

ANNUAL AUDIT LETTER FOR 2013/14

1 INTRODUCTION

- 1.1 This report draws Members' attention to the following document from BDO, the Council's external auditor: the Annual Audit Letter 2013/14.

2 ANNUAL AUDIT LETTER 2013/14

- 2.1 This letter summarises the work carried out by the external auditor in respect of the year ending 31 March 2014. The detailed findings and recommendations were considered by this Committee in September 2014.
- 2.2 This letter was originally brought to Members' attention in the Members' Bulletin of 7 November 2014 and a copy was placed in the Members' Library. The letter has also been published separately on the Council's website. The Annual Audit Letter is attached as appendix 1.

3 RECOMMENDATION

- 3.1 It is proposed that the Committee **RESOLVES**
That the Annual Audit Letter for 2013/14 be noted.



Yvonne Woodward

Head of Finance

Background Papers:-

None.

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ROCHFORD DISTRICT COUNCIL

Annual Audit Letter 2013/14

October 2014

EXECUTIVE SUMMARY

Background

This Annual Audit Letter summarises the key issues arising from the work that we have carried out during the year. It is addressed to the Council but is also intended to communicate the significant issues we have identified to key external stakeholders and members of the public.

Responsibilities of auditors and the council

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business and that public money is safeguarded and properly accounted for.

Our responsibility is to plan and carry out an audit that meets the requirements of the Audit Commission's Code of Audit Practice (the Code). Under the Code, we are required to review and report on:

- the Council's Statement of Accounts
- whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

We are also required to review and report on the Council's Annual Governance Statement, Whole of Government Accounts (WGA) submission, whether we have exercised our statutory powers under the Audit Commission Act 1998 in any matter, and our grant claims and returns certification work.

We recognise the value of your co-operation and support and would like to take this opportunity to express our appreciation for the assistance and co-operation provided during the audit.

BDO LLP
22 October 2014

STATEMENT OF ACCOUNTS

1

We issued an unqualified true and fair opinion on the financial statements on 26 September 2014.
No material misstatements were identified during the audit.
We did not identify any deficiencies in internal control.

USE OF RESOURCES

2

We are satisfied that, in all significant respects, the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.
We issued an unqualified value for money conclusion on 26 September 2014.

OTHER MATTERS

3

We are satisfied that the Annual Governance Statement is not inconsistent or misleading with other information we were aware of from our audit of the financial statements and complies with Delivering Good Governance in Local Government (CIPFA / SOLACE).
The Council's WGA is below the threshold for review and we are required only to review the total amounts included in the Data Collection Tool for property, plant and equipment and for the net pension liability. We confirm that these reported totals were consistent with the audited financial statements.

GRANT CLAIMS AND RETURNS CERTIFICATION

4

Our work on the Housing Benefits subsidy claim for 2013/14 is in progress.
We will report the findings from this work in January 2015.

STATEMENT OF ACCOUNTS

1

OPINION

We issued an unqualified true and fair opinion on the financial statements on 26 September 2014.

Financial performance

The Council reported a deficit on the provision of services of £2.23 million.

After adjusting for items in the Movement in Reserves Statement, the Council reported a surplus on the General Fund of £0.07 million before transfers from earmarked revenue reserves of £0.04 million.

Financial statements

The Council provided us with a set of working papers on the first day of the audit. These were of an appropriate standard.

We identified a number of presentational issues with the draft financial statements presented for audit, relating primarily to pension disclosures and the collection fund statement. These have been addressed in the final published statements.

The following misstatements were identified and corrected during the audit:

- The value of four of the Council's fee-charging car parks was identified as being overstated by a total of £603,000. Management adjusted for this error, with £446,000 being charged to the revaluation reserve and the remaining £157,000 to net cost of services in the comprehensive income and expenditure statement.
- Following approval of the draft statement of accounts and their submission for audit, the Council were notified by Essex Pension Fund that, during the preparation of the pension disclosures for 2013/14 the value used for the investment return had been understated. Following receipt of the updated actuarial report, management have amended the financial statements for the revised values, which has resulted in a reduction of £192,000 in the pension liability recognised in the balance sheet.

Remaining misstatements were identified that were not corrected in the final published financial statements:

- The Council depot site on South Street was subject to flooding during August 2013. As a result of the damage caused, the Council's external valuer has determined that the asset is impaired by £54,000.

- Our work identified an overstatement of expenditure arising due to the incorrect accrual of a duplicate purchase order and the incorrect accrual of an order for which the goods were not received until 2014/15. The value of the overstatement is £53,000.

The overall impact of correcting for these remaining misstatements would result in the Council reporting a £1,000 higher deficit for the year. We consider that these misstatements did not have a material impact on our opinion on the financial statements.

During the course of our audit, we also identified the following matter in relation to related party disclosures:

- Our testing of related party disclosures in the statement of accounts identified that a related party had been omitted from the note due to the individual concerned not disclosing relevant information on their year-end related party return. Management have updated the disclosure in the final published statements to ensure all relevant information is included.

As a result of our findings, we have made the following recommendations to management:

- Where changes in valuation methodology of a type of asset are agreed with the external valuer, the Council should consider the implications of this change for all similar assets to ensure that values recognised in the balance sheet are accurate.
- In conjunction with the external valuer, the Council should develop a formal process for the identification and review of assets which are potentially impaired, including the communication of such matters to the valuer.
- Provide individuals who are required to make declarations regarding related parties with clear instructions on what may constitute a related party. Review current year disclosures against those made in prior years and other sources of information (such as the register of interests) to identify any potential omissions.

USE OF RESOURCES

2

CONCLUSION

We issued an unqualified value for money conclusion on 26 September 2014.

