

A photograph of four business professionals (three men and one woman) sitting around a glass conference table in a modern office. They are all dressed in business attire (shirts and ties). The man on the far left, with grey hair, is gesturing with his hands while speaking. The other three are listening attentively. On the table, there are several white coffee cups on saucers, a laptop, and some papers. The background shows a blurred cityscape through a large window.

# ROTHER DISTRICT COUNCIL

## ANNUAL AUDIT LETTER

Audit for the year ended 31 March 2017

12 October 2017



# 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 year ended 31 March 2017. 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 TRUST

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 (NAO'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 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  
12 October 2017

## AUDIT CONCLUSIONS

### FINANCIAL STATEMENTS

We issued our unmodified true and fair opinion on the financial statements on 27 September 2017.

The financial statements prepared for audit was of a high standard and our audit found no misstatements above our reporting threshold of £20,000.

### USE OF RESOURCES

We issued our unmodified conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources on 27 September 2017.

While there is a significant savings requirement in the MTFS to 2020/21, we are satisfied that the Council has appropriate arrangements to deliver the planned savings and income growth targets to remain financially sustainable.

# FINANCIAL STATEMENTS

## OPINION

We issued our unmodified true and fair opinion on the financial statements on 27 September 2017.

## 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 the direction of the efforts of the audit team.

RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT AND AUDIT FINDINGS	CONCLUSION
Local authorities are required to ensure that land, buildings and investment properties are regularly revalued. A full valuation was undertaken at 31 March 2017. The valuer uses knowledge of local sales or relevant indices to estimate the values. We consider there to be a risk over the reasonableness of the valuations due to the estimation and judgments applied.	<p>We responded to this risk by reviewing the instructions provided to the valuer to confirm that the planned scope of the valuation was appropriate and that the valuer was independent of the Council.</p> <p>We confirmed that accurate and complete data on assets held was provided to undertake the review.</p> <p>We reviewed the valuer's skills and expertise and were satisfied that we could rely on this work. We checked whether the basis of valuation for assets was appropriate. In particular, we checked that an instant build modern equivalent asset basis has been used for assets valued at depreciated replacement cost and that investment properties had been valued based on highest and best use.</p> <p>We reviewed valuation movements against indices of price movements for similar classes of assets and concluded valuation movements were reasonable. We challenged the valuer where asset valuations were not within an expected range and agreed the explanations in each case to supporting reasons, such as rent reviews and income growth.</p>	We concluded that the valuations for land, buildings and investment properties were reasonable.

# FINANCIAL STATEMENTS

RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT AND AUDIT FINDINGS	CONCLUSION
<p>An estimate of the Council's pension fund liability is calculated by an actuary with specialist knowledge and experience.</p> <p>The estimate is based on the most up to date membership data held by the pension fund and has regard to local factors such as mortality rates and expected pay rises along with other assumptions around inflation when calculating the liability.</p> <p>We considered there to be a risk that the valuation was not based on accurate membership data or used inappropriate assumptions to value the liability.</p>	<p>We requested and received assurance from the auditor of the pension fund over the controls for providing accurate membership data to the actuary by the administering authority.</p> <p>We received and reviewed a report from a consulting actuary, commissioned by the National Audit Office, that confirmed that the actuary was independent of the Council and suitably experienced and qualified.</p> <p>We checked and confirmed that there had been no significant changes in employee numbers relating to the Council to be communicated to the actuary that could require amendment to the 2016 roll forward data used by the actuary.</p> <p>We reviewed the reasonableness of the assumptions used by the actuary against other local government actuaries and other observable data. We were satisfied that the assumptions used were within an acceptable range.</p>	<p>We concluded that the actuarial valuation of the Council's pension fund liability was reasonable.</p>
<p>There is a risk that revenue or capital grants that are subject to performance conditions may be inappropriately recognised as revenue before the condition have been met, or revenue may be recognised in the wrong financial year.</p>	<p>We tested an increased sample of revenue and capital grants subject to performance conditions to confirm that these were only recognised as revenue when the conditions had been met. Management made one amendment to the financial statements to defer the recognition of section 106 capital receipts totalling £521,000 where there was currently no clear allocation for their use through the capital programme. This will be released to revenue once management has an agreed plan to use this funding.</p> <p>We tested an increased sample of fees and charges income throughout the year to confirm that the amounts recorded agreed to underlying documentation for charge or service provided and that the revenue had been recorded in the correct period.</p>	<p>We concluded the revenue had been recorded correctly.</p>

