
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 2013/14.

2 INTRODUCTIONS

- 2.1 In order for the external auditors, BDO LLP, to certify the 2013/14 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 VI 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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If you would like this report in large print, Braille or another language please contact 01702 318111.



ROCHFORD DISTRICT COUNCIL

FINAL REPORT TO THE AUDIT COMMITTEE

Audit for the year ended 31 March 2014

September 2014



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OVERVIEW

Significant audit findings

This summary covers the significant findings from our audit of Rochford District Council ('Council') for the year ended 31 March 2014. However, you should read the entirety of this report, as there may be other matters raised that you consider important.

AREA OF AUDIT	SUMMARY
Financial statements	<p>We have substantially completed our work, although there are a number of outstanding items to be received and/or completed at the time of drafting this report. Further detail on the status of our work is set out on the following page.</p> <p>Our final audit materiality is £700,000 (see appendix III) and we have reported all non-trivial unadjusted audit differences greater than £14,000.</p> <p>No material misstatements were identified as a result of our audit work.</p> <p>There are two unadjusted current year audit differences (see appendix II) and four prior year unadjusted audit differences (see Appendix II) which would increase the draft deficit on the provision of services in the CIES by £392,000 to £2.622 million (from £2.230 million).</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 2014.</p>
Control environment	<p>We are required to report to you the significant deficiencies we found in internal controls during the course of our audit. No such deficiencies have been identified.</p>
Governance reporting	<p>Subject to completion of our review of the annual governance statement, we are satisfied that it 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>The Council's WGA is below the threshold for full assurance review. However, we are required to review the consistency of property, plant and equipment and pension balances included in the WGA data collection tool with those recognised in the statement of accounts. This work is currently in progress.</p>
Use of resources	<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 2014. We anticipate 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.

OVERVIEW

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 substantially completed our audit work in respect of the financial statements and use of resources for the year ended 31 March 2014. The following matters are outstanding at the date of this report.

We will update you on their current status at the Audit Committee.

- Completion of our review of the Annual Governance Statement
- Testing of a sample of housing benefit and local council tax scheme claims
- Confirmation of the Council's ownership of a sample of property
- Clearance of outstanding issues raised with management regarding:
 - Information regarding the dates of hire of community facilities to demonstrate that income has been accounted for in the correct period
 - Information supporting the reconciliation of year-end bank balances to the ledger
- Final review of our audit work at engagement partner level, and clearance of any review points arising
- Receipt of final draft statement of accounts for agreed amendments
- Receipt of Essex Pension Fund assurance letter
- Subsequent events review
- Management representation letter, as attached in Appendix VI, to be approved and signed.
- Review of WGA data collection tool

TIMETABLE TO COMPLETE

The anticipated timetable to complete is as follows:

ACTIVITY	DATE
Audit Committee meeting	18 September 2014
Signing of financial statements	18 September 2014
Submission of WGA assurance report	By 3 October 2014

INDEPENDENCE

Integrity, objectivity and independence and appropriate safeguards

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. We have considered such matters in the context of our audit for the year ended 31 March 2014.

FEES AND NON AUDIT SERVICES	OTHER RELATIONSHIPS	LONG ASSOCIATION THREATS														
A summary of fees for audit and non-audit services for the period from 1 April 2013 to date is set out below: <table border="0"><tr><td></td><td style="text-align: right;">£</td></tr><tr><td>Audit fees</td><td style="text-align: right;">(1) 62,643</td></tr><tr><td>Certification fees</td><td style="text-align: right;">(2) 10,912</td></tr><tr><td>TOTAL FEES</td><td style="text-align: right;">73,555</td></tr></table>		£	Audit fees	(1) 62,643	Certification fees	(2) 10,912	TOTAL FEES	73,555	We are not aware of any financial, business, employment or personal relationships between the audit team, BDO and the Council.	The Audit Commission’s Standing Guidance requires that the audit engagement partner should not act for more than five years and the audit manager for 10 years. <table border="1"><thead><tr><th>Key audit staff</th><th>Years involved</th></tr></thead><tbody><tr><td>Richard Bint - Audit engagement partner</td><td style="text-align: center;">5</td></tr><tr><td>Barry Pryke - Audit Manager</td><td style="text-align: center;">3</td></tr></tbody></table>	Key audit staff	Years involved	Richard Bint - Audit engagement partner	5	Barry Pryke - Audit Manager	3
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(1) During July and August 2013, the Council experienced a loss of data from its main accounting system. At the time, we notified management that it was likely that additional audit work would be required to obtain assurance over the Council’s processes and procedures for recovering the data. This work is now complete and we have agreed a proposed additional fee of £1,985 with management. This is not included in the above value of £62,643 as we are required to confirm the proposed additional fee with the Audit Commission before it is finalised.

