



Rochford District Council.

Outline Audit and Inspection Plan

2005/06

August 2005

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1 Introduction

Purpose of the Outline Audit and Inspection Plan

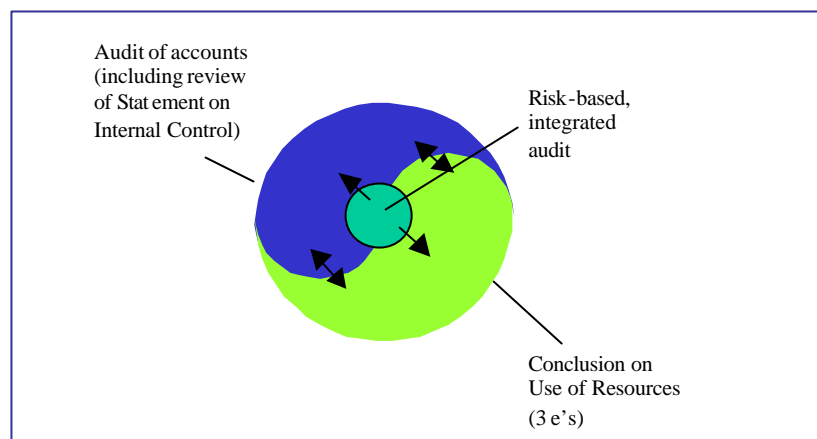
- 1.1 This joint audit and inspection plan (this Plan) sets out the audit and inspection work proposed to be undertaken in 2005/06 by PKF (UK) LLP ("PKF") and the Audit Commission.
- 1.2 This Plan has been drawn up from our risk based approach to audit planning and improvement planning meetings held with you. It reflects the Audit Commission's elements of the co-ordinated and proportionate audit and inspection programme.

Audit - PKF

- 1.3 Our principal objective as your appointed auditor is to carry out an audit that:
 - is tailored to focus on the specific financial and operational risks you face; and
 - meets the requirements of the Audit Commission's Code of Audit Practice (the Code).
- 1.4 In formulating this Plan, and discharging our duties under the Code, we also have regard to:
 - our terms of engagement, as set out in the Audit Commission's "Work programme and fee scales 2005/06 " issued in March 2005
 - the requirements of the Audit Commission's "Statement of Responsibilities of Auditors and of Audited Bodies" issued in March 2005.
- 1.5 This Plan summarises our approach to delivering our Code responsibilities for the period 1 April 2005 to 31 March 2006. It also gives details on:
 - the scope of the work we will undertake to address the key risks you face and to satisfy our responsibilities under the Code;
 - how we intend to rely upon the work of Internal Audit; and
 - the timing of our visits, the people involved, and any assistance that is to be relied upon.

Code of Audit Practice

- 1.6 The Audit Commission published a new Local Government Code of Audit Practice in March 2005 that is applicable for 2005/06 audits onwards.
- 1.7 The new Code sets out the Audit Commission's redesigned model for public audit, as shown in the diagram below, and sets out auditors' responsibilities in relation to that new model:



- 1.8 Risk assessment still lies at the heart of the audit approach dictated by the Code. In undertaking our risk assessment we will, as in previous years, consider both locally identified risks and 'national risks' highlighted by the Audit Commission in their "National Risk Assessment Tool".
- 1.9 Audits in the UK are undertaken in accordance with Auditing Standards issued by the Auditing Practices Board (APB). The APB has announced that, with effect for audits in respect of accounting periods commencing on or after 15 December 2004, the UK has adopted International Standards for Auditing (ISAs) as the basis for UK audit.
- 1.10 As a result of this change, our risk assessment will also include more specific and formal consideration of the potential risk of material misstatement of your Statement of Accounts due to fraud or other irregularity, as required by International Standard on Auditing (ISA) 240.
- 1.11 The specific risks identified for inclusion in this Plan, and the audit response to those risks, are detailed in the matrix at Appendix A.
- 1.12 Our audit responses are grouped under the two Code areas:
- **Accounts** – the work that we undertake in giving our opinion on your Statement of Accounts, including considering the consistency of the Statement on Internal Control (SIC) with our knowledge. The detail of this work is set out more fully under section 2 of this Plan.
 - **Use of resources** – the work that we undertake to assess your arrangements for securing economy, efficiency and effectiveness in your use of resources. This includes our review of your Best Value Performance Plan and Performance Indicators and also a requirement to give an overall conclusion on Value for Money, which feeds into your Comprehensive Performance Assessment (CPA). The detail of this work is set out more fully under section 3 of this Plan.

