



# ROTHER DISTRICT COUNCIL

FINAL REPORT TO THE RESOURCES OVERVIEW AND SCRUTINY COMMITTEE  
Audit for the year ended 31 March 2013

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# OVERVIEW

The purpose of this report is to communicate to you the significant findings from our audit of the financial statements of Rother District Council for the year ended 31 March 2013.

This summary covers those matters we believe to be material in the context of our work. However, you should read the entirety of this report, as there may be other matters raised you consider important.

We have substantially completed our audit work in respect of the Statement of Accounts for the year ended 31 March 2013 and anticipate issuing an unqualified opinion subject to the outstanding matters listed on page 2.

AREA OF AUDIT	SUMMARY
Financial statements	<p>No material misstatements were identified as a result of our audit work.</p> <p>Some areas of work are outstanding at the time of drafting this report (see page 3). Should these result in any significant issues, we will give a verbal update to the Resources Overview and Scrutiny Committee.</p> <p>Subject to the satisfactory completion of outstanding work, we anticipate issuing an <b>unqualified</b> true and fair opinion on the financial statements for the year ending 31 March 2013.</p>
Unadjusted audit differences	<p>We identified one audit difference which has not been adjusted. The difference arose because not all of the disclosures required by the Code were made for this transaction. There is no impact on the Comprehensive Income and Expenditure Statement or the value of net assets.</p> <p>We are required by auditing standards to report the effect of a misstatement reported in 2011/12 on the 2012/13 statements. A prior year misstatement means expenditure as at 31 March 2013 is understated by £139,000 and the brought forward general fund balance is overstated by £139,000. We reported the misstatement in our 2011/12 annual governance report and report it again at Appendix II.</p>
Internal controls	<p>We found one significant deficiency in internal controls. The Council did not complete the planned programme of six monthly reviews of dwellings to ensure empty property relief awarded under the council tax scheme remains valid.</p> <p>Other areas where internal controls can be improved were discussed with management. There are not significant.</p>
Annual Governance Statement	<p>We were 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. The Statement complies with the “Delivering Good Governance in Local Government” document published by CIPFA / SOLACE.</p>
Whole of Government Accounts (WGA)	<p>We were satisfied that the WGA return was consistent with the financial statements.</p>
Use of resources	<p>We report the following key observations following our audit:</p> <ul style="list-style-type: none"> <li>• significant resource gaps have been identified by the Council over the 2014/15 to 2018/19 period (£2.9 million), resulting in further pressure being placed on Rother’s general and earmarked reserves</li> <li>• ensuring financial balance over the medium term will continue to require strong action by the Council.</li> </ul>
Value for Money Conclusion	<p>We are satisfied that, in all significant respects, the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2013. We propose issuing an <b>unqualified</b> value for money conclusion.</p>

# OVERVIEW

## Audit status and timetable to completion

We set out below the current status of the audit and our timetable to completion.

### AUDIT STATUS

We have substantially completed our audit work in respect of the financial statements for the period ended 31 March 2013, and anticipate issuing an unqualified opinion on the financial statements. The following matters are outstanding at the date of this report. We will update you on their current status at the Resources Overview and Scrutiny committee meeting on 25 September 2013.

- External confirmation letter on one of the Council's bank accounts
- Subsequent events review
- Completion of a review of the financial statements for consistency and completion of the Cipfa disclosure checklist
- Receipt of Management representation letter.

### TIMETABLE TO COMPLETE

The anticipated timetable to complete is as follows:

ACTIVITY	DATE
Resources Overview and Scrutiny committee meeting	25 September 2013
Signing of financial statements	27 September 2013
Completion of audit work on the WGA return and circulation of audit findings	27 September 2013
Signing of WGA audit certificate	30 September 2013

# INDEPENDENCE

## INDEPENDENCE

Under Audit Commission Standing Guidance and Auditing and Ethical Standards, we are required as auditors to confirm our independence to 'those charged with governance'. In our opinion, and as confirmed by you, we consider that for these purposes it is appropriate to designate the Resources Overview and Scrutiny Committee as those charged with governance.

Our internal procedures are designed to ensure that all partners and professional staff are aware of relationships that may be considered to bear on our objectivity and independence as auditors. The principal statements of policies are set out in our firm-wide guidance. In addition, we have embedded the requirements of the Standards in our methodologies, tools and internal training programmes.

The procedures require that audit engagement partners are made aware of any matters which may reasonably be thought to bear on the firm's independence and the objectivity of the audit engagement partner and the audit staff. This document considers such matters in the context of our audit for the period ended 31 March 2013.

A summary of fees for audit and non-audit services for the period from 1 April 2012 to date is set out below.

We confirm that we are not aware of any relationships that may bear on our independence and objectivity as auditors and that our independence declaration, included in the Audit Plan for 2012/13, has remained valid throughout the period of the audit.