(2) Work remains on going on the housing benefit subsidy return and the fee shown above is current scale fee.

INDEPENDENCE DECLARATION AND APPROPRIATE SAFEGUARDS

We have not identified any potential threats to our independence as auditors.

AUDIT SCOPE AND OBJECTIVES

SCOPE AND OBJECTIVES

The audit scope is determined by the Audit Commission's Code of Audit Practice for local government (2010), International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission. This requires that we form an opinion on whether:

- 1** The financial statements give a true and fair view of the financial position as at 31 March 2014 and of the income and expenditure for the year then ended.
- 2** The financial statements have been prepared properly in accordance with statutory requirements and proper practices have been observed in their compilation.
- 3** The financial statements have been prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting.
- 4** The information given in the statement of accounts and explanatory foreword is consistent with the financial statements.
- 5** The annual governance statement is not inconsistent with our knowledge and complies with relevant guidance.
- 6** The Whole of Government Accounts return is consistent with the audited financial statements and that it is properly prepared.
- 7** The audited body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

FINANCIAL STATEMENTS

Key audit and accounting matters

SIGNIFICANT AND OTHER RISKS OF MATERIAL MISSTATEMENT

We reported our risk assessment, which brought to your attention areas that require additional or special audit consideration and are considered a significant audit risk, in the 2013/14 Audit Plan issued in June 2014. We have since undertaken a more detailed assessment of risk following our review of the draft financial statements, and we have not included any additional significant risks.

We report below our findings of the work designed to address these significant risks, our review of significant accounting estimates and management judgements, and any other relevant audit and accounting issues arising.

Key: ■ Significant risk/issue ■ Significant accounting estimates and management judgements ■ Other relevant audit and accounting

SIGNIFICANT AUDIT RISK AREAS

RISK	RELATED CONTROLS / RESPONSE TO RISK	WORK PERFORMED	CONCLUSION
MANAGEMENT OVERRIDE OF CONTROLS	<p>ISA (UK&I) 240 requires us to presume that a risk of management override of controls is present and significant in all entities.</p> <p>By its nature, there are no controls in place to mitigate the risk of management override.</p>	<p>We reviewed the appropriateness of journal entries and other adjustments made in the preparation of the financial statements.</p> <p>We also reviewed accounting estimates for evidence of possible bias.</p>	<p>No issues have been identified in our review of the appropriateness of journal entries and other adjustments made in the preparation of the financial statements.</p> <p>Our work on accounting estimates has not identified any evidence of bias.</p>

Revenue recognition

ISA (UK&I) 240 assumes that there is a rebuttable presumption that there is a material risk of fraud arising from revenue recognition. In 2012/13, we did not rebut this risk in relation to income from fees and charges. We have revisited our assessment of this risk in 2013/14, taking into account the nature of the fees and charges income streams and we have concluded that fraudulent recognition of fees and charges income is no longer a significant risk. We have, however, performed audit procedures to provide us with sufficient assurance that income recognised in the statement of accounts is materially correct.

FINANCIAL STATEMENTS

Key audit and accounting matters (continued)

SIGNIFICANT ACCOUNTING ESTIMATES AND MANAGEMENT JUDGEMENTS		
AREA	WORK PERFORMED	CONCLUSION
VALUATION OF PROPERTY	<p>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.</p> <p>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.</p> <p>We have considered the independence, objectivity and competence of the valuer engaged by management to undertake valuations of property. We have reviewed the accuracy of the information provided to the valuer by management and have confirmed that the valuations provided by the valuer are correctly reflected in the Council's financial statements. We have utilised price index information to determine the reasonableness of the valuations provided by the valuer.</p>	<p>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.</p> <p>We have identified one matter in relation to the information provided to the valuer by management in respect of the valuer's year-end review of assets and possible indicators of impairment. Further information is included in following section of this report.</p>
ESTIMATED PENSION LIABILITY	<p>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</p>	<p>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. We are satisfied that the information included in the statement of accounts in respect of</p>

