and precept levels.</p> <p>The savings concepts follow good practice in covering transformation projects, efficiency savings, income generation and reviewing service provision to address the budget gap. In making decisions on service provision the Council reports internally to the Executive on current performance aligned to its corporate objectives. To enhance decision making, the Section 151 Officer is to produce an integrated finance and performance report in 2016/17. To aid transparency, the Council should bring its public reporting of performance targets on the website up to date. The Council needs to bridge the £0.5m budget gap by 31 March 2021.</p> <p>As at the end of 31 March 2016, the revised General Fund balance is £1.176 million, forecast to reduce to £1.071 million in 2017/18. This level remains above the level of £1.0 million, which the Section 151 Officer recommends the minimum level for the General Fund balance. The Council also has earmarked reserves of £2.919 million at 31 March 2016. The sum includes £1.4 million for the NHB this year, which if available, the Council will use in-year to fund transformational projects. As a result management forecast that earmarked reserves will fall to £1.1 million in 2016/17 before increasing to £1.8 million by 31 March 2018. To 2018/19, should no savings plans materialise, the use of forecast reserves to fund the gap would leave £0.7 million in the General Reserve. The Council needs to consider carefully all income streams including council tax in maintaining its reserves in the future.</p> <p>Bridging the budget gap to ensure the Council's future financial viability presents a significant challenge for the Council. We have concluded that the Council is responding well to the financial challenges it is facing, but could improve arrangements for sensitivity and scenario analysis in its budget setting, its public reporting of performance and continuing to review all sources of income to increase reserves.</p>

<p>Informed decision making: Undertaking an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes.</p> <p>The Head of Internal Audit opinion concludes that due to the limitations in the coverage of Internal Audit work completed in 2015/16, I cannot provide an overall opinion on the Council's systems of governance, risk management and internal control.</p>	<ul style="list-style-type: none"> • Taking informed decisions. 	<p>The previous external auditors reported that following a major restructure of the Council, based on the days recorded in the 2015/16 Audit Plan, the Council should closely monitor the sufficiency of depth of Internal Audit coverage for 2015/16.</p> <p>The Assistant Director (Legal Services) reported to the December 2015 Audit Committee on Internal Audit's self-assessed level of compliance with Public Sector Internal Audit Standards. This highlighted that Internal Audit did not comply with the standards in a number of key aspects related to the absence of:</p> <ul style="list-style-type: none"> • A nominated Chief Audit Executive with the qualifications or experience required by the Standards to fulfil the role; • Routine quality assessment or general review of the work of the Principal Auditor and therefore meet the Standard's requirements for a Quality and Improvement Programme; and • Clarity how agreement of the scope and results of audits of activities within the remit of the Assistant Director for Legal Services (the Assistant Director with line management responsibility for Internal Audit) will be agreed and reported to demonstrate sufficient independence. <p>After the December 2015 meeting, the Council invited the Essex County Council Internal Audit Team to undertake a peer review of the Council's internal audit and counter fraud services. This review assessed structure, skills, working practices, coverage and impact.</p> <p>The peer review identified the following areas for Internal Audit to improve its:</p> <ul style="list-style-type: none"> • Position and visibility within the organisation, including its ability to gather intelligence and undertake appropriate work on key emergent issues that potentially impact on the Council's governance, risk management and internal control arrangements; • Access to, and use of, specialist audit and counter fraud resource (including specialist IT-related audit); • Approach to developing the annual audit plan and the balance of the 2015/16 annual audit plan to ensure it sufficiently addresses the Council's significant risks across a sufficiently broad range of activity; • Identifying and use of other sources of assurance; and • Means to measure and improve the impact of its work. <p>The Head of Internal Audit's annual opinion on the overall adequacy and effectiveness of the Council's framework of governance, risk management and internal control during 2015/16, issued to 21 June 2016 Audit Committee, concluded:</p> <ul style="list-style-type: none"> • Due to the limitations in the coverage of Internal Audit work completed in 2015/16, I cannot provide an overall opinion on the Council's systems of governance, risk management and internal control. • I can, however, provide substantial assurance that the controls within the key financial systems remain adequately designed and are operating satisfactorily. • I can also provide assurance that the arrangements to request, receive and act upon officers' and Members' declarations of interests and gifts and hospitality received are designed adequately and operating satisfactorily. • Due to the extent of organisational change over the past two years and the potential for people and working practices to have changed since the last Internal Audit coverage, there is not sufficient confidence to allow assurances from previous years to be applied to this year. <p>We have noted that the Annual Governance Statement considers all the work, reports and investigations throughout 2015/16 and concludes that 'although there is limited Internal Audit work to provide an independent assurance opinion, it is considered the arrangements and processes described above provide sufficient collective evidence the Council has adequate governance arrangements.'</p> <p>We note that the Council has reported publicly this weakness and is addressing in the 2016/17 financial year. The Council is in the process of appointing a new Chief Audit Executive and is intending to develop an internal audit programme to ensure that sufficient work will be carried out to enable an overall opinion to be given in 2016/17 on the councils systems of governance, risk management and internal control.</p>
--	--	--

Continued...