Our principal work in arriving at our value for money conclusion was comparing the Council's performance against the requirements specified by the Audit Commission in its guidance to auditors. This is based on the following two reporting criteria:

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

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

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

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

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

Financial resilience

The Council has a good track record of achieving budgets and its financial management arrangements remain adequate with no evidence that is indicative of a weakened position in terms of maintaining financial resilience.

At 31 March 2014 the Council had a general fund balance of £994,000 and earmarked reserves of £2.17 million. There has been a net transfer of £39,000 from earmarked reserves to the general fund during the year. The Council's policy on reserves is to risk assess the minimum level of General Fund reserves required each year as part of the budgeting process. The minimum recommended level for 2013/14 was £750,000 and the outturn position of £994,000 is above this level.

The medium term financial plan (MTFP) covers a five year period and is updated annually. The Council's revenue budget for 2014/15 requires the Council to identify and deliver savings of £140,000 during the year. As in previous years, the Council's minimum recommended level of reserves mitigates the risk that these savings will not be identified. The medium term financial strategy estimates that the Council will be required to make £1.690 million of savings by 2019/20. This includes challenging savings targets of £500,000 in 2015/16 and £450,000 in 2016/17. However, £300,000 of this has already been identified.

Challenging economy - efficiency - effectiveness

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

Our review did not identify any contra-indicators that would lead us to conclude that the Council's strategic and operational management arrangements had deteriorated and there is evidence that arrangements for securing and challenging VFM, as previously assessed, have continued to operate as expected in the areas of strategic and financial planning and monitoring, benchmarking activity and risk and performance management.

OTHER MATTERS

3

REPORT BY EXCEPTION

We have reported differences between the final published accounts and the Whole of Government Accounts Data Collection Tool.

Annual Governance Statement

We are satisfied that the Annual Governance Statement is not inconsistent or misleading with other information we were aware of from our audit of the financial statements and complies with Delivering Good Governance in Local Government (CIPFA / SOLACE).

Whole of Government Accounts

The Council's WGA is below the threshold for review and we are required only to review the total amounts included in the Data Collection Tool for property, plant and equipment and for the net pension liability. We are required to confirm whether or not these reported totals are consistent with the audited financial statements.

Our review identified the following differences, which we have reported to the National Audit Office:

- The property, plant and equipment total recognised in the final published accounts was £439,000 lower than the corresponding total in the Data Collection Tool
- The pension liability recognised in the final published accounts was £192,000 lower than the corresponding total in the Data Collection Tool

GRANT CLAIMS AND RETURNS CERTIFICATION

4

CERTIFICATION WORK

The 2012/13 Housing and Council Tax Benefit subsidy claim was subject to qualification.

Certification findings 2012/13

We presented our most recent Grant claims and returns certification report in February 2014, which included the results of the audited returns for 2012/13. We certified 2 returns amounting to over £37 million.

There were no amendments made in relation to the national non-domestic rates return and no qualification letter was issued.

The housing and council tax benefit subsidy return was amended, reducing the amount payable to the Department of Work and Pensions by £1,344. We also issued a qualification letter as a result of the errors identified by our testing. In our 2012/13 grant claims and certification report, we made the following recommendations relating to the housing benefit and subsidy return:

- Carry out a check of all homeless subsidy classification exception reports run during the year to ensure that the correct classification has been applied
- Remind staff throughout the year (via team meetings and the digital signage screen) to check that the claimant is in receipt of child benefit before including a child in the bedroom requirement.
- Carry out 100% check on second home benefit awarded during 2013/14 to confirm that the expenditure has been correctly classified.

Management agreed to implement all of the recommendations. We have followed these up as part of our work on the 2013/14 housing benefit subsidy claim and have confirmed that appropriate action has been taken.

Work in progress for 2013/14

Following the introduction of local business rate retention, we are no longer required to certify the national non-domestic rates return.

Our work on the housing benefit subsidy return for 2013/14 is in progress.

We will report the findings from this work in January 2015.

APPENDIX

Reports issued

We issued the following reports in respect of the 2013/14 financial year.

REPORT	DATE
Planning letter	April 2013
Grant Claims and Returns Certification Report	February 2014
Audit Plan	June 2014
Final Audit Report	September 2014
Annual Audit Letter	October 2014

Fees update

We reported our original fee proposals in our Audit Plan issued in April 2013. Our fees to date and any variance to the original proposal are shown below.

AUDIT AREA	PROPOSED FEES £	FEES UPDATE £
Scale fee	62,643	<i>(note 1)</i> 62,643
Certification work	12,400	<i>(note 2)</i> 10,912
Total fees for audit services	75,043	73,555

Note 1 - During July and August 2013, the Council experienced a loss of data from its main accounting system. At the time, we notified management that it was likely that additional audit work would be required to obtain assurance over the Council's processes and procedures for recovering the data. This work is now complete and we have agreed a proposed additional fee of £1,985 with management. This is not included in the above value of £62,643 as we are required to confirm the proposed additional fee with the Audit Commission before it is finalised.

Note 2 - Following the publication of our Audit Plan, the Audit Commission confirmed a 12% reduction in the scale fee following the cessation of council tax benefit and the corresponding reduction in work required on the housing benefit subsidy return. Our work on the audit of the housing benefit subsidy return for 2013/14 is in progress and we will report the findings from this work and the final fees separately.



The matters raised in our report prepared in connection with the audit are those we believe should be brought to your attention. They do not purport to be a complete record of all matters arising. This report is prepared solely for the use of the council and may not be quoted nor copied without our prior written consent. No responsibility to any third party is accepted.

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