Working with Internal Audit

- 1.13 The Audit Commission and its auditors have been working together to ensure that audit work is most effectively targeted in well-managed authorities, thereby reducing the time spent on the audit. This concept was previously known as the "Managed Audit".
- 1.14 Whilst initially the approach was focused on improving the efficiency of the accounts opinion elements of the audit, it was recognised that the principles were valid for all aspects of the audit under the Code.
- 1.15 We have compiled this 2005/06 Plan on the basis that we will be able to place full reliance on the work of Internal Audit on the core financial systems that are material to the preparation of the accounts, their review of Best Value Performance Indicators and certain other specific reviews, and that the work will be delivered to the agreed deadline. This assumption is based upon preliminary discussions with you and with Internal Audit.

Reports and reporting framework

- 1.16 The reporting requirements are detailed in the Audit Commission's Annual Letter of Guidance, and reports will be produced in accordance with the requirements of the Audit Commission Act 1998 and the Accounts and Audit Regulations 1996, as amended.
- 1.17 During the course of the year we will provide the following reports for the year ended 31 March 2006:
- a certificate that the audit has been completed in accordance with statutory requirements;
 - an audit opinion on the financial statements;
 - a report to "those charged with governance" summarising our audit conclusions; and
 - an overall conclusion on value for money.

1.18 We will also provide the following reports for the year ended 31 March 2005:

- our statutory report on your Best Value Performance Plan;
- certification of your best value performance indicators; and
- certification of grant claims, for the year ended 31 March 2005, for which a separate fee is chargeable.

1.19 In addition, we will provide subsidiary letters to senior management and, where appropriate, to Members relating to more detailed matters which have been noted in our audit work (Memoranda to Officers).

1.20 We may also have to report in other ways:

- report in the public interest, under the terms of Section 8, ACA 1998;
- application for a declaration that an item of account is unlawful under Section 17, ACA 1998;
- declaration on the recovery of an amount not accounted for under Section 18, ACA 1998;
- issue of an advisory notice under Sections 19A to 19C, ACA 1998 (brought about by Section 91 of the Local Government Act 2000); and
- make an application for judicial review under Section 24, ACA 1998.

1.21 We are required to provide to the Audit Commission detailed progress reports for each audit. This will include provision of information to enable the production of an Annual Audit and Inspection Letter by the Audit Commission's Relationship Manager.

1.22 We will also be requested to provide assessment scores on the Audit Commission's Key Lines of Enquiry (KLoE), to feed in to the CPA process for 2005/06. Details underpinning this assessment have only recently been released, and at the time of drafting this plan we are discussing our approach with the Authority.

Inspection – Audit Commission

1.23 This Plan also sets out the inspection work that we propose to undertake in 2005/06, linked to your improvement priorities, as summarised under section 4 of this Plan and in Appendix B.

1.24 Discussions have been, and will continue to be, held between auditors and inspectors to ensure that the audit and inspection work in this Plan continues to be co-ordinated and targeted at your key areas for improvement.

1.25 In carrying out inspection work we comply with the statutory requirements governing it, in particular the Local Government Act 1999 with regard to Best Value inspection.

1.26 As noted above, the Audit Commission will issue an Annual Audit and Inspection Letter on completion of the audit and inspection work.

Communication with other Auditors and Inspectors

1.27 The Audit Commission's Standing Guidance for Auditors requires co-operation between auditors of different bodies and Inspectors, where necessary, to facilitate an efficient audit. In some cases it may therefore be necessary to discuss matters with the auditors of the County Council and/or Inspectors (including CAT teams) to complete our work under the Code, i.e. sharing information.

- 1.28 In drafting this Plan we have assumed that the approval of it will constitute you granting us permission to discuss issues relevant to the audit with the appointed auditors of the County Council and with Inspectors. This permission will not affect our general duty of confidentiality under Section 49 of the Audit Commission Act 1998.
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2 Accounts

- 2.1 The Code of Audit Practice requires us to express an opinion on whether your Statement of Accounts “presents fairly” your financial position, and has been prepared properly, in accordance with relevant legislation and applicable accounting standards.
- 2.2 In carrying out this work we consider:
- the extent to which your accounting and internal control systems are a reliable basis from which to prepare the Accounts; and
 - the robustness of your Accounts preparation processes.
- 2.3 We also undertake analytical procedures, test transactions and balances and consider the adequacy of the disclosures in your Accounts.
- 2.4 It should be noted that we have not yet undertaken our 2004/05 accounts work so the risk assessment included in Appendix A in relation to this element of the plan has been based on the results of our 2003/04 audit work and preliminary discussions with officers.
- 2.5 Once our 2004/05 audit work has been completed we will revisit our risk assessment and let you know if there are any significant changes to the risks and the audit response to those risks included in this Plan.

