



# ROTHER DISTRICT COUNCIL

## ANNUAL AUDIT LETTER

Audit for the year ended 31 March 2016



# EXECUTIVE SUMMARY

## Purpose of the letter

This Annual Audit Letter summarises the key issues arising from the work that we have carried out in respect of the financial year ended 2015/16. It is addressed to the Council but is also intended to communicate the key findings we have identified to key external stakeholders and members of the public. It will be published on the website of Public Sector Audit Appointments Limited.

## 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 National Audit Office's Code of Audit Practice (the Code), and 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 report where we have exercised our statutory powers under the Local Audit and Accountability Act 2014 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**  
7 October 2016

## Audit conclusions

### FINANCIAL STATEMENTS

We issued an unqualified true and fair opinion on the financial statements on 28 September 2016.

We reported our detailed findings to the Audit Committee on 28 September.

### USE OF RESOURCES

We issued an unqualified conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources on 28 September 2016.

While there is a recognised funding gap in the Medium Term Financial Strategy (MTFS), we are satisfied that the Council has appropriate arrangements to continue to remain financially sustainable over the period of the MTFS.

### EXERCISE OF STATUTORY POWERS

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

### GRANT CLAIMS AND RETURNS CERTIFICATION

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

# FINANCIAL STATEMENTS

## OPINION

We issued an unqualified true and fair opinion on the financial statements on 28 September 2016.

### Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error.

This includes an assessment of whether the accounting policies are appropriate to the Council's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates, and the overall presentation of the financial statements.

### Our assessment of risks of material misstatement

Our audit was scoped by obtaining an understanding of the Council and its environment, including the system of internal control, and assessing the risks of material misstatement in the financial statements.

We set out below the risks that had the greatest effect on our audit strategy, the allocation of resources in the audit, and directing of the efforts of the audit team.

| REVENUE RECOGNITION                                                                                                                                                                                                            | RESPONSE                                                                                                 | FINDINGS                                                                        |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------|
| Risks of fraud in revenue recognition may arise from the use of inappropriate accounting policies, failure to apply the Council's stated accounting policies or from an inappropriate use of estimates in calculating revenue. | Our review of revenue recognition has focused on testing completeness and existence of fees and charges. | No issues have been identified by our testing of revenue from fees and charges. |

# FINANCIAL STATEMENTS

## Continued

| VALUATION OF LAND AND BUILDINGS                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     | RESPONSE                                                                                                                                                                                                                                                                                                                                           | FINDINGS                                                                                                                         |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------|
| <p>The valuations for land and buildings included in Property, Plant and Equipment is estimated based on market values for existing use or depreciated replacement cost (DRC). There is a risk that the basis of valuation for these assets may not be appropriate or may not be supported by available valuation data.</p> <p>The Council engaged an external valuer to value its assets at 31 March 2016. This resulted in a net upwards revaluation movement of £1.712 million in the year.</p>                                                                                                                                                                                                                                                  | <p>We reviewed the valuations provided and the valuation methodology applied, and confirmed that the basis of valuation for assets valued in year is appropriate based on the Code of Practice on Local Authority Accounting 2015/16 requirements.</p> <p>We compared the valuations to expected movements using available market information.</p> | <p>We concluded that the basis of the valuations were appropriate and that the valuation movements were within expectations.</p> |
| VALUATION OF INVESTMENT PROPERTIES                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  | RESPONSE                                                                                                                                                                                                                                                                                                                                           | FINDINGS                                                                                                                         |
| <p>The Code of Practice on Local Authority Accounting 2015/16 introduced a change in the basis of valuation of investment properties under International Financial Reporting Standard (IFRS) 13, from market value as an investment property to a 'highest and best use' valuation. There is a risk that the valuations may fail to take into account the potential alternative uses of the properties in updating the valuations.</p> <p>The Council engaged an external valuer to value its assets at 31 March 2016. This resulted in a loss of £56,000 for investment properties for the year based on changes to rent yields and other market data, but no change was required as a result of considerations of alternative use valuations.</p> | <p>We reviewed the valuations provided and the valuation methodology applied, and confirmed that the basis of valuation for assets valued in year is appropriate based on IFRS 13.</p> <p>We compared the valuations to expected movements using available market information.</p>                                                                 | <p>We concluded that the basis of the valuations were appropriate and that the valuation movements were within expectations.</p> |