	£
Code Audit fee	63,270
Grants Certification Fees	34,300
Fees for Non-Audit Services	-
<b>TOTAL FEES</b>	<b>£97,570</b>

# AUDIT SCOPE AND OBJECTIVES

Our audit scope is determined by the Audit Commission's Code of Audit Practice for Local Government and covers an audit in accordance with International Standards on Auditing (UK and Ireland) of the statutory financial statements. We form an opinion on whether:

**1** The financial statements give a true and fair view of the state of the Council's affairs as at 31 March 2013 and of the income and expenditure for the year then ended

**2** The financial statements have been properly prepared in accordance with statutory requirements and proper practices have been observed in their compilation

**3** The financial statements have been prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting

**4** The information given in the Statement of Accounts and Explanatory Foreword is consistent with the financial statements

**5** The Annual Governance Statement is not inconsistent with our knowledge and complies with "Delivering Good Governance in Local Government" (published by CIPFA / SOLACE)

**6** The audited body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources and for:

- securing financial resilience
- challenging how it secures economy, efficiency and effectiveness

**7** The Whole of Government Accounts return is consistent with the audited financial statements and that it is properly prepared

# FINANCIAL STATEMENTS - KEY AUDIT AND ACCOUNTING MATTERS

To provide an opinion on whether your financial statements give a true and fair view of your financial position and income and expenditure and whether they have been prepared properly, in accordance with accounting policies directed by the Secretary of State, we carry out risk based procedures designed to obtain sufficient appropriate audit evidence to determine with reasonable confidence whether the financial statements are free from material misstatement and evaluate the overall presentation.

In carrying out our work we determine and apply a level of materiality. Materiality is the expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole, or individual elements of the financial statements as appropriate. Consequently, the audit cannot be relied upon to identify all risks or potential or actual misstatements.

Materiality may relate to both quantitative and qualitative matters and for quantitative considerations the numerical level materiality is assessed at may be different for different information in the financial statements. Nevertheless, within this context, Appendix III gives an indication of the quantitative levels used for planning purposes. Materiality is re-assessed every year in the context of authoritative audit practice.

We are required to report to you all uncorrected misstatements that relate to the current financial year (including those arising in previous periods that have an effect on the current year financial statements) and the effect that they have individually, or in aggregate, on the opinion in the auditor's report, except for those that are clearly trivial. For reporting purposes, we consider misstatements of less than £20,500 to be trivial and have not reported them, unless the misstatement is indicative of fraud.

Recommendations in response to the key findings identified by our audit of the financial statements and use of resources work are provided in the action plan at Appendix A. These recommendations have been discussed with appropriate officers and their responses are included.

We would highlight that in this report we do not provide a comprehensive statement of all weaknesses that may exist in the financial and operational systems, but only those matters which have come to our attention as a result of the audit procedures performed. We only restate weaknesses already reported by Internal Audit where we consider these to be significant deficiencies. Recommendations in response to the key findings identified by our audit of the financial statements are provided in the action plan at Appendix V.

AUDIT RISK AREAS			
RISK	RELATED CONTROLS	WORK PERFORMED	CONCLUSION
<b>SIGNIFICANT RISK</b> Management override of controls	There are no controls in place to mitigate the risk of management override due to the nature of the risk.	We reviewed the appropriateness of journal entries and other adjustments made in the preparation of the financial statements. We also reviewed accounting estimates for evidence of possible bias.	We did not identify any significant transactions that are outside the normal course of business for the Council or that otherwise appear to be unusual. Our work on journals and accounting estimates has not identified any evidence of bias.

**AUDIT RISK AREAS**

RISK	RELATED CONTROLS	WORK PERFORMED	CONCLUSION
<p><b>SIGNIFICANT RISK</b> Revenue recognition</p>	<p>Most of the Council’s revenue streams can be verified and therefore do not present an audit risk. For income from sundry charges, assessments of amounts due are completed by officers in departments, who then arrange, following review and authorisation, for appropriate invoices to be raised within the ‘Agresso’ system. There is an automatic interface between the sales ledger in Agresso and the general ledger in Agresso and monthly reconciliations are completed between the two aspects to ensure all income amounts are recorded in the general ledger.</p>	<p>We have documented the systems in place for the raising and recording of sundry revenue, and tested a sample of transactions to ensure they have been appropriately identified as occurring and have been recorded within the financial statements</p>	<p>We are satisfied that sundry revenue income appears to have been appropriately identified and recorded within the financial statements.</p>
<p><b>SIGNIFICANT RISK</b> Mutual Municipal Insurance (MMI) liability</p>	<p>When our audit plan was finalised in March 2013, management had not estimated the potential liability arising from the historic insurance scheme. Management subsequently obtained an estimate of the liability from professional advisors and reviewed it for reasonableness.</p>	<p>We have reviewed the data supporting the provision amount and contingent liability disclosures included within the financial statements and consider these to be reasonable.</p>	<p>We are satisfied that the Council has included appropriate amounts and disclosures in respect of the MMI historic insurance scheme within the financial statements.</p>

**Key:** ■ Normal risk ■ Significant risk



# FINANCIAL STATEMENTS - KEY AUDIT AND ACCOUNTING MATTERS

## Accounting Practices and Financial Reporting Framework

### Financial Statement Preparation process

The requirement for Members to approve the draft financial statements by 30 June was removed by the Accounts and Audit Regulations 2011, however these regulations introduced the requirement for the Responsible Financial Officer to sign and present the financial statements for audit by 30 June. The financial statements were signed by the Chief Finance officer and presented for audit on 27 June 2013.

As part of our planning for the audit, we prepared a detailed document request which outlined the information that we would require to complete the audit. The Council provided us with files of comprehensive working papers on 8 July 2013, in line with the agreed timetable.