Fraud risk assessment

- 2.6 Under ISA240 we have a responsibility to give specific consideration to the potential risk of material misstatement of your Statement of Accounts due to fraud and error, including the risk of fraudulent financial reporting.
- 2.7 The primary responsibility for ensuring that your internal control frameworks are robust enough to prevent and detect fraud and corrupt practices lies with management and ‘those charged with governance’.
- 2.8 In order to identify the fraud risks, and the controls you have put in place on which we will seek to place reliance to mitigate those risks, we will:
- discuss your anti fraud and corruption arrangements with officers and “those charged with governance”;
 - consider the extent to which the work of Internal Audit is designed to detect material misstatements in the Accounts arising through fraud;
 - make inquiries regarding instances of actual fraud you have identified; and
 - consider any material unusual or unexpected relationships that have been identified in performing analytical procedures.
- 2.9 For all residual fraud risks, and for any actual frauds you have identified and informed us of, we will consider the possible impact on your Accounts and our audit programme.

Core financial systems

- 2.10 Core systems are the systems upon which the accounts are based that, in our opinion, could lead to a material misstatement of the Accounts if control failures were to occur.
- 2.11 In order to arrive at our opinion on the Statement of Accounts, we will consider whether the key controls within the core financial systems are operating as intended and are sufficient to prevent material misstatements within the accounts.
- 2.12 We will place full reliance on Internal Audit's work wherever possible and thereby avoid unnecessary duplication of audit effort on the systems work relevant to our audit opinion.
- 2.13 A new payroll system has been introduced from April 2005. This was working in parallel with the previous system for the final 3 months of the 2004/05 financial year. Appendix A includes a separate risk for this issue and our proposed response.

Accounts preparation

- 2.14 We will consider the adequacy of your arrangements for closing down the ledger and producing an accurate, timely and comprehensive Statement of Accounts and supporting working papers.
- 2.15 We will provide officers with a detailed list of schedules and working papers required for the audit. We have assumed in this Plan that that this information will be provided to us on a timely basis and that the accounts production processes will be reliable.

Statement on Internal Control

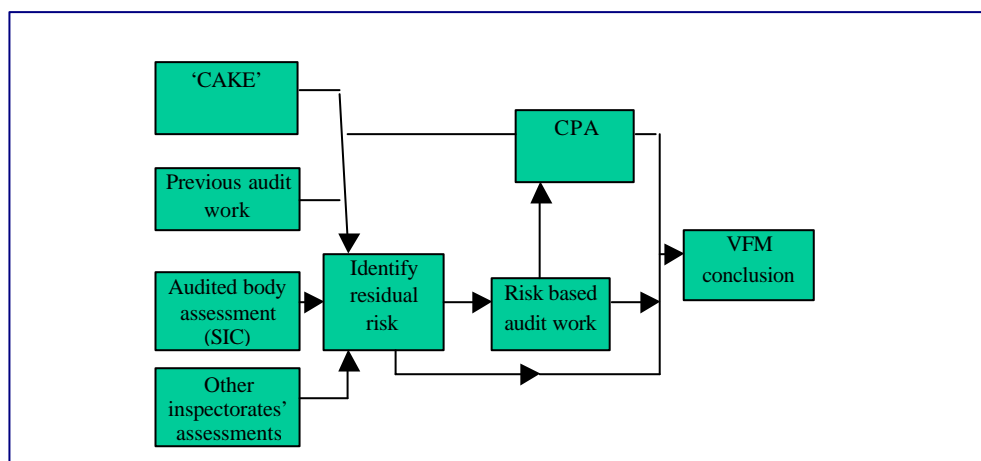
- 2.16 We will review your Statement on Internal Control to assess whether it has been presented in accordance with CIPFA guidance and is consistent, complete and not misleading based on our knowledge.
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3 Use of Resources

- 3.1 The new Code requires us to:
- be satisfied that proper arrangements have been made to secure economy, efficiency and effectiveness in the use of resources (value for money conclusion);
 - be satisfied that there are adequate arrangements in place for collecting, recording and publishing performance information; and
 - audit your best value performance plan.