SIGNIFICANT ACCOUNTING ESTIMATES AND MANAGEMENT JUDGEMENTS

AREA	WORK PERFORMED	CONCLUSION
	<p>of the pension scheme.</p> <p>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.</p> <p>Management has agreed the assumptions made by the actuary to support the estimate and these are disclosed in the financial statements.</p> <p>We have assessed the independence, objectivity and competence of the actuary. We have confirmed that the values recognised in the Council’s statement of accounts in relation to pension costs and liabilities are consistent with the information provided by the actuary. We have used an auditor’s expert to independently consider the reasonableness of the assumptions made by the actuary. 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.</p>	<p>pensions is consistent with that provided by the actuary.</p>
<p>PROVISION FOR BAD AND DOUBTFUL DEBTS</p>	<p>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</p>	<p>We are satisfied that the methods employed by the Council to calculate the provision for bad and doubtful debts is not unreasonable.</p>

FINANCIAL STATEMENTS

Key audit and accounting matters (continued)

OTHER RELEVANT AUDIT AND ACCOUNTING ISSUES		
ISSUE	FINDINGS FROM OUR WORK	CONCLUSION
IMPAIRMENT REVIEW	<p>The Council engages independent external valuers to provide a year-end review of asset values. This includes considering whether or not there is any evidence to indicate that asset values are impaired. During our review of this report, we identified that it did not include consideration of the Council depot site on South Street, which was flooded during August 2013. We consider this to be an indicator of potential impairment. Further enquiries confirmed that the valuers were unaware of the flooding when preparing their report and the Council had not considered the matter further when preparing the statement of accounts.</p> <p>Management have asked the valuer to consider the impact of flooding on the depot site. The valuer has identified an impairment of £54,000 against this asset.</p>	<p>We have considered all relevant information available to us and are satisfied that there are no other assets for which there is evidence of a material impairment. Management have chosen not to adjust for the £54,000 impairment and this is reflected in our schedule of unadjusted misstatements at Appendix II.</p> <p>We have raised a recommendation regarding the process for identifying impairments (see Appendix IV).</p>
CAR PARK REVALUATIONS	<p>Our review of revaluations undertaken by the external valuer identified that, for 2013/14, an alternative methodology had been applied to arrive at the existing use value of fee-charging car parks. This alternative methodology takes into account all costs attributable to the running of the car parks as opposed to just those costs directly attributable to each car park. However, this alternative methodology was only applied to four of the Council's eight fee-charging car parks. We considered the possible impact of this revised methodology on the value of the five car parks not included in the 2013/14 valuation and identified that their value was potentially overstated. Management</p>	<p>The further work completed by the valuer identified that the four fee-charging car parks not subject to valuation in 2013/14 were overstated by £603,000. Management have adjusted for this error, with £446,000 being charged to the revaluation reserve and the remaining £157,000 to net cost of services in the comprehensive income and expenditure statement. Following this adjustment, we are satisfied that the value of fee-charging car parks recognised in the balance sheet is materially correct.</p> <p>We have raised a recommendation regarding valuations of similar types of asset (see Appendix IV).</p>

OTHER RELEVANT AUDIT AND ACCOUNTING ISSUES

ISSUE	FINDINGS FROM OUR WORK	CONCLUSION
	<p>instructed the valuer to apply the same methodology to all remaining car parks. This confirmed that the value of the remaining car parks was overstated by £603,000</p>	
<p>RELATED PARTY TRANSACTIONS</p>	<p>The Council’s current process for identifying related parties is to send a form to each relevant individual and to request that they fill in any interests they have outside of Council. This process is dependant upon the individual completing the return having an understanding of what constitutes a related party in the context of financial reporting and disclosing their interests accordingly. Our testing of related party disclosures in the statement of accounts identified that a related party had been omitted from the note due to the individual not disclosing relevant information on their year-end related party return.</p>	<p>We have undertaken further work to obtain assurance that related party disclosures are complete. Management have adjusted the accounts to include the related party originally omitted from the accounts.</p> <p>We have raised a recommendation regarding the identification of related parties (see Appendix IV).</p>
<p>PENSION LIABILITY AND ASSOCIATED DISCLOSURES</p>	<p>Revised actuarial valuation</p> <p>Following approval of the draft statement of accounts and their submission for audit, the Council were notified by Essex Pension Fund that, during the preparation of the pension disclosures for 2013/14 the value used for the investment return had been understated. The Pension Fund requested that the actuary prepare a further report using the correct figures, with an updated report to be provided to the Council.</p> <p>Disclosures relating to pensions</p> <p>The draft statement of accounts submitted for audit</p>	<p>Following receipt of the updated actuary report, management have amended the financial statements for the revised values, which has resulted in a reduction of £192,000 in the pension liability recognised in the balance sheet. We are satisfied that the financial statements are materially correct in respect of the amounts included.</p> <p>Management have agreed to amend the accounts so that disclosures relating to pensions are consistent with</p>