# FINANCIAL STATEMENTS

## 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 and Standards Committee that we would report all individual audit differences in excess of £20,000.

## AUDIT DIFFERENCES

Our audit found no misstatements above our reporting threshold of £20,000.

## INTERNAL CONTROLS

We did not find any significant deficiencies in internal controls during the course of our audit. A number of other areas for improvement were identified which we have discussed with management.

## OTHER MATTERS WE REPORT ON

### Narrative report

The information given in the narrative report in the Statement of Accounts for the financial year was consistent with the financial statements.

### Annual governance statement

The annual governance statement meets the disclosure requirements set out in the guidance 'Delivering Good Governance in Local Government: Framework' (2016 edition) published by CIPFA/SOLACE and was not misleading or inconsistent with other information that is forthcoming from the audit.

## 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 our unmodified conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources on 27 September 2017.

## 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 cumulative 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 direction of the efforts of the audit team.

RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT AND AUDIT FINDINGS	CONCLUSION
<p>The Medium Term Financial Strategy (MTFS) to 2021/22 has forecast further reductions in Government core grant funding and falling New Homes Bonus funding. The MTFS is balanced through an efficiency plan requiring significant savings and support from reserves. There is a risk that savings may not be delivered as planned, placing additional pressures on reserves and sustainable finances in the medium term.</p>	<p>We responded to this risk by reviewing financial performance in 2016/17 and the savings assumptions over the period of the MTFS.</p> <p>The Council reported a surplus of £3.5 million in 2016/17 through service efficiencies, increased income and additional grant funding. Larger variances include savings on contracts, additional income from car parking and garden waste, and reduced employment costs. Additional grant income received but not spent in year includes Disabled Facilities Grant £400,000 and Community Housing Fund £749,000.</p> <p>The MTFS funding gap requires further savings of £1.8million by 2020/21 and the Council needs to continue with its significant programme of change to secure a balanced budget. Already in place are measures such as the service prioritisation, initiatives to increase income, business processes improvement and demand management.</p> <p>The Rother 2020 programme includes details of delivery of the savings required and additional income and has already savings early in the revenue and capital monitoring report 2017/18. Regular meetings are held between the Programme and Projects Officer, the work stream heads and the Corporate Change Implementer and we consider the monitoring procedures in place are robust.</p>	<p>While there is a significant savings requirement in the MTFS to 2020/21, we are satisfied that the Council has appropriate arrangements to deliver the planned savings and income growth targets to remain financially sustainable.</p>

# APPENDIX

## REPORTS ISSUED

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

REPORT	DATE
Audit plan	10 March 2017
Audit completion report	19 September 2017
Annual audit letter	12 October 2017

## FEES

We reported our original fee proposals in our audit.

AUDIT AREA	FINAL FEES £	PLANNED FEES £
Council audit - scale fees	48,128	48,128
Housing benefits subsidy claim	10,000	20,453
<b>Total audit</b>	<b>58,128</b>	<b>68,581</b>
Fees for non-audit services	-	-
<b>Total assurance services</b>	<b>58,128</b>	<b>68,581</b>

We have reduced our planned fees for the Housing benefits subsidy claim as the Council has now employed independent consultants to undertake sample testing of benefits paid in year and we are able to use this work to support our certification review.



FOR MORE INFORMATION:

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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.

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