### Audit issues and impact on opinion

*The Council's arrangements for preparing and publishing the financial statements remain effective.*

### Accounting Policies

The following changes have been introduced by the 2012/13 Code of Practice on Local Authority Accounting in the United Kingdom (the 'Code'), resulting in changes in accounting practice:

### Audit issues and impact on opinion

*We have no matters to report.*

- in relation to the objective of the financial statements and the qualitative characteristics of financial information as a result of the publication of the first phase of the International Accounting Standards Board's (IASB's) The Conceptual Framework for Financial Reporting 2010 (the Conceptual Framework)
- encouraging local authorities to prepare the Explanatory Foreword taking into consideration the requirements of the Government's Financial Reporting Manual (FReM)
- including amendments in relation to IFRS 7 Financial Instruments: Disclosures (transfers of financial assets).

## Accounting estimates

We review material accounting estimates identified as having high estimation uncertainty or which are subject to a significant degree of judgement by management, and assess the reasonableness of the assumptions applied by management when deciding whether to recognise amounts in the accounts or the value at which these are recognised.

We consider the following to be material accounting estimates with high estimation uncertainty:

- valuation of fixed assets
- depreciation
- recoverability of debtor balances
- estimated pension liability.

## Audit issues and impact on opinion

*We set out below the significant material estimates we have considered as part of the audit:*

### **Valuation of fixed assets**

*Land and buildings are required to be carried at fair value which is either existing use value, depreciated replacement cost for specialised properties or open market value. The Council ensures assets included in the Balance Sheet are revalued sufficiently regularly (but as a minimum every five years) to ensure the carrying amount is a reasonable estimate. Between formal valuations the Council ensures carrying values are not materially different from the fair value at the year-end and adjusts property values for general price movements, as identified by the District Valuer, which is accepted practice by the Code.*

*Since 1 April 2010, any completed valuations have, where they are material, separately identified significant components and plant by value. Separate useful economic lives are identified for each component.*

*The valuation report for land and buildings, and associated useful economic lives, was provided to Rother by an independent valuer with specialist knowledge and experience of valuing local authority estates, having regard to local prices and the public sector. Management determines whether to accept the valuation information provided by the expert and valuation adjustments are made to the financial statements as appropriate.*

*We are satisfied that the valuer is suitably independent of the Council, objective and experienced in undertaking this work. Our review of the valuations provided, when compared to other price index information available, and useful economic lives allocated to buildings and significant components showed that they are not unreasonable.*

### **Depreciation**

*Those assets which are considered to have a finite life in use, such as items of plant and equipment and the structure of buildings, are required to be depreciated in value over the period of use. This charge, or depreciation, is intended to recognise the loss in value of the asset through its use in the delivery of the Council's services. The period over which the assets is depreciated is dependent on the assessed life of the asset, and the period of time at the end of which when it will cease to have any further value to the Council. Changes in the useful lives of assets can have a significant effect on the level of depreciation incurred by individual services in any one year.*

*We have reviewed the methodology applied by the Council in assessing the economic life of its assets and the associated depreciation charges and we are satisfied it is reasonable.*

**Recoverability of debtor balances**

*The Council calculates the annual allowance for the impairment of debts based on its assessment of recoverability. Management reviews all debts, and specific amounts considered irrecoverable are included in the assessed impairment amount at year end. Most categories of the Council's debtors are not subject to substantial fluctuation and management applies percentages to the aged profile of these debts, based on past experience and future expectations of recoverability, to estimate the impairment allowance for doubtful debts.*

*We have reviewed the methodology applied by the Council in estimating the allowance for the impairment of doubtful debts and we are satisfied it is reasonable.*

**Estimated pension liability**

*The net pension liability of the Council comprises its share of the market value of assets held in the East Sussex Pension Fund and the estimated future liability to pay pensions for its current, deferred and retired members of the pension scheme.*

*An actuarial estimate of the pension fund liability is calculated by an independent firm of actuaries with specialist knowledge and experience. The estimate has regard to local factors such as mortality rates and expected pay rises along with other assumptions around inflation. Management has agreed the assumptions made by the actuary to support the estimate and these are included in the financial statements.*

*We are satisfied that the actuary is suitably independent of the Council, objective and experienced in undertaking this work. Our review of the assumptions applied in estimating the pension liability suggest that these are not significantly different from those being applied by the actuaries of other local authorities.*

## Disclosures

We review material accounting disclosures, to confirm that they are in compliance with the requirements of the Code.

## Audit issues and impact on opinion

*We have identified some amendments to the disclosure to ensure these are in line with the expected disclosures set out in the Code. These have been discussed and agreed with officers. The principal amendments were:*

- some revision to the explanatory foreword to ensure consistency with the financial performance in the period*
- the inclusion of a 'restated' heading on the Comprehensive Income and Expenditure account for the prior year figures because the Council made a minor revision to the prior year figures (it consolidated income and expenditure of £60,000 relating to the concessionary fares service with the Highways and Transport service line - the amount is not material)*
- minor revision to the grant income disclosure in note 26 to ensure the values for individual grants received were correctly disclosed.*

## Misstatements

We identified a small number of departures from the expected presentation of the financial statements, or where notes and other disclosures had not been presented in accordance with the Code and requested management correct these in order to achieve compliance.