OTHER RELEVANT AUDIT AND ACCOUNTING ISSUES

ISSUE	FINDINGS FROM OUR WORK	CONCLUSION
	<p>contained disclosures relating to pensions which were not consistent with the requirements of the 2013/14 Code of Practice. Disclosures required in previous years were retained while new disclosures were excluded.</p> <p>Actuarial Engagement Letter</p> <p>There is no direct engagement letter between the Council and management's expert, the actuary. The engagement letter is between Essex County Council and Barnett Waddingham. As the Council places reliance on the information provided an agreement should be in place.</p>	<p>the 2013/14 Code of Practice.</p> <p>A recommendation has been included within Appendix IV in relation to this matter.</p>
<p>MARKETPLACE ACCRUALS</p>	<p>Our testing of a sample of Marketplace accruals identified a duplicated order which should not have been accrued. The error arose as the order was fulfilled in two stages and the supplier issued an invoice after each stage. The second invoice prompted a second order to be raised on Marketplace even though the initial order was still on the system. Both orders were subsequently accrued at the year-end, resulting in creditors being overstated by £48,000.</p>	<p>We have completed testing of an extended sample of Marketplace accruals, which has identified one further error, resulting in an overstatement of creditors of £5,000. Therefore, we are satisfied that this error has not led to a material misstatement in the accounts.</p> <p>A recommendation relating to the accuracy of the Marketplace accrual was raised in the prior year. We have raised a similar recommendation this year (see Appendix IV).</p>
<p>COLLECTION FUND</p>	<p>Our testing of the collection fund identified that the Council had accounted for the business rate tariff payment on the face of the collection fund rather than as a cost in the Comprehensive Income and Expenditure Statement.</p> <p>The "Payments to Central Government" line on the face of the collection fund was overstated by £4.791 million (with a corresponding understatement of the amount due to the Council). This is a presentational issue only and there is no impact on the surplus/deficit shown for the year.</p>	<p>The Council have produced a revised collection fund statement. This includes correction of the £4.791 million overstatement and presentational improvements. We are satisfied that the amounts reflected on the face of the collection fund are materially correct.</p>

OTHER RELEVANT AUDIT AND ACCOUNTING ISSUES

ISSUE	FINDINGS FROM OUR WORK	CONCLUSION
<p>DATA LOSS</p>	<p>In July 2013, the Council experienced a significant IT failure which resulted in the loss of one month’s worth of data from the Access Dimensions software, the Council’s main accounting system. No other financial systems were affected.</p> <p>The nature of the data loss required the Council to manually input the missing information from source records.</p> <p>We have undertaken audit procedures to obtain assurance that the work completed by the Council to restore the lost data has resulted in the main accounting system holding materially complete and accurate information for the period affected by the data loss.</p>	<p>Our work on the Council’s processes for restoring the lost data has not identified any issues regarding the accuracy or completeness of the restored data. We are satisfied that the loss of data has not resulted in a material error in the accounts.</p>
<p>GRANTS ACCOUNTING POLICY</p>	<p>The Government Grants policy reported in the financial statements 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.</p> <p>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 sufficient reason for a departure from the Code.</p>	<p>We have completed testing of un-ringfenced grants and application of the policy has not led to a material misstatement in the financial statements in the current year.</p>

FINANCIAL STATEMENTS OPINION

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 2014.

GOVERNANCE REPORTING

Governance matters and quality of reporting

FINANCIAL STATEMENTS PREPARATION

The draft financial statements, within the statement of accounts, was signed by the Chief Finance Officer on 30 June 2014 and provided to us for audit on 2 July 2014.

As part of our planning for the audit, we prepared a detailed document request which outlined the information we would require to complete the audit. As in previous years, a file of audit working papers has been provided to us on the first day of the audit.

CONCLUSIONS AND AUDIT ISSUES

We have no significant matters to report.

ANNUAL GOVERNANCE STATEMENT

We are required to review the draft annual governance statement and to be 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 Councils review of effectiveness and our knowledge of the Council.

CONCLUSIONS AND AUDIT ISSUES

Subject to completion of our review of the annual governance statement, we are satisfied that the annual governance statement is not inconsistent or misleading with other information we were aware of from our audit of the financial statements and complies with “Delivering Good Governance in Local Government” (CIPFA / SOLACE).

STATEMENT OF ACCOUNTS

We are required to read all the financial and non-financial information in the explanatory foreword to the financial statements 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.

