



# ROTHER DISTRICT COUNCIL

Annual Audit Letter 2014/15

19 October 2015

# 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 financial statements
- 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*

BDO LLP  
19 October 2015

## FINANCIAL STATEMENTS

1

We issued an unqualified true and fair opinion on the financial statements on 30 September 2015.

There were a number of amendments to classifications and disclosures made to the financial statements as a result of the audit, although these had no impact on the reported deficit on the provision of services for the year.

There were two audit differences that were not corrected by management that would reduce the reported deficit on the provision of services by £175,000, to a surplus of £8,000. However, as these misstatements related to capital transactions they had no impact on the General Fund balance.

We noted a number of areas where deficiencies in internal controls should be improved or where the control environment could be strengthened, particularly around debt recovery processes.

## USE OF RESOURCES

2

We issued an unqualified value for money conclusion on 30 September 2015.

There are healthy levels of reserves and balances available to support the Council's services and the savings required from 2017/18 are not significantly above the savings that have been delivered in recent years. Therefore, while there is a recognised funding gap in the MTFS, we are satisfied that the Council has appropriate arrangements to continue to remain financially sustainable over the period of the MTFS.

## OTHER MATTERS (REPORT BY EXCEPTION)

3

We have not exercised our statutory powers and have no matters to report.

We issued the audit certificate to close the audit for the year ended 31 March 2015 on 30 September 2015.

## GRANT CLAIMS AND RETURNS CERTIFICATION

4

Our review of the housing benefits subsidy grant claim is in progress and the results will be reported upon completion of this work.

# FINANCIAL STATEMENTS

1

OPINION

We issued an unqualified true and fair opinion on the financial statements on 30 September 2015.

## Financial performance

The Council reported a deficit on the provision of services of £167,000.

After adjusting for items in the Movement in Reserves Statement, the Council reported a surplus on the General Fund of £412,000 before transferring this surplus to earmarked revenue reserves.

## Financial statements

The draft Statement of Accounts was prepared and provided to us for audit on 30 June 2015, and supporting audit working papers were provided on the first day of the audit.

The Council had rolled forward its template accounts for some years and best practice had moved on in a number of areas. Management subsequently made presentational amendments to the Statement of Accounts for many of the suggested improvements.

There were a number of amendments to classifications and disclosures made to the financial statements as a result of the audit, although these had no impact on the reported deficit on the provision of services for the year.

There were two audit differences that were not corrected by management that would reduce the reported deficit on the provision of services by £175,000, to a surplus of £8,000. However, as these misstatements related to capital transactions they had no impact on the General Fund balance:

- £175,000 excess depreciation charged on buildings that should be credited back to the Comprehensive Income and Expenditure Statement
- £449,000 valuation increase on land and buildings not taken to property, plant and equipment in the balance sheet.

We consider that these misstatements did not have a material impact on our opinion on the financial statements.

## Significant judgements and estimates

We reviewed the significant accounting estimates and management judgements used to prepare the financial statements, and we were satisfied that these were appropriate and within an acceptable estimation range.

The key movements arising on accounting estimates were:

- Land and buildings valuations increased by £1.6 million mainly as a result of increased valuations on surplus assets
- Net pension liabilities increased by £6.5 million mainly due to a reduction in the discount rate on the estimated future cash flows to pay pensions, which has resulted in a significant increase in the present value of the scheme liabilities
- Amounts set aside for the potential non-recovery of amounts due to the Council increased by £90,000 for housing benefit overpayments, by £16,000 for council tax arrears and £33,000 for NDR arrears.

However, the Council could not provide useable information on recent collection rates for housing benefit overpayments, and using average recovery rates on older debts obtained from other councils suggests that the Council may need to increase this impairment provision.

## Internal controls

We did not identify any significant control weaknesses but other control deficiencies were identified and reported to management:

- Debt recovery processes on NDR arrears could be improved to seek to improve recovery rates, particularly on older debt.

Management has agreed to review and strengthen these internal controls.

# FINANCIAL STATEMENTS

## Narrative reporting

Local authorities are required to include an explanatory foreword in the Statement of Accounts to provide an explanation of the financial position and to assist in the interpretation of the financial statements.