## Audit issues and impact on opinion

*The following misstatements identified by the audit have been amended by management:*

- inclusion of additional disclosure in note 8 (Property, Plant & Equipment) to disclose the details of the valuation exercise completed to support the disclosures in the financial statements*
- amendment of the financial instrument disclosures in note 12 to ensure the requirements of the code and IAS 39 are fully met. This has also involved some restatement of the prior year to ensure consistency of disclosure*
- reduction in the cash in transit amount disclosed at note 16 to increase the cash amount (by £929,000). The amendment did not affect the overall amount of cash and cash equivalents*
- inclusion of details in Note 18 of the provision made in respect of the Municipal Mutual Insurance liability, to ensure consistency with note 34 (contingent liabilities)*
- amendment of the operating lease payment disclosure in note 29 to include the full value of non-cancellable leases*
- amendment of the required disclosure in respect of 'Amounts reported for resource Allocation Purposes' to ensure consistency with the Comprehensive Income and Expenditure Statement.*

## Uncorrected misstatements

We are required to report to you uncorrected misstatements that relate to the current financial year (including those arising in previous periods that have an effect on the current year financial statements) and the effect that they have individually, or in aggregate, on the auditors' report, except for those that are clearly trivial. These are set out below and their potential impact is summarised at Appendix II

## Audit issues and impact on opinion

### Waste management procurement reserve

Rother has worked with three other Councils in East Sussex towards a joint procurement of waste management services. Rother is the lead Council and is responsible for managing the budget to develop the procurement which all Councils contribute to.

Our prior year audit found that, as at 31 March 2012, the amount in the Council's earmarked reserves (Corporate Development Reserve) representing contributions from the three other Councils amounted to £139,000. These amounts had been included in the Comprehensive Statement of Income and Expenditure (CIES - Environmental Services income) with the balance of the receipts (remaining in the year) held in earmarked reserves. The Cipfa Code of Practice and accounting standards require the available amounts to be included as income in advance on the balance sheet and released to the CIES as expenditure is incurred.

The Council overstated income in 2011/12 and understated income in 2012/13 (when the remainder of the funding was fully utilised). There is no continuing misstatement in the Council's reserves as at 31 March 2013.

### Sale of surplus land

Our review of non-current assets sold during the year considered the sale of a strip of land which had not previously been separately identified in the fixed asset register. On disposal, the Council did not identify the carrying value of the strip of land sold. The Council did reduce the value of land by the sale amount. The Council should have identified the carrying value of the strip of land upon disposal, removed it from the fixed asset balances and calculated any surplus or loss based on the sale price.

In previous years (2010), the Council obtained a valuation for the strip of land when its sale was initially considered. This valuation amounted to £85,000, which was the final sale price. No surplus or loss on disposal arose. However, the financial statements do not contain all of the disclosures required by the Code for the disposal of the fixed asset. The accounting entries to recognise the disposal involve the Property Plant and Equipment disclosure, the Comprehensive Income and Expenditure account and the associated notes. We have included the amount as an unadjusted error.

### Car Parks valuation - PPE

Our review of the valuation performed as at 1 April 2012 identified the valuer has, for the first time, provided separate valuations for the Land and Buildings elements of the Council's car parks. Valuations were previously provided as a combined amount for Land and Buildings. The Council has therefore overstated depreciation by an estimated £93,000 per annum in the previous five years. The overstatement affects the opening balance for Land Buildings which is understated by £465,000 (five years depreciation). The amount is not material and no adjustment has been made to the opening balance for Land and Buildings.

# FINANCIAL STATEMENTS - KEY AUDIT AND ACCOUNTING MATTERS

## Matters required to be reported by other auditing standards

### Whole of Government Accounts (WGA)

We are required to perform tests with regard to the WGA return prepared by the Council for use by the Department of Communities and Local Government for the consolidation of the local government accounts, and by HM Treasury at Whole of Government level. This work requires checking the consistency of the WGA return with the audited financial statements, and reviewing the consistency of income and expenditure transactions and receivables and payable balances with other government bodies.

As a result of difficulties with the WGA documentation provided by the Department of Communities and Local Government, the Department extended the submission deadline to 14 August, but still require the audited return to be submitted by 4 October.

### Audit issues and impact on opinion

*We have completed our limited review of the consolidation pack (in line with the requirements set out by the National Audit Office) and have no matters to report.*

### Annual Governance Statement

We have reviewed the draft Annual Governance Statement and are satisfied that it is not inconsistent or misleading with other information we are aware of from our audit of the financial statements, the evidence provided in the Council's review of effectiveness and our knowledge of the Council.

### Audit issues and impact on opinion

*We have reviewed the initial draft of the Annual Governance Statement and, subject to the inclusion of a small number of disclosures items, have no matters to report.*

# CONTROL ENVIRONMENT

We are required to report to you, in writing, significant deficiencies in internal control that we have identified during the audit. These matters are limited to those which we have concluded are of sufficient importance to merit being reported to you.

As the purpose of the audit is for us to express an opinion on the Council's financial statements, you will appreciate that our audit cannot necessarily be expected to disclose all matters that may be of interest to you and, as a result, the matters reported may not be the only ones which exist. As part of our work, we considered internal control relevant to the preparation of the financial statements such that we were able to design appropriate audit procedures. This work was not for the purpose of expressing an opinion on the effectiveness of internal control.

