
2017/18 EXTERNAL AUDIT – AUDIT PLAN REPORT

1 PURPOSE OF REPORT

- 1.1 This report presents the Council's external auditor's (Ernst & Young (EY)) annual audit plan (AAP) covering the audit of the 2017/18 accounts and certification of claim and returns.

2 INTRODUCTION

- 2.1 In the appended AAP, EY sets out its intended approach and scope in relation to the audit of the 2017/18 financial statements, value for money conclusions and grant certification work.

3 EXTERNAL AUDIT ARRANGEMENTS

- 3.1 EY was appointed as the Council's external auditor with effect from April 2015 under the terms of The Audit Commission Act 1998.
- 3.2 The Annual Audit Fees Letter setting out proposed fees and audit arrangements was presented to this Committee on 20 June 2017.

4 RESOURCE IMPLICATIONS

- 4.1 The AAP confirms the proposed core audit fee for 2017/18 as £47,657, which adheres to the scale fee published by the Audit Commission. However, the AAP highlights four changes of scope which may result in higher audit fees. The proposed fee for the 2017/18 certification of claims and returns is £8,184 based on certain criteria contained in the AAP. Both fees are liable for VAT.

5 LEGAL IMPLICATIONS

- 5.1 Public Sector Audit Appointments Limited (PSAA) was appointed as a transitional body following the closure of the Audit Commission. PSAA will exercise statutory functions relating to auditor appointments and fees. It will monitor the performance of the firms providing audit services.

6 EQUALITY AND DIVERSITY IMPLICATIONS

- 6.1 There are no direct equality and diversity implications arising from this report.

7 RECOMMENDATION

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

That the external auditor's annual audit plan for 2017/18 be noted.



Naomi Lucas

Section 151 Officer

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
Audit planning report

Year ended 31 March 2018

16 January 2018

Private and Confidential

16 January 2018

Rochford District Council
South Street
Rochford
SS4 1BW

Dear Audit Committee Members

Audit planning report

We are pleased to attach our Audit Plan which sets out how we intend to carry out our responsibilities as auditor. Its purpose is to provide the Audit Committee with a basis to review our proposed audit approach and scope for the 2017/18 audit in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2015 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements. It is also to ensure that our audit is aligned with the Committee's service expectations.

This plan summarises our initial assessment of the key risks driving the development of an effective audit for the Council, and outlines our planned audit strategy in response to those risks.

This report is intended solely for the information and use of the Audit Committee and management, and is not intended to be and should not be used by anyone other than these specified parties.

We welcome the opportunity to discuss this report with you on 16 January 2018 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Debbie Hanson.
For and on behalf of Ernst & Young LLP
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In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued "Statement of responsibilities of auditors and audited bodies". It is available from the via the PSAA website (www.PSAA.co.uk). The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The "Terms of Appointment (updated February 2017)" issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature.

This report is made solely to the **Audit Committee, other members of the Authority and Senior management of Rochford District Council** in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the **Audit Committee, and management of those matters** we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the **Audit Committee, other members of the Authority and Senior management of Rochford District Council** for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.



01

Overview of our 2017/18 audit strategy





Overview of our 2017/18 audit strategy

The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the Audit Committee with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year.