Value for money conclusion

- 3.2 We will give an overall conclusion on whether you have proper arrangements in place to secure value for money (VFM). The process for compiling our VFM conclusion is shown in the diagram overleaf:



Local risk based planning

- 3.3 The start of the process is to assess the risks relating to your corporate performance and financial management arrangements through consideration of:
- the results of our previous audit work and knowledge gathering exercises;
 - your system of internal financial control as reported on in your Statement on Internal Control; and
 - the results of inspection work and the work of any other reviewing agencies.
- 3.4 Once we have completed the risk assessment and considered the controls you have in place to manage those risks we will either:
- highlight the risk to you;
 - defer further work on the risk in the context of work planned by you or other review agencies to address the risk; or
 - carry out further work to enable us to form a view on the adequacy of your corporate performance and management arrangements.
- 3.5 In that context, we will only carry out detailed work in this area if it will contribute to your improvement agenda and will not duplicate work already planned by you or other review agencies. We have included in Appendix A our assessment of the risks relevant to our Use of Resources audit work and our planned response to those risks.

National Risks

- 3.6 In addition to our local risk based planning the Audit Commission can specify work to be carried out by auditors on a national basis.
- 3.7 From 2005/06 the Audit Commission have specified that we review your arrangements against their Key Lines of Enquiry (KLoE) criterion. The general principles of KLoE are set out below but the exact criterion and the audit methodology for reviewing and reporting results are yet to be finalised by the Audit Commission. We will provide more information to you once it is received.
- 3.8 The KLoE assessment will focus on the importance of having sound and strategic financial management to ensure that resources are available to support your priorities and improve services. The methodology is similar in nature to the Auditor Scored Judgements made previously in that the KLoE set out criterion for “scoring” Councils.

3.9 The scoring mechanism is defined as follows:

Score	Judgement	Conclusion
1	Below minimum requirements	Inadequate performance
2	At minimum requirements	Adequate performance
3	Consistently above minimum requirements	Performing well
4	Well above minimum requirements	Performing strongly

3.10 This work will play a critical part in forming our overall conclusion on value for money as audited bodies are required to reach a minimum score of 2 in each area for an unqualified opinion. It will also feed directly into the Audit Commission's CPA process, although the mechanisms for this are still being finalised, and will be used to inform our opinion on the Statement of Accounts as appropriate.

3.11 It is also likely that we will be required to consider in some way Annual Efficiency Statements as part of our VFM conclusion audit work but, again, the detail of this is not yet known.

Performance Information

3.12 We will review your arrangements for collecting, recording and publishing specified performance information against the guidance that is issued annually by the Audit Commission.

3.13 The specific requirements for reviewing your Best Value Performance Indicators (BVPIs) for the year ended 31 March 2005 have not yet been finalised. However, we anticipate that, as in previous years, it will include a minimum requirement to review the systems for collating and producing BVPIs.

Best Value Performance Plans (BVPPs)

3.14 We will consider and report on whether you have complied with statutory requirements applicable to a Weak Council in respect of the preparation and publication of your BVPP, including specified performance information and associated targets.

3.15 The BVPP production deadline of 30 June requires, where possible, outturn performance information being included in the BVPP. Consequently, we will consider the extent to which this has been achieved.

4 Improvement and Inspection

4.1 Through our improvement planning meetings with you we have reached a shared understanding of your top priorities for improvement. These are:

- Clearer articulation of the Council's overall ambition with due weight given to national priorities.
- Completing the Authority's key planning documents to provide a more structured strategic framework which clearly links together.
- Reviewing and developing the Member role in the formal decision making process.
- Engagement with the public around their needs and priority setting.
- Developing internal and external capacity to deliver the Council's plans.
- Specifically targeting the Council's services for vulnerable people on Housing Benefit/Council tax and homelessness to secure improvement.
- Developing the Councils culture of performance management.

- 4.2 Following the Council's classification as a 'weak' council in the 2004 CPA, we have applied the principles of strategic regulation recognising the key strengths/weaknesses in the Council's performance.
- 4.3 As a consequence our inspection activity will include an inspection review of the whole environment service, a progress assessment report and undertaking work to prepare the annual direction of travel statement. The table at Appendix B summarises the agreed audit and inspection response to the above priorities.
- 4.4 This work has been agreed in full consultation with other regulators to ensure that work programmes are co-ordinated and proportionate.
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5 Grant Claims