CONCLUSIONS AND AUDIT ISSUES

We are satisfied that the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

WHOLE OF GOVERNMENT ACCOUNTS

Consistency of the Data Collection Tool

SCOPE OF THE REVIEW OF THE DATA COLLECTION TOOL

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.

CONCLUSION AND AUDIT ISSUES

The Council's WGA is below the threshold for full assurance review. However, we are required to review the consistency of property, plant and equipment and pension balances included in the WGA data collection tool with those recognised in the statement of accounts. This work is currently in progress.

ASSURANCE STATEMENT

The Council's WGA is below the threshold for full assurance review.

USE OF RESOURCES

Scope of the review

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).

AUDIT COMMISSION SPECIFIED CRITERIA

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 focus of the criteria is that the Council has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.
- The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.
The focus of the criteria is that the Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

We draw sources of assurance relating to their value for money responsibilities from:

- the Council's system of internal control as reported on in its annual governance statement
- the results of the work of the Commission, other inspectorates and review agencies
- any work mandated by the Commission
- any other locally determined risk-based value for money work that auditors consider necessary to discharge their responsibilities.

FOCUS OF REVIEW

We have reviewed the Council's arrangements against risk indicators and key issues facing the sector including the Government's spending review, funding over the medium term, risks arising from welfare reform, and risks from the localisation of business rates.

We have not identified any significant risks from our audit planning.

We also review the Council's relative performance against the VfM Profile Tool and Financial Ratios Analysis Tool produced by the Audit Commission, issues arising from VfM Briefings provided by the Audit Commission, and the key assumptions in the Medium Term Financial Strategy.

USE OF RESOURCES

Financial resilience

The financial resilience criterion has three aspects: financial governance, financial planning and financial control.

FINANCIAL GOVERNANCE FINANCIAL RESILIENCE

The Council has a good track record of achieving budgets and its financial management arrangements remain adequate with no evidence that is indicative of a weakened position in terms of maintaining financial resilience. The General Fund Balance as at 31 March 2014 was £994,000. This represents an in-year increase of £113,000 and is £242,000 higher than estimates. There has been a net transfer of £39,000 from earmarked reserves to the general fund during the year. 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 2013/14 was £750,000 and the outturn position of £994,000 remains above this level.

The aggregate of the General Fund Reserve and earmarked General Fund reserves as at 31 March 2014 is £3.163 million which is 9% of gross revenue expenditure for the year. Earmarked reserves are available for use.

The budget setting process for 2014/15 identified that £100,000 of savings were to be achieved in year. The Council has estimated that the postponed implementation of parking charge increases to August 2014 (these were originally intended to be introduced in April 2014) is likely to result in a £40,000 reduction in income for 2014/15. Savings to be achieved in year have therefore increased to £140,000. As in previous years, the Council's minimum recommended level of reserves mitigates the risk that these savings will not be identified.

The medium term financial strategy estimates that the Council will be required to make £1.690 million of savings by 2019/20. This includes challenging savings targets of £500,000 in 2015/16 and £450,000 in 2016/17. However, £300,000 of this has already been identified. The most recent update to the medium term financial strategy recognises that government funding during the life of the strategy is likely to be lower than previous estimates (£427,000 lower in 2015/16 and £130,000 lower in 2016/17) and this is factored into the minimum recommended General Fund Reserve balance referred to below. Also included in these estimates is £3.6m of New Homes Bonus income expected to be received between 2016/17 and 2018/19 (inclusive). Government has not committed to continue the scheme and any reduction in this source of income could have a significant impact on the Council's revenue resources towards the end of the period covered by the medium term financial strategy. The Council is aware of this uncertainty and has recognised the associated risks in terms of both the savings required and the minimum recommended General Fund reserve balances needed in the medium term.

The minimum recommended level of General Fund Reserve balance increases to £1.600 million in 2016/17. This increase above the current level of £750,000 reflects the increased level of uncertainty in future years including over the contribution of the New Homes Bonus scheme. Should the Council achieve its savings targets and government funding meet expectations, 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, increasing the balance to an estimated £2.055 million by the end of 2019/20.

AUDIT ISSUES AND IMPACT ON CONCLUSION

We have not identified any issues which impact on our conclusion. However, as with all local government organisations, the Council is likely to face challenging financial circumstances in the medium term, with the need to find on-going savings against a background of possible reductions in central government funding and the political uncertainty caused by a general election in 2015.

USE OF RESOURCES

Challenging economy, efficiency and effectiveness

The economy, efficiency and effectiveness criterion has two aspects: prioritising resources and improving efficiency and productivity.