## SIGNIFICANT DEFICIENCIES

AREA	OBSERVATION	IMPLICATION	RECOMMENDATION	MANAGEMENT RESPONSE
Council Tax - empty property relief	The Council is expected to award relief to empty dwellings in accordance with the national scheme for council tax. Any properties assessed as empty should be inspected every six months to confirm award of the relief remains appropriate. Testing of this control confirmed that assessments (physical site visits) are not being performed in line with the specified timetable.	Where the site visits are not being completed, the continued award of relief may be inappropriate if the dwelling is subsequently occupied.	The Council should ensure that site visits are completed in line with the timetable to confirm empty property relief awarded to dwellings remains appropriate.	Rother is working with other Councils in East Sussex to develop a joint protocol for inspecting such dwellings. When the review is complete Rother's procedures will be updated.

We made the observations reported to you above during the course of our normal audit work.

## USE OF RESOURCES - KEY AUDIT MATTERS

We are required to be satisfied that proper arrangements have been made to secure economy, efficiency and effectiveness in the use of resources (value for money).

In accordance with our Audit Plan, 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 organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

The focus of the criteria for 2012/13 is:

- the organisation 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 is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity
- undertaking other local risk-based work, as appropriate.

### Financial resilience

Our financial resilience risk assessment considered the Council's arrangements for financial governance, financial planning and financial control. Our detailed work also considered the Council's arrangements for managing financial risks and opportunities and securing future financial stability.

Our risk based planning identified that the Council may not identify or achieve the significant savings and efficiencies required in the medium term to respond to the reduction in government funding and other financial pressures.

#### Key Findings

The Council has continued to review and develop its financial plans to respond to the challenging public sector financial outlook. Financial governance arrangements enable strong leadership on financial matters through the work of the Senior Management Team and the Cabinet. The Council's Leadership also maintains a clear focus on the achievement of Rother's key priorities for service delivery and improvement, as published in the Rother Corporate Plan. The Plan, which covers the 2006 to 2016 period, is currently being reviewed to ensure published priorities remain appropriate, affordable, and support the Council's aims for service delivery and improvement.

### Audit issues and impact on opinion

*Significant resource gaps have been identified over the 2014/15 to 2018/19 period (£2.9 million), resulting in further pressure being placed on the Council's general and earmarked reserves. Ensuring financial balance over the medium term planning horizon will continue to require strong action by the Council.*



The Council's financial performance and associated financial risks are understood across the organisation through the finance reports reviewed by the Cabinet as well as the monthly review by the Senior Management Team. Among officers, financial responsibilities are clearly assigned and the Head of Finance oversees the Council's response to on-going expenditure pressures and other financial risks emerging in the year, along with the overall achievement of the annual budget. While the Council's arrangements for ensuring financial control remain effective, continued reductions in staffing resources may place additional pressure on the remaining establishment.

Financial Planning is embedded through the annual budget setting process. The medium term financial plan (MTFP) covers a five year period and is updated annually, although some savings have not yet been identified to ensure a fully balanced financial position in the later years of the Plan.

While the financial position is balanced in the period to 31 March 2014, this includes the planned use of earmarked reserves (£1.2 million) and significant resource gaps have been identified over the 2014/15 to 2018/19 period (£2.9 million). The Cabinet continues to consider options and take action to address the resource gap, principally through continued implementation of the service resetting reviews. These involve revisions to the Council's corporate structure including the removal of the post of Chief Executive in 2013, opportunities for joint working with other local authorities and seeking further procurement efficiencies. However, continued pressure is being placed on the Council's general and earmarked reserves and there remains little room for manoeuvre should any demand-led expenditure pressures arise during the financial year.

The overall financial position was monitored closely throughout the year and the expected pressure on general and earmarked reserves was addressed through corporate action. As at 31 March 2013, the Council's general reserves are sufficient, based on the Chief Finance Officer's risk assessment and recommendations. The Council reported a surplus of £163,000 as at 31 March 2013 and the general and earmarked reserves reduced by £37,000 when the original budget anticipated reducing such reserves by £1.425 million. The base budget was achieved through planned savings and other efficiencies amounting to £1.2 million.

Our risk assessment and review of economy, efficiency and effectiveness has considered the Council's arrangements for prioritising resources within tighter budgets and improving efficiency and productivity.

#### Key Findings

The Council's financial and service planning processes continue to be integrated and underpin delivery of the corporate plan. The links between the on-going service resetting programme, the annual budget development and medium term financial planning have ensured expenditure pressures are identified and the impact of the Council's response considered over the short to medium term understood. The Council also considers the impact of its financial decisions on operational performance, ensuring targets set are sustainable.

The Council recognises that its processes in this area will need to continue to be enhanced as further reductions in available resources occur. Within the service resetting programme the Council has utilised cost and other benchmarking data to inform decisions, and is now seeking staff input to help identify further areas for review or changes in service delivery. Regardless of how the efficiency programme is developed, the Council needs to ensure underlying data is used systematically to ensure future service reviews are effective.