# FINANCIAL STATEMENTS

## Continued

| PENSION LIABILITY                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | RESPONSE                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   | FINDINGS                                                                                                  |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------|
| <p>The pension liability comprises the Council's share of the market value of assets held in the East Sussex Pension Fund and the estimated future liability to pay pensions.</p> <p>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.</p> <p>At 31 March 2016 the net pension liability decreased by £7.743 million mainly as a result in the lower discount rate applied to the liabilities.</p> | <p>We have reviewed the reasonableness of the assumptions applied by comparing these to the expected ranges provided by an independent consulting actuary report.</p> <p>The key changes to the financial assumptions relate to:</p> <ul style="list-style-type: none"> <li>• reduction in the pension increase rate from 2.4% to 2.2%</li> <li>• reduction in the salary increase rate from 4.3% to 4.2%</li> <li>• increase in the discount rate from 3.2% to 3.5% (to place a current value on the future liabilities through the use of a market yield of corporate bonds).</li> </ul> | <p>We are satisfied that the assumptions used are not unreasonable or outside of the expected ranges.</p> |

# FINANCIAL STATEMENTS

## Continued

| ALLOWANCE FOR NON-COLLECTION OF RECEIVABLES                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | RESPONSE                                                                                                                                                                    | FINDINGS                                                                                        |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------|
| <p>The Council estimates the proportion of debt due that it may not be able to recover and provides against this debt. This includes amounts due for housing benefit overpayments, council tax arrears and business rates arrears.</p> <p>The methodology for estimating non recovery of housing benefit overpayments changed this year, from assessing debt by age and applying a standard percentage for non recovery, to comparing how much debt has been raised each year to how much has been recovered and applying actual collection rates. As a result, the allowance for non collection decreased by £429,588 to £521,699, against debt for housing benefit overpayments of £1.740 million.</p> | <p>We have reviewed management’s calculations and considered the reasonableness of the estimates against collection rates calculated for the current aged debt profile.</p> | <p>Overall we have concluded that the impairment allowances for receivables are reasonable.</p> |

# FINANCIAL STATEMENTS

## Continued

### Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements.

We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonably knowledgeable users that are taken on the basis of the financial statements.

Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

The materiality for the financial statements as a whole was set at £1.1 million. This was determined with reference to a benchmark of gross expenditure (of which it represents 2 per cent) which we consider to be one of the principal considerations for the Council in assessing the financial performance.

We agreed with the Audit Committee that we would report all individual audit differences in excess of £30,000.

### Audit differences

Our audit found no differences or misstatements that affected the reported surplus for the year.

Some minor presentational improvements were made to the published Statement of Accounts.

### Other matters we report on

#### Annual governance statement

We are satisfied that the Annual Governance Statement is not misleading or inconsistent with other information we were aware of from our audit.

#### Narrative reporting

Local authorities are required to include a narrative report in the Statement of Accounts to offer interested parties an effective guide to the most significant matters reported in the accounts. The narrative report should be fair, balanced and understandable for the users of the financial statements.

We are satisfied that the information given in the narrative report for the financial year for which the financial statements are prepared is consistent with the financial statements.

### Internal controls

We did not find any significant deficiencies in internal controls during the course of our audit.

# FINANCIAL STATEMENTS

## Continued

### 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 certain non current assets); 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 RESOURCES

## CONCLUSION

We issued an unqualified conclusion on the arrangements for securing economy, efficiency and effectiveness in its use of resources on 28 September 2016.

### Scope of the audit of use of resources

We are required to be satisfied that proper arrangements have been made to secure economy, efficiency and effectiveness in the use of resources based on the following reporting criterion:

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

As part of reaching our overall conclusion we consider the following sub criteria in our work: informed decision making, sustainable resource deployment, and working with partners and other third parties.

### Our assessment of significant risks

Our audit was scoped by our knowledge brought forward from previous audits, relevant findings from work undertaken in support of the opinion on financial statements, reports from the Council including internal audit, information disclosed or available to support the governance statement and annual report, and information available from the risk registers and supporting arrangements.