- 5.1 As agents of the Audit Commission we are required to express an opinion on certain grant claims submitted by the Council.
- 5.2 We do this by reference to Certification Instructions issued by the Audit Commission and to the underlying accounting systems and records used to compile the claims.
- 5.3 As part of this Plan we will be auditing grant claims for the year ended 31 March 2005.
- 5.4 There are de-minimis arrangements in place for the certification of claims, they are as follows:
- claims and returns for amounts below £50,000 will no longer be certified
 - claims and returns between £50,000 and £100,000 will be subjected to limited audit testing to agree form entries to underlying records, but the eligibility of expenditure will not be tested
 - claims and returns over £100,000 will be audited in accordance with the outcome of a control environment risk assessment.
- 5.5 The dates for completion of this work are laid down by the Government Departments to which the claims are submitted. We shall liaise with the relevant Council Officers to ensure we complete our work within the given timetable.
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6 Fees and Audit Arrangements

Fees

- 6.1 As for previous years the guideline for fee levels applicable to audited bodies remains a formula-based calculation that is adjusted to reflect the agreed scope of work applicable to your local circumstances and risk profile, as set out in Appendix A.
- 6.2 For audit, the calculation is based on the minimum amount of work required under the risk based audit approach outlined in the Code.

Audit

- 6.3 The audit fee, excluding grants and challenge work, for the period from April 2005 to March 2006 will be £96,500 plus VAT which, as in previous years, includes an amount payable to the Audit Commission.

- 6.4 The fee is based on our understanding of audit requirements at the time of drafting this Plan. Currently it does **not** include the costs of any detailed review of, or reporting on, the Annual Efficiency Statements as the detailed approach to this area, and its impact on the fee envelope, has not yet been finalised by the Audit Commission. The fee also does **not** include costs associated with scored "Key Lines of Enquiry" (KLoE) returns required for the direction of travel statements for which we are required to submit draft returns to the Relationship Manager by mid January 2006 and finalise by the end of February 2006. We suggest that these may be of the order of £10,000 to £15,000, depending on the quality, comprehensiveness and accessibility of audit trail made available by the Authority.

Inspection

- 6.5 The fee payable for the 2005/06 programme of inspection work, net of any central government grant, is £15,670.

Analysis

- 6.6 An analysis of the fee by audit area is shown below. Fees for individual work areas are not comparable to the fees for 2004/05 due to the fundamental changes made by the new Code of Audit Practice. We have, however, included the totals for information.

Work area	2004/05 Fee £	2005/06 Fee £
Code of Audit Practice		
Accounts	-	51,800
Use of Resources	-	20,000
Planning & Reporting	-	19,700
Subtotal audit	88,300	96,500
Inspection	14,599	15,670
Total audit and inspection	£102,899	£112,170

Grants

- 6.7 Our fee for the review of grant claims will be billed separately, based on the Audit Commission's grade related rates as set out in their publications "Work programme and fee scales 2005/06". Based on the claims we audited for the year ending 31 March 2004, we anticipate that the fee will be approximately £30,825 for the audit of claims for the year ending 31 March 2005.

Questions and Objections

- 6.8 Time spent dealing with questions and objections will be billed separately. Where possible we will provide an estimate of the likely time required to respond to the matters before starting the work.

Assumptions

- 6.9 The fees detailed above are based on the following assumptions:
- there are no major changes to the content of government department grant instructions;
 - you will prepare your grant claims in accordance with the Audit Commission's "Statement of responsibilities of grant paying bodies, authorities, the Audit Commission and appointed auditors in relation to claims and returns";
 - Internal Audit will complete their systems testing to an adequate standard and in line with plans;
 - you will keep us informed of any significant changes to your main financial systems or procedures;

- you will provide a comprehensive, good quality set of working papers and records to support the accounts, performance indicators and grant claims prior to the commencement of the audit and there will be no fundamental problems with them; and
- you will ensure that action plans are completed promptly and the implementation of recommendations by the due date is actively monitored.

Billing Arrangements

6.10 Your audit fee will be billed by PKF in quarterly instalments as follows:

Month	£
September 2005	24,125
March 2006	24,125
June 2006	24,125
September 2006	24,125
Total	£96,500

6.11 Inspection work will be billed separately by the Audit Commission.

6.12 Grants work will be billed by PKF on the basis of hours incurred and necessary staff grades used as the work progresses.