CHALLENGING ECONOMY EFFICIENCY AND EFFECTIVENESS

AUDIT ISSUES AND IMPACT ON CONCLUSION

No areas of concern.

During 2013/14, the Council extended its recycling and street cleansing contracts as well as procuring a new grounds maintenance contract. In both cases, this has resulted in cost reductions and savings, with the benefit in 2014/15 expected to be £576,000 in 2014/15. The disposal of Acacia House and leasing of Great Woking Leisure Centre have also led to reductions in premises costs.

Our review of the Audit Commission's VFM Profiling Tool 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.

USE OF RESOURCES CONCLUSION

We are satisfied that, in all significant respects, the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2014. We anticipate issuing an unqualified value for money conclusion.



APPENDICES

APPENDIX I: DEFINITIONS

TERM	MEANING
The Council	Rochford District Council
Management	<p>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:</p> <ul style="list-style-type: none"> the financial statements (including designing, implementing, and maintaining effective internal control over financial reporting) putting in place proper arrangements to secure economy, efficiency and effectiveness in the use of resources and to ensure proper stewardship and governance, and regularly to review the adequacy and effectiveness of them.
Those charged with governance	<p>The person(s) with responsibility for assurance and the Council’s arrangements for governance, managing risk, maintaining an effective control environment, and reporting on financial and non-financial performance. This includes overseeing the financial reporting process.</p> <p>Those charged with governance for the Council are the Audit Committee.</p>
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 issued by CIPFA / LASAAC
SeRCOP	Service Reporting Code of Practice for Local Authorities issued by CIPFA / LASAAC
CIES	Comprehensive Income and Expenditure Statement

APPENDIX II: AUDIT DIFFERENCES

We are required to bring to your attention audit differences identified during the audit, except for those that are clearly trivial, that the Audit Committee is required to consider. This includes: audit differences that have been corrected by management; and those that remain uncorrected along with the effect that they have individually, or in aggregate, on the opinion in the auditor's report.

CORRECTED AUDIT DIFFERENCES

Management has made corrections in the revised draft financial statements in respect of fee-charging car parks not considered in the initial revaluation. This has increased the reported deficit in the year by £157,000 (further details are included in the 'Key Audit and Accounting Matters' section of this report).

UNADJUSTED AUDIT DIFFERENCES

Subject to completion of our outstanding work, there are two current year unadjusted audit differences identified by our audit work which would increase the draft deficit on the provision of services in the CIES by £1,000 to £2.231 million (from £2.230 million).

A schedule of uncorrected audit differences is included on the following pages, with misstatements recorded as factual misstatements, judgemental / estimation misstatements, or projected misstatements. We request that you correct these misstatements. Deliberate misstatement of known issues is not acceptable and identified misstatements should, where practicable, be corrected even if not material.

Management has stated that it considers these identified misstatements to be immaterial in the context of the financial statements taken as a whole.

We have also separately reported the impact of four brought forward prior year uncorrected misstatements and their impact on the current year performance. These amounts remain misstatements with regard to reporting in year financial performance, but are not misstatements at the year end and cannot be corrected as these relate to previous years. Overall, the impact of prior year misstatements on current year performance would increase the reported underlying deficit for the current year by £391,000.

The impact of both the prior year and current year unadjusted misstatements is to increase the draft deficit on the provisions of services in the CIES by £367,000 to £2.622 million (from £2.230 million).

APPENDIX II: AUDIT DIFFERENCES

Unadjusted audit differences

UNADJUSTED AUDIT DIFFERENCES	£'000	CURRENT YEAR INCOME AND EXPENDITURE		PRIOR YEAR INCOME AND EXPENDITURE		BALANCE SHEET	
		Dr £'000	(Cr) £'000	Dr £'000	(Cr) £'000	Dr £'000	(Cr) £'000
CIES deficit on the provision of services before adjustments	2,230						
Impact of prior year adjustments							
Dr Prior year net cost of services				17			
Cr Current year net cost of services	(17)	(17)					
<i>Overstatement of expenditure in 2013/14 due to invoices not being correctly accrued for and recognised in 2012/13 (factual misstatement)</i>							
Dr Current year net cost of services	193	193					
Cr Prior year net cost of services					(193)		
<i>Correction of 2012/13 waste disposal income recognised in 2013/14 (factual misstatement)</i>							
Dr Current year net cost of services	125	125					
Cr Prior year net cost of services					(125)		
<i>Understatement of expenditure due to unreceipted orders being incorrectly recognised in 2012/13 (factual misstatement)</i>							
Dr Current year net cost of services	90	90					
Cr Prior year net cost of services					(90)		
<i>Being the extrapolated understatement of expenditure resulting from 2013/14 invoices being incorrectly recognised in 2013/14.</i>							
Misstatements identified in current year							
Dr Current year net cost of services	54	54					
Cr Property, plant and equipment						(54)	
<i>Recognition of impairment of South Street depot (factual misstatement)</i>							
Dr Short term creditors						53	
Cr Current year net cost of services	(53)	(53)					
<i>Correction of duplicated Marketplace order accrual (£48,000) and Marketplace accrual (£5,000) relating to order against which goods were not received until 2014/15 (factual misstatement)</i>							
TOTAL UNADJUSTED AUDIT DIFFERENCES	392	462	(70)	17	(408)	53	(54)
CIES deficit on the provision of services after adjustments	2,622						