The Council has continued to implement revised arrangements for the delivery of some services, and has undertaken a review of its senior management structure to ensure it is best placed to meet the changing demands of the public sector, while achieving significant efficiency and cost savings. The joint working protocol established with Wealden District Council in 2011 continues. The joint working arrangement with four other Councils in East Sussex has secured the procurement of waste management services across four Districts, identifying significant savings for all partners.

The Council continues to work with local partners to examine ways of increasing footfall in Bexhill to secure further economic benefit to the Town, and has produced a draft plan increase footfall and ensure the economic stability and vitality of the area. Work on the Hastings to Bexhill link road has commenced and it is anticipated the development will provide increased options for businesses as well as improved access for the leisure visitors the Council is seeking to attract to the area.

*We have no matters to report*

**Performance towards corporate priorities**

The Council continues to work effectively towards its objectives to secure better economic outcomes for the area. The Council reported good performance against many of the 2012/13 performance targets linked with the Council Plan, with the majority meeting or exceeding the published target in the year. This is consistent with performance in the prior year. However, the Council continues to report performance is behind target in specific areas, including the number of households in temporary accommodation and the level of new affordable home being built. There may be scope to develop specific plans to address these issues simultaneously.

The Council will also, following the completion of its restructuring and the review of its key aims and objectives, need to review its key performance indicators to ensure these support achievement.

**BDO CONCLUSION**

Our value for money conclusion is based on considering our overall risk assessment, focusing on the two criteria set by the Audit Commission, and the results of risk based audit work, as well as consideration of the processes underpinning your review of the effectiveness of your controls as described in your Annual Governance Statement.

We are satisfied that, in all significant respects, the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2013.



# APPENDICES

## APPENDIX I: DEFINITIONS

TERM	MEANING
<b>The Council</b>	Rother District Council
<b>Management</b>	The person(s) responsible for achieving the objectives of the entity and who have the authority to establish policies and make decisions by which those objectives are to be pursued. Management is responsible for the financial statements, including designing, implementing, and maintaining effective internal control over financial reporting.
<b>‘Those charged with governance’</b>	The person(s) with responsibility for overseeing the strategic direction of the entity and obligations related to the accountability of the entity. This includes overseeing the financial reporting process. At Rother District Council the financial reporting process is overseen by the Resources Overview and Scrutiny Committee
<b>ISAs (UK &amp; Ireland)</b>	International Standards on Auditing (UK & Ireland)
<b>IAS</b>	International Accounting Standards
<b>IFRS</b>	International Financial Reporting Standards as adopted by the European Union
<b>Materiality</b>	The size or nature of a misstatement that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable user of the financial statements would have been changed or influenced as a result of the misstatement.
<b>Code</b>	Code of Practice on Local Authority Accounting in the United Kingdom 2012/13
<b>CIES</b>	Comprehensive Income and Expenditure Statement
<b>SeRCoP</b>	Service Reporting Code of Practice for Local Authorities 2012/13
<b>WGA</b>	Whole of Government Accounts

## APPENDIX II: UNADJUSTED AUDIT DIFFERENCES

We are required to bring to your attention unadjusted audit differences that the Resources Overview and Scrutiny Committee are required to consider. A schedule of such adjustments is included below and we request that you correct them. Deliberate misstatement of known issues is not acceptable and identified misstatements should, where practicable, be corrected even if not material.

			CURRENT YEAR		PRIOR YEAR		NET ASSETS OR RESERVES (OVER) / UNDER
	(SURPLUS) / DEFICIT CIES	(SURPLUS) / DEFICIT G Fund	INCOME OVER/(UNDER)	EXPENSES (OVER)/UNDER	INCOME OVER/(UNDER)	EXPENSES (OVER)/UNDER	
UNADJUSTED AUDIT DIFFERENCES	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Deficit for the year before adjustments</b>							
<b>Impact of prior year misstatements</b>							
Overstatement of income and understatement of receipts in advance			(139)		139		(139)
<b>Current year misstatements</b>							
Entries required to reflect the disposal of land during the course of the year:							
- recognise sales income in CIES	(85)		(85)				(85)
- Remove valuation for land sold	85			85			85
- Increase valuation of remaining land							85

### UNADJUSTED DISCLOSURE MATTERS

There are no unadjusted disclosure matters we wish to note.

## APPENDIX III: MATERIALITY

MATERIALITY	
Planning materiality	£595,987
Final materiality	£686,000
Clearly trivial threshold	£20,500

Planning materiality of £596,000 for the Council was based on 1% of gross expenditure on the basis that it is a public sector entity that does not trade commercially. The final materiality figure was based on the full year outturn per the draft financial statements.

## APPENDIX IV: INDEPENDENCE

INDEPENDENCE - ENGAGEMENT TEAM ROTATION		
SENIOR TEAM MEMBERS	NUMBER OF YEARS INVOLVED	ROTATION TO TAKE PLACE IN YEAR ENDED
Robert Grant - Audit engagement partner	6	31 March 2014
Stuart Frith - Audit manager	4	31 March 2020

### INDEPENDENCE - THREATS TO INDEPENDENCE AND APPROPRIATE SAFEGUARDS

We have not identified any potential threats to our independence as auditors of the financial statements.

We confirm that the firm complies with the APB Ethical Standards and, in our professional judgement, is independent and objective within the meaning of those Standards.

In our professional judgement the policies and safeguards in place ensure that we are independent within the meaning of all regulatory and professional requirements and that the objectivity of the audit engagement partner and audit staff is not impaired.