We reviewed the explanatory foreword and highlighted some inconsistencies between the financial information reported here and the financial statements. Management subsequently amended the financial outturn table in the foreword and this agrees with the General Fund surplus reported in the Movement in Reserves Statement. However, the reader of the report would not be able to readily reconcile this to the surplus on the provision of services reported in the Comprehensive Income and Expenditure Statement.

CIPFA is considering how local authorities can develop its narrative reporting requirements, such as including management commentary or strategic reporting, but has postponed this review until the legislative requirements for the sector are resolved.

However, CIPFA's consultation on 'Telling the Story' will propose introducing a reconciliation from the reported outturn in the financial statements to the Council's management accounts.

## 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 and complies with Delivering Good Governance in Local Government (CIPFA / SOLACE).

# USE OF RESOURCES

2

## CONCLUSION

We issued an unqualified value for money conclusion on 30 September 2015.

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:

- 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.

## Financial resilience

The financial outturn for the year resulted in a General Fund surplus of £412,000 which was achieved through various underspends and planned savings. At 31 March 2015, total useable revenue and capital reserves increased by £497,000 to £13.0 million. This comprised £1 million General Fund balance (minimum level recommended by the Chief Finance Officer), £8.6 million of earmarked revenue reserves and £3.3 million of capital receipts and grants.

Council tax collected increased by £1.844 million in 2014/15 and was in surplus for the year by £365,000. NDR income remained flat but overall was in surplus for the year by £1 million after recovery of the prior year deficit from other local authorities and DCLG. Both the council tax and NDR closing balances were in surplus at 31 March 2015, at £925,000 and £141,000 respectively. The Council's share of the surplus available for distribution in future years is approximately £122,000 and £56,000.

The Council underspent its capital programme by £900,000, against budgeted spend of £3.1 million. The main reason for the under spend was due to the delay in the former Bexhill high school site land swap with East Sussex County Council. The medium term capital budget will require funding of around £20 million and assumes significant external funding support. However, if this is not forthcoming the Council will need to utilise its own resources or consider external borrowing.

The Medium Term Financial Strategy (MTFS) was updated during the year to cover the period to 2019/20, and provides a comprehensive analysis of the financial challenges the Council is facing. It also supports achievement of the Council's priorities and considers the impact of major changes planned to Council services, available resources and local need. The MTFS projections have been based on a 20 percent reduction in staff numbers through a corporate restructure of the Council as well as income generation schemes through the asset management plan.

The Council has agreed to freeze council tax in 2015/16 thereby opting to receive the council tax freeze grant. Indicative future council tax increases have been set at 1.9 percent from 2016/17.

While the MTFS financial position is balanced in the period to 31 March 2017 with a small funding gap of £22,000 in 2015/16, resource gaps have been identified in 2017/18 of £557,000, 2018/19 of £977,000 and 2019/20 of £1.3 million. Cabinet is developing various options to address the resource gap, including further reducing expenditure, opportunities for joint working with other local authorities, securing further procurement efficiencies and increasing income streams.

Cabinet is scheduled to carry out a further detailed review of MTFS towards the end of 2015/16 in order to incorporate the results of the Government's Spending Review due in November 2015.

The Council has a track record of delivering underspends, for carefully managing the capital programme, and the rolling efficiency plans have delivered the required savings in each year to date.

There are healthy levels of reserves and balances available to support the Council's services and the savings required from 2017/18 are not significantly above the savings that have been delivered in recent years.

Therefore, while there is a recognised funding gap in the MTFS, we are satisfied that the Council has appropriate arrangements to continue to remain financially sustainable over the period of the MTFS.

# USE OF RESOURCES

## Challenging economy, efficiency, effectiveness

In July 2014 the Council adopted the revised Corporate Plan 2014 - 2021. The revised Plan was developed, in consultation with stakeholders, with a view to establish the most appropriate strategic direction for the Council and a planned approach to delivering progress against the vision for the district for the next seven years.

It is intended that the Corporate Plan will be delivered through a programme framework of priority projects with a number of these projects requiring capital resources to achieve implementation. Projects have been agreed in principle however the projects will not commence until funding is in place. Many of the priority projects are at an early planning stage; it is intended that further work will be conducted which will include ongoing consultation and change management where appropriate.