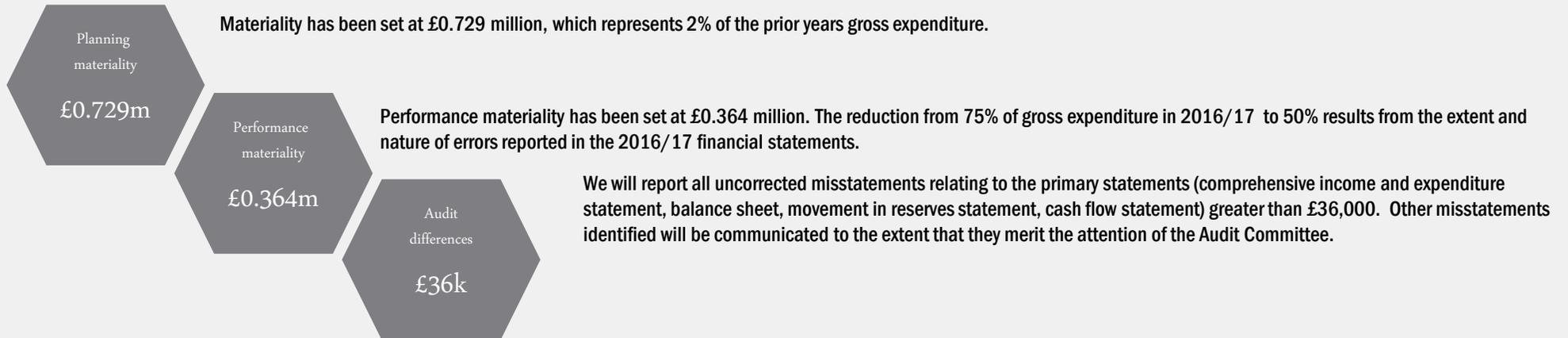
Audit risks and areas of focus

Risk / area of focus	Risk identified	Change from PY	Details
Risk of Management Override	Significant Risk/Fraud	No change in risk or focus	As identified in ISA 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that would otherwise appear to be operating effectively.
Property, Plant and Equipment Valuations	Other Risk	No change in risk or focus	<p>Property, plant and equipment (PPE) represents a significant balance in the Council's accounts and is subject to valuation changes, impairment reviews and depreciation charges. Material judgemental inputs and estimation techniques are required to calculate the year-end PPE balances held in the balance sheet.</p> <p>As the Council's asset base is significant, and the outputs from the valuer are subject to estimation, there is a higher inherent risk PPE may be under/overstated or the associated accounting entries incorrectly posted.</p> <p>ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of experts and assumptions underlying fair value estimates.</p>
Pension Valuation and Disclosures	Other Risk	No change in risk or focus	<p>The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding the Local Government Pension Scheme (LGPS) in which it is an admitted body.</p> <p>The Council's current pension fund deficit is a material and sensitive item and the Code requires that this liability be disclosed on the Council's balance sheet.</p> <p>The information disclosed is based on the IAS 19 report issued to the Council by the Actuary. Accounting for this scheme involves significant estimation and judgement and due to the nature, volume and size of the transactions we consider this to be a higher inherent risk.</p>
Business Rates Appeals Provision	Other Risk	Additional Risk for 2017-18	<p>The business rates appeals provision includes not only claims up to 31 March 2018, but claims that relate to earlier periods and is subject to estimation.</p> <p>As appeals are made to the Valuation Office, the Council may not be aware of the level of claims lodged.</p> <p>The Council may also find it difficult to obtain sufficient information to establish a reliable estimate. The Council have changed their approach to calculating the provision in 2017/18 (previously relying on an expert) and we have therefore recognised the provision as a new risk.</p>

Overview of our 2017/18 audit strategy

Risk / area of focus	Risk identified	Change from PY	Details
Accounting for Subsidiary – Green Gateway Trading Company.	Other Risk	Additional Risk for 2017-18	In 2016/17, the Council established a wholly owned limited liability Local Authority Trading Company – Green Gateway Trading Company - to enable grounds maintenance trading to take place for profit. 2017/18 will be the first year that the Council will consolidate the trading company and present Group Accounts. The preparation of Group Accounts requires a new structure to the accounts with restatement of primary statements as well as new disclosure notes and the removal of intercompany balances.

Materiality



Audit scope

This Audit Plan covers the work that we plan to perform to provide you with:

- Our audit opinion on whether the financial statements of Rochford District Council give a true and fair view of the financial position as at 31 March 2018 and of the income and expenditure for the year then ended; and
- Our conclusion on the Council's arrangements to secure economy, efficiency and effectiveness.

We will also review and report to the National Audit Office (NAO), to the extent and in the form required by them, on the Council's Whole of Government Accounts return.

Our audit will also include the mandatory procedures that we are required to perform in accordance with applicable laws and auditing standards.

When planning the audit we take into account several key inputs:

- Strategic, operational and financial risks relevant to the financial statements;
- Developments in financial reporting and auditing standards;
- The quality of systems and processes;
- Changes in the business and regulatory environment; and,
- Management's views on all of the above.

By considering these inputs, our audit is focused on the areas that matter and our feedback is more likely to be relevant to the Council.

There are four changes in the scope of our audit for 2017/18. These arise from:

- The change in estimation process for calculating the Business Rates Appeals Provision, which will now be calculated within the Finance Team rather than by a management expert. We outline the extent of the extra work for this change in Section 2 of the Audit Plan;
- The preparation of Group Accounts for the first time. We outline the extent of the extra work for this change in Section 2 of the Audit Plan;
- The value for money governance risks relevant to the creation of Green Gateway Trading Development Ltd as part of the Local Authority Trading Company with the intention that it should be used to derive income through property development. We outline the extent of the extra work for this change in Section 3 of the Audit Plan; and
- The reduction in Performance Materiality from 75% of gross expenditure to 50% as a result of the extent and nature of errors reported in the 2016/17 financial statements. As a consequence of these errors, we will need to increase our sample sizes to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements does not exceed materiality. We consider materiality in Section 4 of the Audit Plan.