Staffing

6.13 The following staff will be involved in the audit throughout the course of the year:

Audit Staff	
Partner	David Eagles
Senior Manager	Stuart Frith
Supervisor/Senior	Carrie Birch Adam Kendall
Other Team Members	Kevin Brinkley Others TBC
Inspection Staff	
Relationship Manager	Ian Davidson
Inspector	To be confirmed

Timetable

6.14 The following outline audit timetable shows the main dates planned for audit visits for the period covered by this Plan:

Audit Timetable	Month
Accounts – core financial systems	April 2006
Accounts – Statements of Account and SIC	August 2006
Use of Resources – VFM	Ongoing
Use of Resources – BVPIs	June 2005
Use of Resources – BVPP	June 2005

- 6.15 We will agree specific dates for our visits with officers, in advance of each part of our programme, and we will work closely with officers during the year to ensure that all key deadlines are met.
- 6.16 We will also meet regularly with senior officers, to discuss progress on the audit and obtain an update on relevant issues.

Independence

- 6.17 International Standard on Auditing 260 ("ISA260") requires auditors to communicate relevant matters relating to the audit to "those charged with governance". Relevant matters include issues on auditor independence, audit planning information and findings from the audit.
- 6.18 We have included in Appendix C to this Plan a statement to the Audit Committee setting out the Audit Commission's objectivity and independence guidelines and giving our confirmation that we have complied with those guidelines.
- 6.19 Following our audit of the Statement of Accounts we will report to the Audit Committee on the findings from our audit.

Quality of Service

- 6.20 We aim to provide a high quality of service to you at all times. If, for any reason or at any time, you would like to discuss how we might improve the service, or if you are in any way dissatisfied, please contact David Eagles in the first instance. Alternatively, you may wish to contact our Managing Partner, Martin Goodchild. Any complaint will be investigated carefully and promptly.
- 6.21 If you are not satisfied you may take up the matter with the Institute of Chartered Accountants in England and Wales ("ICAEW").
- 6.22 In addition, the Audit Commission's complaints handling procedure is detailed in their leaflet "Something to complain about? What to do if you wish to complain about the Audit Commission or one of its Appointed Auditors" that is available on request.

Appendix A Risk Assessment Matrix

	Audit risk identified from planning	Mitigating controls	Residual audit risk	Audit response to residual audit risk
Accounts				
1	The deadline for completion of the drafting of accounts for approval by members has been brought forward by a month to 30 June 2006, with deadline for the finalisation of the accounts being brought forward to 30 September 2006. This will put increased pressure on the finance department to complete the accounts closedown process.	Authority is completing the 2005 accounts preparation process currently and is trying to improve performance.	Risk remains as it is unclear if deadlines for 2005 (31 July) will be achieved by the Authority.	Detailed discussion of proposals for 2006 with authority based on results in 2005. Preparation of agreed records required listing to ensure awareness of audit requirements.
Use of Resources				
Financial Management				
2	Two senior members of the finance team staff are due to retire during 2006 and the Authority will lose a significant amount of knowledge and experience. There is a need for succession planning to ensure that the positions are filled, or other arrangements made for the key roles including section 151 officer, so that there is no risk to the Authority on overall financial management.	Detailed proposals for revised structure post retirements are being prepared. Members are being kept informed on process.	Some risk remains that the Authority will be unable to maintain appropriate financial management procedures and control.	Review of proposed structure and allocation of responsibilities. Review of timetable for the recruitment of new staff. Discussion with client of any interim management proposals should recruitment be unsuccessful.
Financial Standing				
3	The Authority has identified medium term funding issues and had made plans to raise funds through above average increases in council tax. The scope for the increases has been reduced. Failure of the authority to make effective use of its resources represent a significant business risk, and limits the authorities options for improving services.	Detailed reviews of services and budgets with a view to ensuring budgets can be reduced. Options for the future of the HRA housing stock are being reviewed and considered.	Risk remains that the Authority is unable to make necessary savings to achieve financial balance and ensure reserves are maintained whilst restricting council tax increases.	Follow up of the findings of the detailed review of the Authority's medium term financial strategy performed as part of the 2004/05 audit.