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

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

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

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

Appendix A – Uncorrected audit differences

We have identified the following difference, which is greater than £0.048 million, during the course of our audit and has not been considered material by management or by us for adjustments. We are bringing it to the Committee's attention to enable you to form your own view on this item.

Balance sheet and Statement of comprehensive income and expenditure 2015/16

Item of account	Balance sheet (£m)	Comprehensive income and expenditure statement (Decrease) / Increase (£m)
CIES – Net Cost of Services – Disabled Facilities Grant		(222)
CIES – Taxation and Non-Specific Grant Income - Disabled Facilities Grant		222
<p>Note 28 – Grant income records that management has credited to the Net Cost of Services within the CIES £0.222 million for a Disabled Facilities Grant. This is capital grant but management has treated it as a revenue grant credited to services within the CIES. The Code of Practice (3.4.2.44 e) sets out that all capital grants should be shown as a grant within Taxation and Non-Specific Grant Income and Expenditure. This is supported by the Service Reporting Code of Practice (SERCOP) (2.21.3): 'capital grants and contributions are included with non-specific grants, and do not form part of the Net Cost of Services'. We accept that the Guidance notes to the Code pages 506 and 682) provide a contrary view. However, we believe the Code and SERCOP have primacy over the guidance; The uncorrected error has no impact on the Council's useable reserves.</p>		
Cumulative effect of unadjusted differences	0	0

Appendix B – Corrected audit differences

The following corrected differences, which are greater than £0.337 million, have been identified during the course of our audit and warrant communicating to you.

These items have been corrected by management within the revised financial statements.

Balance sheet and Statement of comprehensive income and expenditure

Item of account	Balance sheet (Decrease) / Increase £[m]	Comprehensive income and expenditure statement (Decrease) / Increase £[m]
CIES – Taxation and Non – Specific Grant Income: Capital Grants Unapplied		(0.300)
CIES – Taxation and Non – Specific Grant Income: Council Tax Income – Council Tax Income		(0.102)
Balance sheet – Creditors	0.402	
<p>In closing the financial statements for 2015/16, management incorrectly accounted for the following three transactions:</p> <ul style="list-style-type: none"> • The Council received two grants of £150,000 in 2013/14 and again in 2014/15. The Council could only apply the grants in 2015/16 when certain conditions had been met. However, having credited the CIES in 2013/14 and 2014/15 with the sums, management did not debit the CIES in 2015/16. This caused the CIES to be overstated by £0.3m. • Management incorrectly included the sum of £102,000 (rounded from £104,000) relating to the Council's share of the surplus on Council Tax as disclosed in the 2014/15 Collection Fund within Council Tax income in Note 11. As a result the sum was credited to the CIES. This caused the CIES to be overstated by £102,000. • In closing the 2014/15 financial statements management discovered that a Creditor balance of £402,000 for pension strain had been coded to income and expenditure. This had the impact of reducing Creditors and therefore with the other two incorrect balances of causing the accounts to be in balance but overstating the CIEs and therefore the General Fund by £0.402 million. • The Council has reversed these entries in the final audited financial statements. With the impact being that the General Fund balance has reduced from £1.578 million to £1.176 million. This is above the Council's minimum level for General Reserves of £1 million. Management had based the Medium Term Financial Plan and therefore the Council's savings plans on a General Fund position of £1.176 million. Therefore there is no impact for the Medium Term Financial Plan. 		
Cumulative effect of adjusted differences	0.402	(0.402)

Disclosures

Disclosure	Description of difference
Note 2: Accounting Standards Not Adopted	Note 2 now shows the Those accounting Standards Accounting Standards That Have Been Issued But Not Yet Been Adopted
Note 3: Critical Judgements in Applying Accounting Policies	Note 3 now provides additional disclosures as regards National Non Domestic Rating in line with the Code of Accounting Practice.
Notes 24 and 29: Exit Costs and Termination Benefits	Both notes now include reference to two employees to whom payments were made in 2015/16, but for which no disclosure was made.
Note 25: External Audit Costs	The Note now explains that the Certification fees include fees relating to the preceding years.
Note 28: Capital Financing Reserve:	Note 28 now shows the restated sum of £710,000 rather than £458,000 as the opening balance on the Capital Financing Reserve following audit.
Collection Fund	Note 2 to the Collection Fund records the total Non-Domestic Rateable value as £40.5 million rather than £40.8 million as originally disclosed. Note 4 to the Collection Fund provides the full movement on the Business Rates Appeals Provision, not previously disclosed..