The changes in scope result in extra audit fees as set out in Appendix A.



02

Audit risks





Our response to significant risks

Risk of Management Override

What is the risk?

The financial statements as a whole are not free of material misstatements whether caused by fraud or error.

As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.

What will we do?

Our approach will focus on:

- Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements;
- Reviewing accounting estimates for evidence of management bias;
- Evaluating the business rationale for significant unusual transactions; and
- Reviewing capital expenditure on property, plant and equipment to ensure it meets the relevant accounting requirements to be capitalised, should the final sum be material.

Other areas of audit focus

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be key audit matters we will include in our audit report.

What is the risk/area of focus?

Property, Plant and Equipment Valuations

Other Risk

Property, plant and equipment (PPE) represents a significant balance in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges.

Material judgemental inputs and estimation techniques are required to calculate the year-end PPE balances held in the balance sheet.

As the Council's asset base is significant, and the outputs from the valuer are subject to estimation, there is a higher inherent risk PPE may be under/overstated or the associated accounting entries incorrectly posted.

ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of experts and assumptions underlying fair value estimates.

Pension Valuation and Disclosures

Other Risk

The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding the Local Government Pension Scheme (LGPS) in which it is an admitted body.

The Council's current pension fund deficit is a highly material and sensitive item and the Code requires that this liability be disclosed on the Council's balance sheet.

The information disclosed is based on the IAS 19 report issued to the Council by the actuary. As with other councils, accounting for this scheme involves significant estimation and judgement and due to the nature, volume and size of the transactions we consider this to be a higher inherent risk.

What will we do?

Our approach will focus on:

- Considering the work performed by the Council's valuers, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
- Sample testing key asset information used by the valuers in performing their valuation (for example floor plans to support valuations based on price per square metres);
- Considering the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code for PPE and annually for Investment Properties. We will also consider if there are any specific changes to assets that have occurred and that these have been communicated to the valuer;
- Reviewing assets not subject to valuation in 2017/18 to confirm that the remaining asset base is not materially misstated;
- Considering changes to useful economic lives as a result of the most recent valuation; and
- Testing accounting entries have been correctly processed in the financial statements.

Our approach will focus on:

- Liaising with the auditors of the Essex Pension Fund, to obtain assurances over the information supplied to the actuary in relation to Rochford District Council;
- Assessing the conclusions drawn on the work of the actuary, Barnett Waddingham, by the Consulting Actuary, PWC, who are commissioned by the National Audit Office, including the use of our own pensions specialists; and
- Reviewing and testing the accounting entries and disclosures made in relation to IAS19.



Other areas of audit focus

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be key audit matters we will include in our audit report.

What is the risk/area of focus?

What will we do?

Business Rates Appeals Provision

Other Risk

The business rates appeals provision includes, not only claims up to 31 March 2018, but claims that relate to earlier periods and is subject to estimation.

As appeals are made to the Valuation Office, the Council may not be aware of the level of claims lodged. The Council may also find it difficult to obtain sufficient information to establish a reliable estimate.

The Council have changed their approach to calculating the provision in 2017/18 (previously relying on an expert) and we have therefore included the provision as a new area of risk.

Accounting for Subsidiary – Green Gateway Trading Company

Other Risk

In 2016/17, the Council established a wholly owned limited liability company – Green Gateway Trading Company to enable trading to take place for profit in respect of services for grounds maintenance. 2017/18 will be the first year that the Council will consolidate the trading company and present Group Accounts within the Council's financial statements. The preparation of Group Accounts requires a new structure to the accounts with restatement of primary statements as well as new disclosure notes and the removal of intercompany balances.

Our approach will focus on:

- **Reviewing the Council's methodology underpinning the provision for business rate appeals to ensure it has been calculated on a reasonable basis in line with IAS 37;**
- **Ensuring the provision is supported by appropriate evidence and that the level of estimation uncertainty is adequately disclosed; and**
- **Reviewing the completeness of the provision.**

Our approach will focus on:

- Direct testing Green Gateway Trading Company transactions;
- Reviewing the consolidation workings for accuracy;
- Agreeing the accounting treatment of intercompany balances; and
- Reviewing the disclosures made in relation to Green Gateway Trading Company.