Should you have any comments or queries regarding this confirmation we would welcome their discussion in more detail.



## APPENDIX V: ACTION PLAN

INTERNAL CONTROL RECOMMENDATIONS					
CONCLUSIONS FROM WORK	RECOMMENDATIONS	PRIORITY	MANAGEMENT RESPONSE	RESPONSIBILITY	TIMING
<p>The Council is expected to award relief to empty dwellings in accordance with the national scheme for council tax. Any properties assessed as empty should be inspected every six months to confirm award of the relief remains appropriate. Testing of this control confirmed that assessments (physical site visits) are not being performed in line with the specified timetable.</p> <p>Where the site visits are not being completed, the continued award of relief may be inappropriate if the dwelling is subsequently occupied.</p>	<p>The Council should ensure that site visits are completed in line with the timetable to confirm empty property relief awarded to dwellings remains appropriate.</p>	Medium	<p>Rother is working with other Councils in East Sussex to develop a joint protocol to inspect such dwellings. When the review is complete Rother's procedures will be updated.</p>	Head of Finance	2013/14

USE OF RESOURCES RECOMMENDATIONS					
CONCLUSIONS FROM WORK	RECOMMENDATIONS	PRIORITY	MANAGEMENT RESPONSE	RESPONSIBILITY	TIMING
<p>Significant resource gaps have been identified over the 2014/15 to 2018/19 period (£2.9 million), resulting in further pressure being placed on the Council's general and earmarked reserves. Ensuring financial balance over the medium term planning horizon will continue to require strong action by the Council.</p>	<p>The Council needs to ensure it continues to manage its financial position, ensuring balance in the medium term.</p>	High	<p>The Council's finances are kept under continuous review.</p>	Corporate Management Team	On-going

## APPENDIX VI: FEES SCHEDULE

The Audit Commission's *Standing Guidance for Auditors* requires us to report the outturn fee position for the year against the budgeted fee included within our Audit Plan.

We will carry out a detailed comparison of actual audit costs incurred against planned costs when we have completed the audit and discuss any impact on the planned fee with management, before we report the final fee outturn.

## APPENDIX VII: STATUTORY AND PROFESSIONALLY REQUIRED COMMUNICATIONS

COMMUNICATION REQUIRED	DATE COMMUNICATED	TO WHOM	METHOD
	25 September 2013	Management and those charged with governance	Report to Resources Overview and Scrutiny Committee
Potential effect on the financial statements of any material risks and exposures, such as pending litigation, that are required to be disclosed in the financial statements.	Not an issue	Not an issue	Not an issue
Misstatements, whether or not recorded by the entity.	✓	✓	✓
The final draft of the representation letter.	✓	✓	✓
Material uncertainties related to events and conditions that may cast significant doubt on the entity's ability to continue as a going concern.	Not an issue	Not an issue	Not an issue
Disagreements with management about matters that, individually or in aggregate, could be significant to the entity's financial statements or our audit report.	Not an issue	Not an issue	Not an issue
Expected modifications to our audit report or inclusions of emphasis of matter / other matter.	Not an issue	Not an issue	Not an issue
Significant deficiencies in internal control paragraph.	✓	✓	✓
Any other matters warranting attention by those charged with governance, such as questions regarding management integrity, and fraud involving management.	Not an issue	Not an issue	Not an issue
Going concern issues.	Not an issue	Not an issue	Not an issue
Management judgements and accounting estimates.	✓	✓	✓
Other information in documents containing audited financial information.	✓	✓	✓
Consultation with other accountants.	Not an issue	Not an issue	Not an issue
Major issues discussed with management.	Not an issue	Not an issue	Not an issue

# APPENDIX VIII: DRAFT REPRESENTATION LETTER

BDO LLP  
55 Baker Street  
London  
W1E 7EU

25 September 2013

Dear Sirs

## Financial statements of Rother District Council for the period ended 31 March 2013

This representation letter is provided in connection with your audit of the financial statements of Rother District Council for the year ended 31 March 2013 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view, have been properly prepared in accordance with the relevant financial reporting framework and have been prepared in accordance with the requirements of applicable law.

We confirm to the best of our knowledge and belief, and having made appropriate enquiries of directors and officers of the Council, the following representations given to you in connection with your audit of the Council's financial statements:

### FINANCIAL STATEMENTS

#### Responsibility for financial statements

I acknowledge as the Chief Finance Officer and s151 Officer my responsibilities for the Statement of Accounts, which include the financial statements, and for ensuring that these are prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom and have been prepared in accordance with the requirements of applicable law.

#### Significant assumptions

We confirm that the significant assumptions used in making accounting estimates, including those measured at fair value, are reasonable.

#### Pension fund assumptions

I confirm that the actuarial assumptions underlying the valuation of the Local Government Pension Scheme (LGPS) scheme liabilities, as applied by the scheme actuary, are reasonable and consistent with my knowledge of the business. These assumptions include:

- Rate of inflation 2.8%
- Rate of increase in salaries 5.1%
- Rate of increase in pensions 2.8%

- Rate for discounting scheme liabilities 4.5%
- Take up option to convert the annual pension into retirement grant 50%

I also confirm that the actuary has applied up-to-date mortality tables for life expectancy of scheme members in calculating scheme liabilities.