	Audit risk identified from planning	Mitigating controls	Residual audit risk	Audit response to residual audit risk
Internal Controls				
4	In March 2005 some aspects of the NNDR system were outsourced to Chelmsford Borough Council. This presents some loss of direct control at Rochford and there is a risk that there may be inadequate controls in place to ensure the effective operation of the system and the data being recorded within the accounts of Rochford.	The system processes being performed at Chelmsford are quite minor. Internal Audit at Chelmsford will be reviewing the system.	Some risk remains over the controls in the system and Rochford obtaining sufficient assurance over their operation.	Review of results of IA work at both Chelmsford and Rochford on the NNDR systems and arrangements.
Internal Controls				
5	A new payroll system is to be introduced with effect from April 2005. There is a risk that the data will not have been correctly transferred between the systems and that adequate controls are not in place with the new system to ensure payments are being accurately made and accounted for within the financial statements.	The system has been running parallel with the old system for the final three months of 2004/05.	There remains scope for errors to have occurred in the payroll figures could occur therefore the financial statements may be misstated.	Request for Internal Audit to perform review of data transfer between systems to ensure it is accurate. Detailed review of the results of the above review of systems transfer. Completion of other data review and testing as necessary based on the results of the IA testing completed.
BVPP				
6	The 2005 BVPP was based on the one prepared in prior years and as a result the content had not been reduced to reflect the changes in requirements. There is a risk that the Authority will have missed amendments to the guidance for items to be included in the BVPP.	Authority is in the process of reviewing its BVPP for publication prior to 30 June deadline. Revised BVPP will be approved by Members prior to publication.	Although there are no recent problems with the inclusion of the required information in the BVPP, risk remains that the Authority will again include too much information within the document.	Review of BVPP for basic compliance with the requirements for Weak authorities.

	Audit risk identified from planning	Mitigating controls	Residual audit risk	Audit response to residual audit risk
BVPs				
7	The audit work in 2004 indicated some instances where the BVPs calculated by the Authority had not been performed in line with the guidance issued to support its calculation. Risk that processes have not been updated for 2005 and the work of internal Audit does not identify the shortfalls.	Individual responsible for collation of BVPs has experience in the post. Detailed recommendation raised in 2004 on need to address processes.	Remains potential for errors to occur in the calculation of individual indicators. Past issues with the work of internal audit and process followed on specific CPA indicators and failure to identify issues. Increased number of CPA related indicators to be audited in detail as part of the review process.	Provision of detailed work programme to Internal Audit in respect of 2005 BVPs. Detailed review of work performed by Internal Audit on the accuracy and completeness of BVPs.
Use of Resources – Other				
8	The Authority there is a risk that the authority has failed to take ownership of performance problems, and develop adequate improvement plans as a result of the CPA assessment.	Ongoing meetings with the Audit Commission and representative from ODPM. Submission of relevant performance information to Audit Commission	The authority is failing to take sufficient steps to improve its position.	Ongoing attendance at improvement planning meetings and review of documentation provided. Discussion of issues arising with Authority and relationship manager.
9	The Authority has a risk register in place and is aware of the need to undertake risk management process. The register has not been reviewed in detail for some time and there is a risk that by not keeping risk arrangements up to date the risk culture is not fully embedded in the authorities culture and appropriately managed.	Risk has the support of key officers which will help ensuring that it is embedded.	Significant risks to the Authority could be overlooked and not managed.	Review of current risk register and future process for ongoing review, development and management of issues identified.
10	The Authority needs to have performed an analysis of the methods by which it will achieve the 2.5% reduction on baseline costs required under Gershon. By not performing the analysis there is a risk that the trust will be unable to achieve the requirements.	The Authority has prepared its first draft of the forward looking review required by Gershon. Details of potential savings are being presented to Members.	Risk that given continued financial standing issues Authority will be unable to make necessary savings to meet Gershon requirements	Review of proposals for savings that have been identified by the Authority.

	Audit risk identified from planning	Mitigating controls	Residual audit risk	Audit response to residual audit risk
11	The Authority is involved with a number of partnerships. There is a need for the purpose of the partnerships to be reviewed and their links to the achievement of the Authority's aims and objectives, as without this it is not possible to assess the links to, and achievement of, the Authority's objectives.	There has been some past review of partnerships, although this has not been updated recently. We understand that the Environment Scrutiny Committee's programme will include reviews of a number of key partnerships, although these will required partnerships (e.g. Crime and Disorder) rather than voluntary, service-specific ones.	Risk remains that the Authority is involved in partnerships which may be not be consistent with strategic aims and objectives or from which there is insufficient benefit being obtained.	Integrate work with any coverage achieved by Internal Audit. Review of the process for progressing the identifying of partnerships and linking these to the specific aims and objectives of the Authority.
12	As a result of the CPA improvement planning, the Overview and Scrutiny arrangements at the Authority are being used extensively. This is creating some concerns about capacity and the effectiveness of the current arrangements to ensure they are appropriate and not overloaded with work.	Familiarity of officers with scrutiny aims, although Member familiarity/experience needs developing.	Risk remains that the current arrangements are insufficient for the Scrutiny Committees to complete the programme of work.	Review of current arrangements to assess the level of workload within each of three committees to identify areas for improvement to the arrangements.