03

Value for Money Risks





Background

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

For 2017/18 this is based on the overall evaluation criterion:

“In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people”

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

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

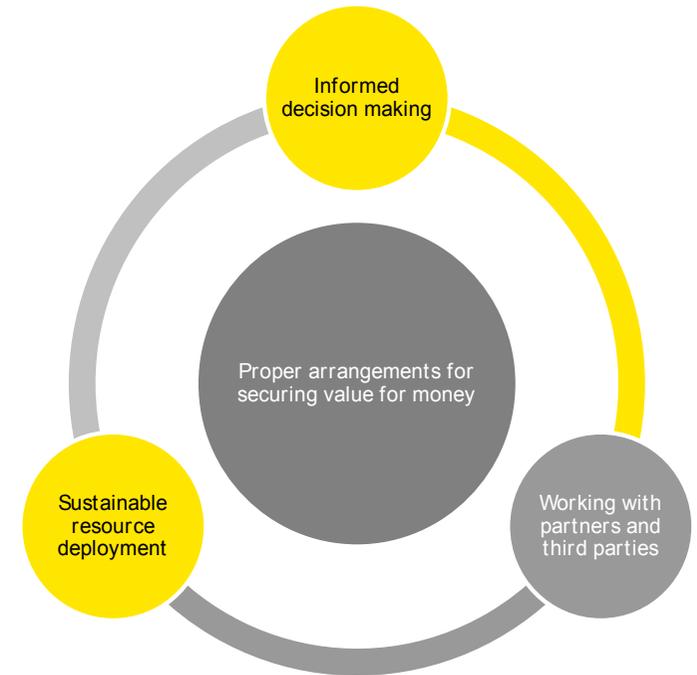
In considering your proper arrangements, we will draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your annual governance statement.

We are only required to determine whether there are any risks that we consider significant, which the Code of Audit Practice defines as:

“A matter is significant if, in the auditor’s professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public”

Our risk assessment supports the planning of sufficient work to enable us to deliver a safe conclusion on arrangements to secure value for money and enables us to determine the nature and extent of further work that may be required. If we do not identify any significant risks there is no requirement to carry out further work.

Our risk assessment has therefore considered both the potential financial impact of the issues we have identified, and also the likelihood that the issue will be of interest to local taxpayers, the Government and other stakeholders. This has resulted in the identification of the significant risks noted on the following page which we view as relevant to our value for money conclusion.





Value for Money Risks

What is the significant value for money risk?	What arrangements does the risk affect?	What will we do?
<p>Achievement of Savings Needed over the Medium Term</p> <p>The Council faces significant financial challenges over the next three to four years, with a forecasted underlying budget gap of £2.1 million by 2021/22.</p> <p>Given the scale of the savings needed, there is a risk that savings plans to bridge this gap are not robust and/or achievable.</p>	<p>Sustainable resource deployment</p>	<p>Our approach will continue to focus on:</p> <ul style="list-style-type: none"> • The robustness of any assumptions used in medium term planning; • The Council’s success in prioritising resources whilst maintaining services; and • The savings plans and concepts in place, and assessing the likelihood of whether these can provide the Council with the required savings/efficiencies over the medium term.
<p>Local Authority Trading Company – Green Gateway Trading Development Limited</p> <p>In July 2017, the Council established Green Gateway Trading Development Ltd as part of the Local Authority Trading Company with the intention that it should be used to derive income through property development. The aim is to enhance the economic wellbeing of the District and provide an income stream to help the Council to be less dependent upon Government funding. As a new arrangement there may be risks relating to the governance arrangements for the company.</p>	<p>Take informed decisions</p>	<p>Our approach will focus on:</p> <ul style="list-style-type: none"> • The governance structure in place to manage the new company.



04

Audit materiality



Materiality

Materiality

For planning purposes, materiality for 2017/18 has been set at £0.729 million. This represents 2% of the Council's prior year gross expenditure. It will be reassessed throughout the audit process. We have provided supplemental information about audit materiality in Appendix D.



We request that the Audit Committee confirm its understanding of, and agreement to, these materiality and reporting levels.

Key definitions

Planning materiality – the amount over which we anticipate misstatements would influence the economic decisions of a user of the financial statements.