Appendix C – Outstanding matters

The following items relating to the completion of our audit procedures are outstanding at the date of the release of this report

Item	Actions to resolve	Responsibility
Management representation letter	Receipt of signed letter of representation	Management and Audit and Scrutiny Committee
Narrative Statement, accounts and Annual Governance Statement.	<ul style="list-style-type: none"> • Incorporation of EY review comments on disclosure notes • Approval of accounts by Audit and Scrutiny Committee • Accounts re-certified by the Section 151 Officer 	EY, management and Audit Committee
Subsequent events review	Completion of the subsequent events procedures to the date of signing the audit report	EY and management
Any other outstanding work	Management and EY to work together to complete any outstanding work following receipt of the final draft version of the financial statements	EY and management
Remaining audit work	Work in progress awaiting completion covers: <ul style="list-style-type: none"> • Bank Confirmations: • Completion of disclosure notes; and • Completion of Manager and Director review procedures. 	EY
Remaining audit work	Completion of Whole of Government Accounts	EY and National Audit Office

Appendix D – Independence

We confirm there are no changes in our assessment of independence since our confirmation in our Audit Plan dated 7 March 2016 2016.

We complied with the Auditing Practices Board's Ethical Standards for Auditors and the requirements of the Public Sector Audit Appointments Ltd (PSAA)'s Terms of Appointment. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.

We confirm that we are not aware of any relationships that may affect the independence and objectivity of the firm that we are required by auditing and ethical standards to report to you.

We consider that our independence in this context is a matter that should be reviewed by both you and ourselves. It is therefore important that you consider the facts of which you are aware and come to a view. If you wish to discuss any matters concerning our independence, we will be pleased to do so at the forthcoming meeting of the Audit Committee on 27 July 2016.

We confirm that we have met the reporting requirements to the Audit Committee, as 'those charged with governance' under International Standards on Auditing (UK and Ireland) 260 – Communication with those charged with governance. Our communication plan to meet these requirements was set out in our Audit Plan discussed at the 8 March 2016 Audit Committee.

Appendix E – Auditor fees

The table below sets out the scale fee and our final proposed audit fees.

Description	Proposed final Fee 2015/16 £	Scale Fee 2015/16 £	Variation comments
Total Audit Fee – Code work	Tbc*	47,657	See below
Certification of claims and returns	8,184**	8,184	See below

* We anticipate a scale fee variation will be necessary, which we will discuss in the first instance with the Section 151 Officer. This is due to the additional work we have undertaken as a result of:

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

We will update the Audit Committee on our proposed fee variation when this has concluded. Any variation to the 2015/16 scale fee is subject to approval by Public Sector Audit Appointments Limited (PSAA).

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

The indicative fee scale for the certification of Rochford District Council's housing benefit claim is £8,184. This fee scale assumes that the previous arrangements with BDO, where Internal Audit complete the initial sample testing of cases and the workbooks, continue.

We confirm we have not undertaken any non-audit work outside of the PSAA's requirements.

Appendix F – Draft audit report

Independent auditor's report to the members of Rochford District Council.

Opinion on the Authority's financial statements

We have audited the financial statements of Rochford District Council for the year ended 31 March 2016 under the Local Audit and Accountability Act 2014. The financial statements comprise the:

- Comprehensive Income and Expenditure Statement;
- Balance Sheet;
- Movement in Reserves Statement;
- Cash Flow Statement;
- The related notes 1 to 32; and
- Collection Fund and related notes 1 to 5.

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 2015/16.

This report is made solely to the members of Rochford District Council, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Section 151 Officer and auditor

As explained more fully in the Statement of the Section 151 Officer Responsibilities set out on page 51, the Section 151 Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial 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 financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial 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 Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Section 151 Officer; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Statement of Accounts 2015/16 to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of Rochford District Council as at 31 March 2016 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

Opinion on other matters

In our opinion the information given in the Statement of Accounts 2015/16 for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we report by exception

We report to you if:

- in our opinion the annual governance statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Council;
- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014;
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

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

Authority's responsibilities

The Authority 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.

