

The Annual Audit Letter for Rother District Council

Page
Year ended 31 March 2019
November 2019



Contents

Section	Page
1. Executive Summary	3
2. Audit of the Financial Statements	6
3. Value for Money conclusion	8

Appendices

- A Reports issued and fees

Your key Grant Thornton team members are:

Page 2

Darren Wells

Director

T: 01293 554 120

E: darren.j.wells@uk.gt.com

Trevor Greenlee

Manager

T: 01293 554071

E: trevor.greenlee@uk.gt.com

Executive Summary

Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Rother District Council (the Council) for the year ended 31 March 2019.

This Letter is intended to provide a commentary on the results of our work to the Council and external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this Letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'. We reported the initial findings from our audit work to the Council's Audit & Standards Committee as those charged with governance in our Audit Findings Report on 31 July 2019. A final version of our Audit Findings Report was provided to Audit & Standards Committee members on 6 September 2019.

Respective responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the Council's financial statements (section two)
- assess the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the Council's financial statements, we comply with International Standards on Auditing (UK) (ISAs) and other guidance issued by the NAO.

Our work

Materiality	We determined materiality for the audit of the Council's financial statements to be £874,000 which is 2% of the Council's gross revenue expenditure.
Financial Statements opinion	We gave an unqualified opinion on the Council's financial statements on 9 September 2019.
Use of statutory powers	We did not identify any matters which required us to exercise our additional statutory powers.
Value for Money arrangements	We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources. We reflected this in our audit report provided to members on 6 September 2019.
Certification of Grants	We also carry out work to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. Our work on this claim is not yet complete and will be finalised by 30 November 2019. We will report the results of this work to the Audit & Standards Committee separately.
Certificate	We certified that we have completed the audit of the financial statements of Rother District Council in accordance with the requirements of the Code of Audit Practice on 9 September 2019.

Working with the Council

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff.

Audit of the Financial Statements

Our audit approach

Materiality

In our audit of the Council's financial statements we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for the audit of the Council's financial statements to be £874,000, which is 2% of the Council's gross revenue expenditure. We used this benchmark as, in our view, users of the Council's financial statements are most interested in where the Council has spent its revenue in the year.

We set a lower threshold of £43,000 above which we reported errors to the Audit & Standards Committee in our Audit Findings Report.

The scope of our audit

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

- the accounting policies are appropriate, have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the other information published with the financial statements (including the Annual Governance Statement and the Narrative Report) to check that this is consistent with our understanding of the Council

and with the financial statements on which we give our opinion.

We carry out our audit in accordance with ISAs (UK) and the NAO Code of Audit Practice. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach was based on a thorough understanding of the Council's business and is risk based.

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

Audit of the Financial Statements

Significant Audit Risks

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Improper revenue recognition We considered the rebuttable presumed risk under ISA (UK) 240 that revenue may be misstated due to the improper recognition of revenue.</p> <p>We rebutted this presumed risk for revenue streams that are derived from Council Tax, Business Rates and Grants. These income streams primarily derive from grants or formula based income from central government and tax payers, and therefore opportunities to manipulate the recognition of these income streams is very limited.</p> <p>We did not consider it appropriate to rebut this presumed risk for fees, charges and other service income. This was our first year as the Council's auditor and therefore we did not have cumulative audit testing knowledge of these revenues. We also considered the adoption of IFRS15 Revenue from Contracts with Customers could materially affect recognition of this income.</p> <p>We therefore identified the occurrence and accuracy of these income streams and the existence of associated receivable balances as a significant risk of material misstatement.</p>	<p>Auditor commentary For all material income streams where we did not rebut the presumed risk of revenue recognition we:</p> <ul style="list-style-type: none"> • reviewed the accounting policies relating to the recognition of income and considered if these were appropriate; • obtained an understanding of the systems used to account for the income and evaluated the design of the associated controls; • reviewed and sample tested income to supporting evidence; • evaluated significant estimates and the judgments made by management, including those around the adoption of the new IFRS15. 	<p>Our audit work did not identify any issues in respect of revenue recognition.</p>