Performance materiality – the amount we use to determine the extent of our audit procedures. We have set performance materiality at £364,000 which represents 50% of planning materiality. This is a reduction from 75%, which we applied in 2016/17. This is because of the material errors found within the 2016/17 financial statements relating to fixed assets and the errors concerning the omitted housing benefit journal and miss-postings of transactions as reported within the 2016/17 Audit Results Report.

Audit difference threshold – we propose that misstatements identified below this threshold are deemed clearly trivial. We will report to you all uncorrected misstatements over this amount relating to the comprehensive income and expenditure statement, balance sheet, that have an effect on income or that relate to other comprehensive income.

Other uncorrected misstatements, such as reclassifications and misstatements in the cashflow statement and movement in reserves statement or disclosures, and corrected misstatements will be communicated to the extent that they merit the attention of the audit committee, or are important from a qualitative perspective.



05

Scope of our audit



Our Audit Process and Strategy

Objective and Scope of our Audit scoping

Under the Code of Audit Practice our principal objectives are to review and report on the Council's financial statements and arrangements for securing economy, efficiency and effectiveness in its use of resources to the extent required by the relevant legislation and the requirements of the Code.

We issue an audit report that covers:

1. Financial statement audit

Our objective is to form an opinion on the financial statements under International Standards on Auditing (UK and Ireland).

We also perform other procedures as required by auditing, ethical and independence standards, the Code and other regulations. We outline below the procedures we will undertake during the course of our audit.

Procedures required by standards

- Addressing the risk of fraud and error;
- Significant disclosures included in the financial statements;
- Entity-wide controls;
- Reading other information contained in the financial statements and reporting whether it is inconsistent with our understanding and the financial statements; and
- Auditor independence.

Procedures required by the Code

- Reviewing, and reporting on as appropriate, other information published with the financial statements, including the Annual Governance; and
- Reviewing and reporting on the Whole of Government Accounts return, in line with the instructions issued by the NAO.

2. Arrangements for securing economy, efficiency and effectiveness (value for money)

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources.

Our Audit Process and Strategy (continued)

Audit Process Overview

Our audit involves:

- Identifying and understanding the key processes and internal controls; and
- Substantive tests of detail of transactions and amounts.

Our intention is to carry out a fully substantive audit in 2017/18 as we believe this to be the most efficient audit approach. Although we are therefore not intending to rely on individual system controls in 2017/18, the overarching control arrangements form part of our assessment of your overall control environment and will form part of the evidence for your Annual Governance Statement.

Analytics:

We will use our computer-based analytics tools to enable us to capture whole populations of your financial data, in particular journal entries. These tools:

- Help identify specific exceptions and anomalies which can then be subject to more traditional substantive audit tests; and
- Give greater likelihood of identifying errors than random sampling techniques.

We will report the findings from our process and analytics work, including any significant weaknesses or inefficiencies identified and recommendations for improvement, to management and the Audit Committee.

Internal audit:

We will review internal audit plans and the results of their work. We will reflect the findings from these reports, together with reports from any other work completed in the year, in our detailed audit plan, where they raise issues that could have an impact on the financial statements.



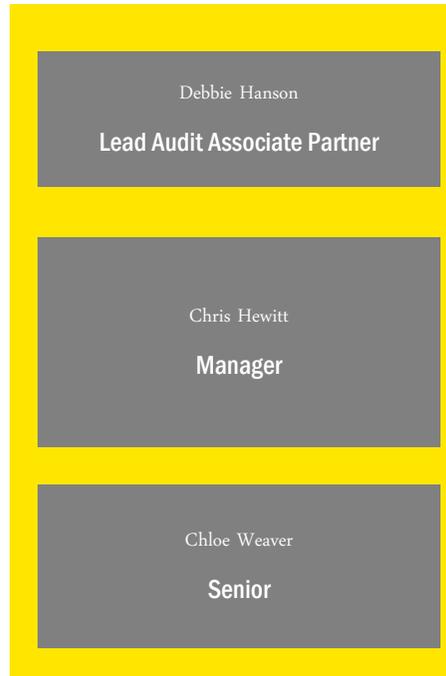
06

Audit team



Audit team

Audit team structure:



Use of specialists

When auditing key judgements, we are often required to rely on the input and advice provided by specialists who have qualifications and expertise not possessed by the core audit team. The areas where either EY or third party specialists may provide input for the current year audit are:

Area	Specialists
Valuation of Land and Buildings	EY Real Estates Team
Pensions disclosure	EY Pensions Advisory Team

In accordance with Auditing Standards, we will evaluate each specialist's professional competence and objectivity, considering their qualifications, experience and available resources, together with the independence of the individuals performing the work.