Appendix B Inspection Activity

Inspection Activity	Proposed Action
1. Environment – Whole service inspection	➤ An inspection of the environment service to assess the quality of service, in accordance with the councils priorities.
2. Progress assessment report	➤ To review progress of the Council since CPA 2004.
3. Direction of travel statements	➤ To provide a focus for continuous improvement.

Appendix C

Disclosure under ISA 260 (Communication of audit matters to those charged with governance)

To: Finance and Procedures Overview and Scrutiny Committee, Rochford District Council

Auditors appointed by the Audit Commission are subject to the *Code of Audit Practice* (the Code) which includes the requirement to comply with International Standards on Auditing (ISA) when auditing the financial statements. ISA 260 requires auditors to communicate to those charged with governance, at least annually, all relationships that may bear on the firm's independence and the objectivity of the audit engagement partner and audit staff.

The ISA defines 'those charged with governance' as 'those persons entrusted with the supervision, control and direction of an entity'. In the case of Rochford District Council it has been agreed that the appropriate addressee of communications from the auditor to those charged with governance is the Finance and Procedures Overview and Scrutiny Committee. The auditor reserves the right, however, to communicate directly with the board/authority on matters which are considered to be of sufficient importance.

Auditors are required by the Code to:

- carry out their work with independence and objectivity;
- exercise their professional judgement and act independently of both the Commission and the audited body;
- maintain an objective attitude at all times and not act in any way that might give rise to, or be perceived to give rise to, a conflict of interest;
- resist any improper attempt to influence their judgement in the conduct of the audit.

In addition, the Code specifies that auditors, or any firm with which an auditor is associated, should not carry out work for an audited body, which does not relate directly to the discharge of the auditors' functions if it would impair the auditors' independence or might give rise to a reasonable perception that their independence could be impaired. If auditors are satisfied that performance of such additional work will not impair their independence as auditors, nor be reasonably perceived by members of the public to do so, and the value of the work in total in any financial year does not exceed a *de minimis* amount (currently the higher of £30,000 or 20% of the annual audit fee), then auditors (or, where relevant, their associated firms) may undertake such work at their own discretion. If the value of the work in total for an audited body in any financial year would exceed the *de minimis* amount, auditors must obtain approval from the Commission before agreeing to carry out the work.

The Code also states that the Commission issues guidance under its powers to appoint auditors and to determine their terms of appointment. The *Standing Guidance for Auditors* includes several references to arrangements designed to support and reinforce the requirements relating to independence, which auditors must comply with. These are as follows:

- any staff involved on Commission work who wish to engage in political activity should obtain prior approval from the Partner or Regional Director;
- audit staff are expected not to accept appointments as lay school inspectors;
- firms are expected not to risk damaging working relationships by bidding for work within an audited body's area in direct competition with the body's own staff without having discussed and agreed a local protocol with the body concerned;
- auditors are expected to comply with the Commission's statements on firms not providing personal financial or tax advice to certain senior individuals at their audited bodies, auditors' conflicts of interest in relation to PFI procurement at audited bodies, and disposal of consultancy practices and auditors' independence;

- auditors appointed by the Commission should not accept engagements which involve commenting on the performance of other Commission auditors on Commission work without first consulting the Commission;
- auditors are expected to comply with the Commission's policy for both the Partner and the second in command (Manager) to be changed on each audit at least once every five years with effect from 1 April 2003 (subject to agreed transitional arrangements);
- audit suppliers are required to obtain the Commission's written approval prior to changing any Audit Partner in respect of each audited body; and
- the Commission must be notified of any change of second in command within one month of making the change. Where a new Partner or second in command has not previously undertaken audits under the Audit Commission Act 1998 or has not previously worked for the audit supplier, the audit supplier is required to provide brief details of the individual's relevant qualifications, skills and experience.

Statement by the Appointed Auditor

In relation to the audit of the financial statements for Rochford District Council for the financial year ending 31 March 2006, we are able to confirm that the Commission's requirements in relation to independence and objectivity, outlined above, have been complied with.

Under the requirements of ISA 260, we are not aware of any relationships that may bear on the independence and objectivity of the audit engagement partner and audit staff which are required to be disclosed.

Statement by the Relationship Manager

We are not aware of any relationships that may affect the independence and objectivity of the Inspectors who will work with you.