Auditor's responsibilities

We are required under Section 20(1) (c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our conclusion relating to proper arrangements.

We report if significant matters have come to our attention which prevent us from concluding that the Authority 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 Authority'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 review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General (C&AG) in November 2015, as to whether Rochford District Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether Rochford District Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2016.

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, Rochford District Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Basis for Qualified Conclusion

- Proper arrangements for informed decision making

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

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

This issue is evidence of weaknesses in proper arrangements for informed decision making and acting in the public interest, through demonstrating and applying the principles and values of good governance

Qualified Conclusion

On the basis of our work, having regard to the guidance issued by the C&AG in November 2015, with the exception of the matter reported in the basis for qualified conclusion paragraph above, 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 2016.

Certificate

We certify that we have completed the audit of the accounts of Rochford District Council in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice issued by the National Audit Office.

Kevin Suter (senior statutory auditor)
For and on behalf of Ernst & Young LLP, Appointed Auditor
Luton

September 2016

Appendix G – Management representation letter

[To be prepared on the entity's letterhead]

[Date]

Kevin Suter
Executive Director
Ernst & Young
400 Capability Green
Luton
Bedfordshire
LU1 3LU

Dear Kevin,

Rochford District Council
Letter of Representations

This letter of representations is provided in connection with your audit of the financial statements of Rochford District Council ("the Council") for the year ended 31 March 2016. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the financial position of Rochford District Council as of 31 March 2016 and of its income and expenditure for the year then ended in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

We understand that the purpose of your audit of our financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing (UK and Ireland), which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose - all fraud, shortages, errors and other irregularities, should any exist.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with [the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16].
2. We acknowledge, as members of management of the Council, our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position, financial performance (or results of operations) and cash flows of the Council in accordance with [the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16. We have approved the financial statements.
3. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.

4. As members of management of the Council, we believe that the Council has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16, that are free from material misstatement, whether due to fraud or error.
5. We believe that the effects of any unadjusted audit differences, summarised in the accompanying schedule, accumulated by you during the current audit and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. We have not corrected these differences identified by and brought to the attention from the auditor because of the reasons specified in the Schedule of Unadjusted Differences for 2015/16.

B. Fraud

1. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
2. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
3. We have disclosed to you all significant facts relating to any frauds, suspected frauds or allegations of fraud known to us that may have affected the Council (regardless of the source or form and including, without limitation, allegations by “whistle-blowers”), whether involving management or employees who have significant roles in internal control. Similarly, we have disclosed to you our knowledge of frauds or suspected frauds affecting the entity involving others where the fraud could have a material effect on the financial statements. We have also disclosed to you all information in relation to any allegations of fraud or suspected fraud communicated by employees, former employees, analysts, regulators or others, that could affect the financial statements.

C. Compliance with Laws and Regulations

1. We have disclosed to you all identified or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.

D. Information Provided and Completeness of Information and Transactions

1. We have provided you with:
 - Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
 - Additional information that you have requested from us for the purpose of the audit; and
 - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
2. All material transactions have been recorded in the accounting records and are reflected in the financial statements.
3. We have made available to you all minutes of the meetings of the Council, Executive and Audit Committees or summaries of actions of recent meetings for which minutes have not yet been prepared held through to the 28 September 2016.

4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Council's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the period end. These transactions have been appropriately accounted for and disclosed in the financial statements.
5. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
6. We have disclosed to you, and 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, including all covenants, conditions or other requirements of all outstanding debt.

E. Liabilities and Contingencies

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements.
2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.
3. We have recorded and/or disclosed, as appropriate, all liabilities related litigation and claims, both actual and contingent. There are no guarantees that we have given to third parties.

F. Subsequent Events

1. Other than described in Note 5 to the financial statements, there have been no events subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

G. Use of the Work of a Specialist

1. We agree with the findings of the specialists that we engaged to evaluate the Property, Plant and Equipment and Pension Liabilities and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

H. Estimates for Property, Plant and Equipment and Pension Liabilities.

1. We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimate(s) have been consistently applied and are appropriate in the context of the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.
2. We confirm that the significant assumptions used in making the estimates for Property, Plant and Equipment and Pension Liabilities.