We also consider the work performed by the specialist in light of our knowledge of the Council's business and processes and our assessment of audit risk in the particular area. For example, we would typically perform the following procedures:

- Analyse source data and make inquiries as to the procedures used by the specialist to establish whether the source data is relevant and reliable;
- Assess the reasonableness of the assumptions and methods used;
- Consider the appropriateness of the timing of when the specialist carried out the work; and
- Assess whether the substance of the specialist's findings are properly reflected in the financial statements.



07

Audit timeline





Timetable of communication and deliverables

Timeline

Below is a timetable showing the key stages of the audit and the deliverables we have agreed to provide to you through the audit cycle in 2017/18.

From time to time matters may arise that require immediate communication with the Audit Committee and we will discuss them with the Audit Committee Chair as appropriate. We will also provide updates on corporate governance and regulatory matters as necessary.

Audit phase	Timetable	Audit committee timetable	Deliverables
Planning: Risk assessment and setting of scopes. Walkthrough of key systems and processes	December/January	Audit Committee 16 th January	Audit Planning Report
Interim audit testing	February/March		
Year end audit	June		
Audit Completion procedures	July	Audit Committee July (Date not yet confirmed)	Audit Results Report Audit opinions and completion certificates
Conclusion of reporting	August	Audit Committee October (Date not yet confirmed)	Annual Audit Letter



08

Independence



Introduction

The FRC Ethical Standard and ISA (UK) 260 “Communication of audit matters with those charged with governance”, requires us to communicate with you on a timely basis on all significant facts and matters that bear upon our integrity, objectivity and independence. The Ethical Standard, as revised in June 2016, requires that we communicate formally both at the planning stage and at the conclusion of the audit, as well as during the course of the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

Required communications	
Planning stage	Final stage
<ul style="list-style-type: none"> ▶ The principal threats, if any, to objectivity and independence identified by Ernst & Young (EY) including consideration of all relationships between the you, your affiliates and directors and us; ▶ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review; ▶ The overall assessment of threats and safeguards; ▶ Information about the general policies and process within EY to maintain objectivity and independence. ▶ Where EY has determined it is appropriate to apply more restrictive independence rules than permitted under the Ethical Standard [note: additional wording should be included in the communication reflecting the client specific situation] 	<ul style="list-style-type: none"> ▶ In order for you to assess the integrity, objectivity and independence of the firm and each covered person, we are required to provide a written disclosure of relationships (including the provision of non-audit services) that may bear on our integrity, objectivity and independence. This is required to have regard to relationships with the entity, its directors and senior management, its affiliates, and its connected parties and the threats to integrity or objectivity, including those that could compromise independence that these create. We are also required to disclose any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed; ▶ Details of non-audit services provided and the fees charged in relation thereto; ▶ Written confirmation that the firm and each covered person is independent and, if applicable, that any non-EY firms used in the group audit or external experts used have confirmed their independence to us; ▶ Written confirmation that all covered persons are independent; ▶ Details of any inconsistencies between FRC Ethical Standard and your policy for the supply of non-audit services by EY and any apparent breach of that policy; ▶ Details of any contingent fee arrangements for non-audit services provided by us or our network firms; and ▶ An opportunity to discuss auditor independence issues.

In addition, during the course of the audit, we are required to communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place, for example, when accepting an engagement to provide non-audit services.

We also provide information on any contingent fee arrangements, the amounts of any future services that have been contracted, and details of any written proposal to provide non-audit services that has been submitted;

We ensure that the total amount of fees that EY and our network firms have charged to you and your affiliates for the provision of services during the reporting period, analysed in appropriate categories, are disclosed.

Relationships, services and related threats and safeguards

We highlight the following significant facts and matters that may be reasonably considered to bear upon our objectivity and independence, including the principal threats, if any. We have adopted the safeguards noted below to mitigate these threats along with the reasons why they are considered to be effective. However we will only perform non –audit services if the service has been pre-approved in accordance with your policy.

Overall Assessment

Overall, we consider that the safeguards that have been adopted appropriately mitigate the principal threats identified and we therefore confirm that EY is independent and the objectivity and independence of Debbie Hanson, your audit engagement partner and the audit engagement team have not been compromised.

Self interest threats

A self interest threat arises when EY has financial or other interests in the Council. Examples include where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with you. At the time of writing, there are no long outstanding fees.