APPENDIX III: MATERIALITY

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, we provide an indication of the quantitative levels used for planning purposes. Materiality is re-assessed every year in the context of authoritative audit practice.

MATERIALITY

Planning materiality	£790,000
Final materiality	£700,000
Clearly trivial threshold	£14,000

Planning materiality of £790,000 was based on 2% of gross expenditure, using prior year values as per 2012/13 audited statement of accounts.

We have no reason to revise our final materiality level.

APPENDIX IV: RECOMMENDATIONS AND ACTION PLAN

CONCLUSIONS FROM WORK	RECOMMENDATIONS	MANAGEMENT RESPONSE	RESPONSIBILITY	TIMING
FINANCIAL STATEMENTS				
Identification of possible impairments				
Our review of the year-end report provided by the Council's valuers identified that no consideration had been given to the impact of flooding on the South Street depot site.	In conjunction with the external valuer, develop a formal process for the identification and review of assets which are potentially impaired, including the communication of such matters to the valuer.	Agreed	Financial Services Manager	March 2015
Valuation of similar assets				
Our review of revaluations identified that an alternative methodology for calculating existing use value of fee charging car parks had not been applied to all such car parks owned by the Council.	Where changes in valuation methodology are agreed with the valuer, consider the implications for all similar assets.	Agreed	Financial Services Manager	March 2015
Related party transactions				
Our testing of related party disclosures in the statement of accounts identified one related party transaction which had not been included in the relevant note in the statement of accounts	Provide individuals who are required to make declarations regarding related parties with clear instructions on what may constitute a related party. Review current year disclosures against those made in prior years and other sources of information (such as the register of interests) to identify any potential omissions.	Agreed	Financial Services Manager	March 2015
Marketplace accruals				
Our testing of a sample of Marketplace accruals identified a duplicated order which should not	Complete a detailed review of Marketplace accruals as part of the accounts production process to identify	Agreed	Financial Services Manager	May 2015

CONCLUSIONS FROM WORK	RECOMMENDATIONS	MANAGEMENT RESPONSE	RESPONSIBILITY	TIMING
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FINANCIAL STATEMENTS				
have been accrued.	orders which have been double counted. Provide training to officers who use Marketplace to ensure that the system is checked for previously raised orders before a new order is raised.			

Actuarial Engagement Letter

There is no direct engagement letter between the Council and management's expert, the actuary. The engagement letter is between Essex County Council and Barnett Waddingham. As the Council places reliance on the information provided an agreement should be in place.	Liaise with the Pension Fund and the actuary to agree formal terms of engagement recognising the extent to which management place reliance on the information provided by the actuary.	Requirement to be reviewed and discussed with Essex Pension Fund	Head of Finance	February 2015
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APPENDIX V: STATUTORY AND PROFESSIONALLY REQUIRED COMMUNICATIONS

COMMUNICATION REQUIRED	DATE COMMUNICATED	TO WHOM	METHOD
Accounting practices, accounting policies, estimates and judgements and financial statement disclosures (ISA 260)			Financial statements section of this report
Significant difficulties encountered during the audit (ISA 260)		No issues	
Significant matters discussed or subject to correspondence with management (ISA 260)		No issues	
The final draft of the representation letter (ISA 260)		Appendix VI	
Independence (ISA 260)			Independence section of this report
Fraud and illegal acts (ISA 240)		No issues	
Non compliance with laws and regulations (ISA 250)		No issues	
Significant deficiencies in internal control (ISA 265)		No issues	
Misstatements, whether or not corrected by the entity (ISA 450)		Appendix II	
Significant matters in connection with related parties (ISA 550)		No issues	
Events or conditions that may cast significant doubt on the entity's ability to continue as a going concern (ISA 570)		No issues	
Matters relating to the audit of the group (ISA 600)		No issues	
Expected modifications to our audit report or inclusions of emphasis of matter / other matter (ISA 705 / 706)		No issues	
Material inconsistencies with other information in documents containing audited financial information (ISA 720)		No issues	
Objections from the public or exercise of statutory powers under the Audit Commission Act 1998		No issues	