We set out below the risks that had the greatest effect on our audit strategy, the allocation of resources in the audit, and directing of the efforts of the audit team.

| SUSTAINABLE FINANCES                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         | RESPONSE                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             | FINDINGS                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>The Medium Term Financial Strategy (MTFS) sets out the main financial issues affecting the Council. An updated draft covering the period 2017/18 to 2021/22 has identified funding gaps in 2017/18 of £0.338 million, 2018/19 of £0.738 million, 2019/20 of £0.731 million, 2020/21 of £0.835 million and 2021/22 of £1.024 million.</p> <p>Identifying the required level of savings in the medium term will be a challenge and is likely to require further difficult decisions around service provision and alternative delivery models.</p> <p>There is a risk that the Council does not have appropriate arrangements to continue to remain financially sustainable over the period of the MTFS.</p> | <p>We reviewed the Council's plans to close the budget gaps through savings, efficiencies and income growth.</p> <p>The Council reported an outturn financial surplus of £1.4 million through service efficiencies and increased income and was able to transfer £2.7 million to reserves. Underspends in environmental and regulatory services were achieved through the Waste and Street Cleaning contract and additional Retained Business Rates income was delivered through increased compensatory grants from Government. Some of the underspend was due slippage on projects such as the capital IT maintenance programme.</p> <p>The MTFS reflects known savings and known cost pressures. We are satisfied that the key underlying assumptions regarding reductions in central government grant funding, increases in council tax and business rates income, and staff pay and performance awards are not unreasonable.</p> | <p>The MTFS continues to include a resource gap in the medium term and further savings of at least £3.7million will need to be found by 2020/21.</p> <p>The Council needs to continue with its significant programme of change to secure a balanced budget. Already in place are measures such as the redirection of staff to higher priority and activity areas, close monitoring of income streams and recruiting posts on fixed terms to maximise flexibility over the size of workforce.</p> <p>Therefore, while there is a recognised funding gap, we are satisfied that the Council has appropriate arrangements to continue to remain financially sustainable over the period of the MTFS.</p> |

# EXERCISE OF STATUTORY POWERS

## REPORT BY EXCEPTION

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

### 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 2016 on 28 September 2016.

---

# GRANT CLAIMS AND CERTIFICATION

## CERTIFICATION WORK

Our review of your housing benefits subsidy grant claim 2015/16 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 2014/15 housing benefits subsidy claim found a number of errors in relation to suspended benefit cases that created overpayments, carer's allowances, earnings calculations and two home adjustments for modified schemes. The net impact of these errors reduced the overall amount claimed by only £10.

Our work on the 2015/16 housing benefits subsidy claim is currently in progress and will be completed ahead of the submission deadline of 30 November 2016.

# APPENDIX

## Reports issues

We have issued the following reports since our previous annual audit letter.

| REPORT                                      | DATE              |
|---------------------------------------------|-------------------|
| Grant claims and certification work 2014/15 | 22 December 2015  |
| Audit Plan                                  | 9 March 2016      |
| Final audit report                          | 19 September 2016 |
| Annual Audit Letter                         | 7 October 2016    |

## Fees

We reported our original fee proposals in our Audit Plan. We have not had to amend our planned fees.

| AUDIT AREA                                | PLANNED FEES  | FINAL FEES    |
|-------------------------------------------|---------------|---------------|
| Code audit                                | 48,128        | 48,128        |
| Certification of housing benefits subsidy | 19,470        | 19,470        |
| <b>Fee for audit services</b>             | <b>67,598</b> | <b>67,598</b> |
| Audit related services:                   |               |               |
| - None                                    | -             | -             |
| Non audit related services:               |               |               |
| - None                                    | -             | -             |

The matters raised in our report prepared in connection with the audit are those we believe should be brought to the attention of the organisation. They do not purport to be a complete record of all matters arising.. No responsibility to any third party is accepted.

BDO LLP is a corporate establishment under the Limited Liability Partnership Act 2000 and a UK Member Firm of BDO International. BDO Northern Ireland, a separate partnership, operates under a licence agreement. BDO LLP and BDO Northern Ireland are both separately authorised and regulated by the Financial Conduct Authority to conduct investment business.

Copyright ©2016 BDO LLP. All rights reserved.

**[www.bdo.co.uk](http://www.bdo.co.uk)**

**LEIGH LLOYD-THOMAS**

**Engagement Lead**

T: 020 7893 2616

E: [leigh.lloyd-thomas@bdo.co.uk](mailto:leigh.lloyd-thomas@bdo.co.uk)

**RYAN BARLOW**

**Audit Manager**

T: 020 3219 4066

E: [ryan.barlow@bdo.co.uk](mailto:ryan.barlow@bdo.co.uk)