We believe that it is appropriate for us to undertake permissible non-audit services and we will comply with the policies that you have approved.

None of the services are prohibited under the FRC's ES or the National Audit Office's Auditor Guidance Note 01 and the services have been approved in accordance with your policy on pre-approval. The ratio of non audit fees to audits fees is not permitted to exceed 70%.

At the time of writing, the current ratio of non-audit fees to audit fees is approximately 0%. We have adopted the following safeguards as a result. No additional safeguards are required.

A self interest threat may also arise if members of our audit engagement team have objectives or are rewarded in relation to sales of non-audit services to you. We confirm that no member of our audit engagement team, including those from other service lines, has objectives or is rewarded in relation to sales to you, in compliance with Ethical Standard part 4.

There are no self interest threats at the date of this report.

Other communications

EY Transparency Report 2017

Ernst & Young (EY) has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained.

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year ended 1 July 2017 and can be found here:

<http://www.ey.com/uk/en/about-us/ey-uk-transparency-report-20167>



09

Appendices



Fees

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Communities and Local Government.

PSAA has published a scale fee for all relevant bodies. This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the NAO Code.

	Planned fee 2017/18	Scale fee 2017/18	Final Fee 2016/17
	£	£	£
Total Audit – Code work	47,657*	47,657	55,526**
Certification of Claims and Returns	8,184	8,184	11,783***
Non-audit work	0	0	0
Total fees	55,841	55,841	67,309

All fees exclude VAT

*The planned fees for 2017/18 will be subject to a scale fee variation due to changes in the scope of the audit outlined in Section 1 and summarised below:

- The change in estimation process for calculating the Business Rates Appeals Provision, which will now be calculated within the Finance Team rather than through a management expert.
- The preparation of Group Accounts for the first time;
- The governance risks relevant to the creation of Green Gateway Trading Development Ltd as part of Local Authority Trading Company arrangements for the provision of privately let housing through assured shorthold tenancies; and
- The reduction in Performance Materiality from 75% of gross expenditure to 50% results from the extent and nature of errors reported in the 2016/17 financial statements.

** The 2016/17 audit fee includes a scale fee variation increase of £7,869 which is still subject to agreement by PSAA Ltd.

*** The 2016/17 certification fee includes a scale fee variation increase of £3,263 which is still subject to agreement by PSAA Ltd.

The agreed fee presented is based on the following assumptions:

- ▶ Officers meeting the agreed timetable of deliverables;
- ▶ Our accounts opinion and value for money conclusion being unqualified;
- ▶ Appropriate quality of documentation is provided by the Council; and
- ▶ The Council has an effective control environment.

If any of the above assumptions prove to be unfounded, we will seek a variation to the agreed fee. This will be discussed with the Council in advance.

Fees for the auditor's consideration of correspondence from the public and formal objections will be charged in addition to the scale fee.

Regulatory update

In previous reports to the Audit Committee, we highlighted the issue of regulatory developments. The following table summarises progress on implementation:

Earlier deadline for production and audit of the financial statements from 2017/18	
Proposed effective date	Effective for annual periods beginning on or after 1 April 2017.
Details	The Accounts and Audit Regulations 2015 introduced a significant change in statutory deadlines from the 2017/18 financial year. From that year the timetable for the preparation and approval of accounts will be brought forward with draft accounts needing to be prepared by 31 May and the publication of the audited accounts by 31 July.
Impact on Rochford District Council	<p>These changes provide challenges for both the preparers and the auditors of the financial statements.</p> <p>We held a faster close workshop for clients on in October 2017 to facilitate early discussion and sharing of ideas and good practice.</p> <p>We are now working with the Council on ideas coming from the workshop, for example:</p> <ul style="list-style-type: none"> • Streamlining the Statement of Accounts removing all non-material disclosure notes; • Bringing forward the commissioning and production of key externally provided information such as IAS 19 pension information and asset valuations; • Providing training to departmental finance staff regarding the requirements and implications of earlier closedown; • Re-ordering tasks from year-end to monthly/quarterly timing, reducing year-end pressure; • Establishing and agreeing working materiality amounts with the auditors.

Required communications with the Audit Committee

We have detailed the communications that we must provide to the **Audit Committee**.