APPENDIX VI: DRAFT REPRESENTATION LETTER

TO TYPED ON CLIENT HEADED NOTEPAPER

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

18 September 2014

Dear Sirs

Financial statements of Rochford District Council for the year ended 31 March 2014

We confirm that the following representations given to you in connection with your audit of the Council's financial statements (the 'financial statements') for the year ended 31 March 2014 are made to the best of our knowledge and belief, and after having made appropriate enquiries of other officers and members of the Council.

The Head of Finance has fulfilled her responsibilities for the preparation and presentation of the financial statements as set out in the Accounts and Audit Regulations 2011 and Statement of responsibilities of auditors and of audited bodies local government (March 2010) issued by the Audit Commission, and in particular that the financial statements give a true and fair view of the financial position of the Council as of 31 March 2014 and of its income and expenditure and cash flows for the year then ended in accordance with proper practices as set out in the CIPFA /LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code) and for making accurate representations to you.

We have fulfilled our responsibilities on behalf of the Council, as set out in the Accounts and Audit Regulations 2011, to make arrangements for the proper administration of the Council's financial affairs, to conduct a review at least once in a year of the effectiveness of the system of internal control and approve the annual governance statement, to approve the Statement of Accounts (which include the financial statements), and for making accurate representations to you.

We have provided you with unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence. In addition, all the accounting records have been made available to you for the purpose of your audit and all the transactions undertaken by the Council have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of all management and other meetings have been made available to you.

In relation to those laws and regulations which provide the legal framework within which the Council's business is conducted and which are central to our ability to conduct our business, we have disclosed to you all instances of possible non-compliance of which we are aware and all actual or contingent consequences arising from such instances of non-compliance.

There have been no events since the balance sheet date which either require changes to be made to the figures included in the financial statements or to be disclosed by way of a note. Should any material events of this type occur, we will advise you accordingly.

We are responsible for adopting sound accounting policies, designing, implementing and maintaining internal control, to, among other things, help assure the preparation of the financial statements in conformity with generally accepted accounting principles and preventing and detecting fraud and error.

We have considered the risk that the financial statements may be materially misstated due to fraud and have identified no significant risks.

To the best of our knowledge we are not aware of any fraud or suspected fraud involving councillors, management or employees. Additionally, we are not aware of any fraud or suspected fraud involving any other party that could materially affect the financial statements.

To the best of our knowledge we are not aware of any allegations of fraud or suspected fraud affecting the financial statements that have been communicated by councillors, employees, former employees, analysts, regulators or any other party.

We attach a schedule showing accounting adjustments that you have proposed, which we acknowledge that you request we correct, together with the reasons why we have not recorded these proposed adjustments in the financial statements. In our opinion, the effects of not recording such identified financial statement misstatements are, both individually and in the aggregate, immaterial to the financial statements.

We have disclosed to you the identity of all related parties and all the related party relationships and transactions of which we are aware. We have appropriately accounted for and disclosed such relationships and transactions in accordance with the applicable financial reporting framework.

We have no plans or intentions that may materially affect the carrying value and where relevant, the fair value measurement, or classification of assets or liabilities reflected in the financial statements.

We confirm that the fair value measurements in relation to the following are reasonable and that there are no circumstances of which we are aware that would have a material impact on the values reported:

- fair value of property, plant and equipment
- assumptions underpinning the reported pension liability

We consider that the Council is able to continue to operate as a going concern and that it is appropriate to prepare the financial statements on a going concern basis.

We have disclosed all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements and these have been disclosed in accordance with the requirements of accounting standards.

After making appropriate enquiries of other members of the Council and other officers regarding disclosure of information to you as auditors, we confirm that so far as we are aware, there is no relevant audit information needed by you in connection with preparing your audit report of which you are unaware.

We confirm that the above representations are made on the basis of enquiries of councillors, management and staff with relevant knowledge and experience (and, where appropriate, of inspection of supporting documentation) sufficient to satisfy ourselves that we can properly make each of the above representations to you.

We confirm that the financial statements are free of material misstatements, including omissions.

Yours faithfully

Yvonne Woodward
Head of Finance

Chief Finance Officer

18 September 2014

Cllr Mrs J A Mockford
Chair of the Audit Committee

Signed on behalf of the Audit Committee

18 September 2014



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

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