#### Pension fund investments fair values

Where required, the value at which assets and liabilities are recorded in the pension fund net assets statement is, in my opinion, the market value. I am responsible for the reasonableness of any significant assumptions underlying the valuation. Unquoted, private equity and infrastructure investments held by fund managers within funds are valued at fair value by the fund managers. Where there is no active market where prices can be readily observed for these funds, I am satisfied that appropriate assumptions have been applied by the fund managers when valuing the share of the fund held by the pension fund.

#### Carrying value of land and buildings

I am satisfied that the carrying value of land and buildings is materially consistent with the fair value at 31 March 2013, and that no adjustment is required to those assets that were revalued as part of the five-year rolling programme in previous years.

#### Fair value measurements and disclosures

I confirm that the significant assumptions used in making accounting estimates, including those measured at fair value, are reasonable. Specifically, the judgements in assessing the fair value of the outstanding loans to the Public Works Loans Board (PWLB) are reasonable and in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

#### **Accounting policies**

I confirm that the selection and application of the accounting policies used in the preparation of the financial statements are appropriate.

#### **Plans or intentions**

I confirm that the Council has no plans or intentions that may materially alter the carrying value and, where relevant, the fair value measurements or classification of assets and liabilities reflected in the financial statements.

#### **Litigation and claims**

I have disclosed to you all known actual or possible litigation and claims, the effects of which should be considered when preparing the financial statements and these have been accounted for and disclosed in accordance with the applicable financial reporting framework.

#### **Related parties**

I confirm that related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of the applicable financial reporting framework.

#### **Subsequent events**

All events occurring subsequent to the date of the financial statements for which the applicable financial reporting framework requires adjustment or disclosure have been adjusted or disclosed.

#### **Uncorrected misstatements**

You have brought to my attention potential misstatements in the financial statements as listed in the appendix to this letter. I do not wish to amend the financial statements to reflect any of these items as I believe that they are immaterial both individually and in aggregate to the view given by the financial statements as a whole. A list of these items is attached as an appendix to this letter.

#### **Going concern**

I confirm that we are satisfied that it is appropriate for the financial statements to have been drawn up on the going concern basis. In reaching this conclusion I have taken into account all relevant matters of which I am aware and have considered a future period of at least one year from the date on which the financial statements will be approved.

### **INFORMATION PROVIDED**

#### **Completeness of information**

All the accounting records have been made available to you for the purpose of your audit. I have provided you with all other information requested and given unrestricted access to persons within the Council from whom you determined it necessary to obtain audit evidence. All other records and related information, including minutes of all management and Committee meetings held during the year and up to the date of this letter have been made available to you.

All transactions undertaken by the Council have been recorded in the accounting records and are reflected in the financial statements.

There is no relevant audit information needed by you in connection with preparing your audit report of which you are unaware.

#### **Internal Control**

I acknowledge my responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

I have communicated to you all significant deficiencies in internal control of which I am aware.

#### **Fraud**

I have disclosed to you the results of my assessment of the risk that the financial statements could be materially misstated as a result of fraud.

I have disclosed to you my knowledge of fraud or suspected fraud affecting the Council involving management, employees who have significant roles in internal control or others where the fraud could have a material effect on the financial statements

I have disclosed to you my knowledge of any allegations of fraud, or suspected fraud affecting the financial statements communicated to me by employees, former employees, analysts, regulators or others.

**Compliance with laws and regulations**

I am not aware of any actual or possible instances of non-compliance with laws and regulations whose effects should be considered when preparing the financial statements of the Council.

The Council has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance.

**Related parties**

I confirm that I have disclosed to you the identity of the Council's related parties, related party relationships and transactions of which I am aware.

**Liabilities, contingent liabilities or guarantees**

There are no liabilities, contingencies or guarantees to third parties other than those disclosed in the financial statements.

**Title to assets**

The Council has satisfactory title to all assets and there are no liens or encumbrances on the assets except for those disclosed in the financial statements.

**Contractual agreements**

The Council has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance.

Yours faithfully

**Robin Vennard**  
**Head of Finance**

**Representations of the Council**

We confirm to the best of our knowledge and belief, and having made appropriate enquiries of other officers and members of the Council, the following representations given to you in connection with your audit of the Council's financial statements.

**Responsibility for the financial statements**

We acknowledge our responsibilities to make arrangements for the proper administration of the Council's financial affairs and to approve the Statement of Accounts, which include the financial statements. The Chief Finance Officer is responsible for the preparation of the Statement of Accounts, which include the financial statements, in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom.

#### **Uncorrected misstatements**

We have considered the uncorrected misstatements in the financial statements as listed in Appendix 1 to this letter together with the explanations provided by the Director of Finance / Chief Finance Officer for not correcting these misstatements, and we consider them to be immaterial to the view given by the financial statements.

#### **Annual Governance Statement**


We confirm that the Council has conducted a review during the year of the effectiveness of its system of internal control. We are satisfied that the Annual Governance Statement appropriately reflects the circumstances of the Council and includes an outline of the actions taken, or proposed, to deal with significant internal control issues.

Yours faithfully

**Councillor M Mooney**  
**Resources Overview and Scrutiny Committee Chair**

For and on behalf of the Resources Overview and Scrutiny Committee, Rother District Council





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

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