		 Our Reporting to you
Required communications	 What is reported?	  When and where
Terms of engagement	Confirmation by the Audit Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified. When communicating key audit matters this includes the most significant risks of material misstatement (whether or not due to fraud) including those that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team	Audit planning report
Significant findings from the audit	<ul style="list-style-type: none"> • Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures • Significant difficulties, if any, encountered during the audit • Significant matters, if any, arising from the audit that were discussed with management • Written representations that we are seeking • Expected modifications to the audit report • Other matters if any, significant to the oversight of the financial reporting process 	Audit results report

Required communications with the Audit Committee (continued)

		 Our Reporting to you
Required communications	 What is reported?	  When and where
Going concern	<p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> • Whether the events or conditions constitute a material uncertainty • Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements • The adequacy of related disclosures in the financial statements 	Audit results report
Misstatements	<ul style="list-style-type: none"> • Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation • The effect of uncorrected misstatements related to prior periods • A request that any uncorrected misstatement be corrected • Corrected misstatements that are significant • Material misstatements corrected by management 	Audit results report
Fraud	<ul style="list-style-type: none"> • Enquiries of the Audit Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity • Any fraud that we have identified or information we have obtained that indicates that a fraud may exist • A discussion of any other matters related to fraud 	Audit results report
Related parties	<ul style="list-style-type: none"> • Significant matters arising during the audit in connection with the entity's related parties including, when applicable: • Non-disclosure by management • Inappropriate authorisation and approval of transactions • Disagreement over disclosures • Non-compliance with laws and regulations • Difficulty in identifying the party that ultimately controls the entity 	Audit results report

Required communications with the Audit Committee (continued)

		Our Reporting to you
Required communications	 What is reported?	 When and where
Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> • The principal threats • Safeguards adopted and their effectiveness • An overall assessment of threats and safeguards • Information about the general policies and process within the firm to maintain objectivity and independence 	Audit Planning Report and Audit Results Report
External confirmations	<ul style="list-style-type: none"> • Management's refusal for us to request confirmations • Inability to obtain relevant and reliable audit evidence from other procedures 	Audit results report
Consideration of laws and regulations	<ul style="list-style-type: none"> • Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off • Enquiry of the Audit Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit Committee may be aware of 	Audit results report
Internal controls	<ul style="list-style-type: none"> • Significant deficiencies in internal controls identified during the audit 	Management letter/audit results report
Representations	Written representations we are requesting from management and/or those charged with governance	Audit results report
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit results report

Required communications with the Audit Committee (continued)

		 Our Reporting to you
Required communications	 What is reported?	 When and where
Auditors report	<ul style="list-style-type: none"> • Key audit matters that we will include in our auditor’s report • Any circumstances identified that affect the form and content of our auditor’s report 	Audit results report
Fee Reporting	<ul style="list-style-type: none"> • Breakdown of fee information when the audit plan is agreed • Breakdown of fee information at the completion of the audit • Any non-audit work 	Audit planning report Audit results report
Certification work	Summary of certification work undertaken	Certification report

Additional audit information

Other required procedures during the course of the audit

In addition to the key areas of audit focus outlined in section 2, we have to perform other procedures as required by auditing, ethical and independence standards and other regulations. We outline the procedures below that we will undertake during the course of our audit.

Our responsibilities required by auditing standards

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Council's internal control.
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Concluding on the appropriateness of management's use of the going concern basis of accounting.
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtaining sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Council's to express an opinion on the consolidated financial statements. Reading other information contained in the financial statements, including the board's statement that the annual report is fair, balanced and understandable, the Audit Committee reporting appropriately addresses matters communicated by us to the Audit Committee and reporting whether it is materially inconsistent with our understanding and the financial statements; and
- Maintaining auditor independence.



Additional audit information (continued)

Purpose and evaluation of materiality

For the purposes of determining whether the accounts are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in the aggregate, in light of the surrounding circumstances, could reasonably be expected to influence the economic decisions of the users of the financial statements. Our evaluation of it requires professional judgement and necessarily takes into account qualitative as well as quantitative considerations implicit in the definition. We would be happy to discuss with you your expectations regarding our detection of misstatements in the financial statements.

Materiality determines:

- The locations at which we conduct audit procedures to support the opinion given on the Entity's financial statements; and
- The level of work performed on individual account balances and financial statement disclosures.

The amount we consider material at the end of the audit may differ from our initial determination. At this stage, however, it is not feasible to anticipate all of the circumstances that may ultimately influence our judgement about materiality. At the end of the audit we will form our final opinion by reference to all matters that could be significant to users of the accounts, including the total effect of the audit misstatements we identify, and our evaluation of materiality at that date.