Throughout 2014/15 the Council selected 12 key performance indicators to measure overall performance. Of these, seven met or exceeded targets and five were not met. Some of the key highlights were:

- 74 new homes were built in the area exceeding the target of 46
- Income from car parks was £1.308 million against a target of £1.253 million
- Council tax collection rate was 98.65 percent (target 98 percent) which was the highest collection rate since 2005.

The Council reported underperformance in respect of time to process new housing benefit applications (29 days against a target of 20), time to process housing benefit changes in circumstances (31 days against a target of 14) and time to process major planning applications (191 days against a target of 92 days).

The Council has highlighted underperformance in these areas and prepared action plans to address the reasons for the underperformance. These action plans will be monitored throughout 2015/16 through the quarterly performance reporting to the Overview and Scrutiny Committee.

The Audit Commission, and now Public Sector Audit Appointments Ltd, provides auditors with a VfM Profile Tool of comparative financial data for all local authorities.

We have reviewed the reports available with data populated in July 2015, which includes mainly 2013/14 outturn costs, comparing the Council with an all-district council comparative group.

There are areas of high performance such as the number of affordable homes provided and income from sales, fees and charges, which also link to the Council's own priorities.

However, there remain a few areas where the Council's performance or costs are below benchmark and the Council should assess its performance in 2014/15 and targets for 2015/16:

- Overall net spend per head in 2013/14 was in the highest quartile at £471.67 against an all-district average of £401.49 (but was reasonable compared to the Council's statistical nearest neighbours of £423.91 and below the geographic neighbours at average of £493.65)
- In 2013/14 the percentage of major planning applications determined within 13 weeks was below average at 33% (average 73%).

# OTHER MATTERS

3

REPORT BY EXCEPTION

We have no other matters to report.

## Whole of Government Accounts

Auditors are required to review Whole of Government Account (WGA) information prepared by component bodies that are over the prescribed threshold of £350 million in any of: assets (excluding property, plant and equipment); liabilities (excluding pension liabilities); income or expenditure.

The Council falls below the threshold for review and there is no requirement for further work other than to submit the section on the WGA Assurance Statement to the WGA audit team with the total values for assets, liabilities, income and expenditure.

## Use of statutory powers

We have not exercised our statutory powers and have no matters to report.

## Audit certificate

We issued the audit certificate to close the audit for the year ended 31 March 2015 on 30 September 2015.

# GRANT CLAIMS AND CERTIFICATION

4

## CERTIFICATION WORK

Our review of the housing benefits subsidy grant claim is in progress and the results will be reported upon completion of this work.

### Housing benefit subsidy claim

Public Sector Audit Appointments Ltd has a statutory duty to make arrangements for certification by the appointed auditor of the annual housing benefit subsidy claim.

Our audit of the 2013/14 housing benefits subsidy claim found a number of errors in relation to the follow benefit types:

- Non HRA rent rebates - incorrect rental or service charge applied
- Rent allowances - incorrect rental applied and incorrect self-employed earnings assessment.

The extrapolation of the error rate across the claim suggested that the Council had over claimed subsidy by £30,296.

Our work on the 2014/15 housing benefits subsidy claim is currently in progress and will be completed ahead of the submission deadline of 30 November 2015.

# APPENDIX

## Reports issued

We issued the following reports in respect of the 2014/15 financial year.

REPORT	DATE
Planning letter	24 March 2014
Grant Claims and Returns Certification Report (2013/14)	6 January 2015
Audit Plan	13 February 2015
Final Audit Report	17 September 2015
Annual Audit Letter	19 October 2015

## Fees update

We reported our original fee proposals in our Audit Plan issued in February 2015. Our fees to date and any variance to the original proposal are shown below.

AUDIT AREA	PROPOSED FEES £	FEES UPDATE £
Code audit fee	64,170	64,170
Certification of housing benefit subsidy claim	27,270	<sup>(1)</sup> 27,270
<b>Total fees for audit services</b>	<b>91,440</b>	<b>91,440</b>
Audit related services		
- None	0	0
Non audit services fees		
- None	0	0

*Note 1 - Our work on the review of the housing benefits subsidy grant claim for 2014/15 is in progress and we will report the findings from this work and the final fee 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 organisation and may not be quoted nor copied without our prior written consent. No responsibility to any third party is accepted.

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