3. The estimates for Property, Plant and Equipment and Pension Liabilities appropriately reflect our intent and ability to make judgments, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for the revenue and expenses during the year on behalf of the entity.
4. We confirm that the disclosures made in the financial statements with respect to the accounting estimate(s) are complete and made in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.
5. We confirm that no adjustments are required to the accounting estimate(s) and disclosures in the financial statements due to subsequent events

I. Retirement Benefits.

1. On the basis of the process established by us and having made appropriate enquiries, we are satisfied that the actuarial assumptions underlying the scheme liabilities are consistent with our knowledge of the business. All significant retirement benefits and all settlements and curtailments have been identified and properly accounted for.

Yours Sincerely,

Section 151 Officer

I confirm that this letter has been discussed and agreed at the Audit Committee on 28 September 2016

Chair of Audit Committee

SCHEDULE OF UNADJUSTED DIFFERENCES: 2015/16

Appendix A to the Audit Results Report details the following uncorrected audit misstatements in the 2015/16 financial statements. It is not proposed to adjust the accounts for these for the following reasons:

Description	Amount	Reason
Management has credited to the Net Cost of Services within the CIES £0.222 million for a Disabled Facilities Grant. Rather than to Taxation and Non-Specific Grant Income and Expenditure as required by the Code of Audit practice.		

Appendix H – Required communications with the audit committee

There are certain communications that we must provide to the Audit Committee of UK clients. These are detailed here:

Required communication	Reference
Planning and audit approach	
Communication of the planned scope and timing of the audit, including any limitations.	Audit Plan
Significant findings from the audit	
<ul style="list-style-type: none"> ▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▶ Significant difficulties, if any, encountered during the audit ▶ Significant matters, if any, arising from the audit that were discussed with management ▶ Written representations that we are seeking ▶ Expected modifications to the audit report ▶ Other matters if any, significant to the oversight of the financial reporting process 	Audit Results Report
Going concern	
Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:	Audit Results Report
<ul style="list-style-type: none"> ▶ Whether the events or conditions constitute a material uncertainty ▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▶ The adequacy of related disclosures in the financial statements 	No conditions or events were identified, either individually or in aggregate, that indicated there could be doubt about Rochford District Council's ability to continue as a going concern for the 12 months from the date of our report.
Misstatements	
<ul style="list-style-type: none"> ▶ Uncorrected misstatements and their effect on our audit opinion ▶ The effect of uncorrected misstatements related to prior periods ▶ A request that any uncorrected misstatement be corrected ▶ In writing, corrected misstatements that are significant 	Audit Results Report
Fraud	
<ul style="list-style-type: none"> ▶ Enquiries of the audit committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▶ A discussion of any other matters related to fraud 	Audit Results Report We have made enquiries of management. We have not been made aware of any material fraud or illegal acts during our audit.
Related parties	
Significant matters arising during the audit in connection with the entity's related parties including, when applicable:	Audit Results Report
<ul style="list-style-type: none"> ▶ Non-disclosure by management ▶ Inappropriate authorisation and approval of transactions ▶ Disagreement over disclosures ▶ Non-compliance with laws and regulations ▶ Difficulty in identifying the party that ultimately controls the entity 	We have no matters we wish to report.

Required communication	Reference
External confirmations <ul style="list-style-type: none"> ▶ Management's refusal for us to request confirmations ▶ Inability to obtain relevant and reliable audit evidence from other procedures 	Audit Results Report We have received all requested confirmations.
Consideration of laws and regulations <ul style="list-style-type: none"> ▶ Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off ▶ Enquiry of the audit committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the audit committee may be aware of 	Audit Results Report We have not identified any material instances of non-compliance with laws and regulations.
Independence Communication of all significant facts and matters that bear on EY's objectivity and independence Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as: <ul style="list-style-type: none"> ▶ The principal threats ▶ Safeguards adopted and their effectiveness ▶ An overall assessment of threats and safeguards ▶ Information about the general policies and process within the firm to maintain objectivity and independence 	Audit Plan and Audit Results Report
Significant deficiencies in internal controls identified during the audit	Annual Audit Letter/Audit Results Report
Fee Information <ul style="list-style-type: none"> ▶ Breakdown of fee information at the agreement of the initial audit plan ▶ Breakdown of fee information at the completion of the audit 	Audit Plan Audit Results Report Annual Audit Letter
Certification work <ul style="list-style-type: none"> ▶ Summary of certification work undertaken 	Certification Report

EY | Assurance | Tax | Transactions | Advisory

Ernst & Young LLP

© Ernst & Young LLP. Published in the UK.
All rights reserved.

The UK firm Ernst & Young LLP is a limited liability partnership registered in England and Wales with registered number OC300001 and is a member firm of Ernst & Young Global Limited.

Ernst & Young LLP, 1 More London Place, London, SE1 2AF.

ey.com