Audit of the Financial Statements

Significant Audit Risks

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Valuation of land and buildings The Council regularly revalues its land and building assets. The valuation of these assets represents a significant estimate by management in the financial statements.</p> <p>We designed our work to address the risk that the valuation of land and building assets was materially misstated.</p>	<p>As part of our audit work we:</p> <ul style="list-style-type: none">• reviewed management's processes and assumptions for the calculation of the estimate, the instructions issued to the Council's external valuer and the scope of their work;• Considered the competence, expertise and objectivity of the external valuer;• tested that revaluations made during the year were input correctly into the Council's asset register;• evaluated the assumptions made by management for those property, plant and equipment assets not revalued during the year and how management satisfied themselves that these were not materially different to current value.	<p>Our audit work did not identify any issues in respect of the valuation of land and buildings.</p>

Audit of the Financial Statements

Significant Audit Risks

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Valuation of net pension liability</p> <p>The Council's financial statements include a net liability in respect of the Local Government Pension Scheme (LGPS). This represents a significant estimate in the financial statements.</p> <p>We designed our work to address the risk that the pension fund net liability was materially misstated.</p>	<p>As part of our audit work we:</p> <ul style="list-style-type: none"> • identified and evaluated the controls put in place to ensure that the pension fund net liability was not materially misstated; • evaluated the competence, expertise and objectivity of the actuary who carried out the pension fund valuation; • performed work to confirm the reasonableness of the assumptions made by the actuary; • checked that the information on pensions included in the financial statements was consistent with the actuary's report; and • obtained assurance from the auditor of East Sussex County Council regarding the operation of controls in the pension scheme it administers on behalf of the Council. 	<p>In December 2018 the Court of Appeal ruled that transitional protections in some public sector pension schemes were discriminatory on the basis of age, the so-called "McCloud" judgement. This ruling had implications for other pension schemes, including the Local Government Pension Scheme (LGPS). At the time of preparing the Council's draft accounts a legal challenge by the government against the ruling was in progress. On 27 June 2019 the Supreme Court refused the government permission to appeal against the judgement.</p> <p>The Council's actuary estimated that the impact of the ruling would be to increase the Council's overall pension liabilities at 31.3.19 by £387,000. In the Council's draft accounts the issue was disclosed as a contingent liability pending the outcome of the appeal process. Following the conclusion of the legal process the accounts were amended to include the estimated liabilities.</p> <p>The draft accounts incorporated an initial estimate of the Council's assets and liabilities under the Local Government Pension Scheme provided by the Council's actuary. A final valuation was provided by the actuary on 28 June 2019. The value of scheme liabilities remained unchanged other than for the impact of the McCloud judgement as noted above. However, the final valuation showed a reduction of £2,750,000 in the value of scheme assets. The accounts were amended to reflect the updated figures.</p>

Audit of the Financial Statements

Audit opinion

We gave an unqualified opinion on the Council's financial statements on 9 September 2019.

Issues arising from the audit of the financial statements

We reported the key issues from our audit to the Council's Audit & Standards Committee on 29 July 2019. These included the key findings arising from our work on significant risks. A final version of our Audit Findings Report was provided to Audit & Standards Committee members on 6 September 2019.

The Council's accounts were prepared to a high standard. The only material adjustments related to pension assets and liabilities, which were amended to reflect final figures provided by the Council's actuary after the draft accounts had been prepared.

Annual Governance Statement and Narrative Report

We are required to review the Council's Annual Governance Statement and Narrative Report.

Both documents were prepared in line with the CIPFA Code and relevant supporting guidance. We confirmed that both documents were consistent with our knowledge and with the Council's financial statements.

Whole of Government Accounts (WGA)

We carried out work in accordance with instructions issued by the NAO. We issued an assurance statement confirming that a review of the Council's data collection tool was not required as the values in the financial statements were below the specified threshold.

Certificate of closure of the audit

We certified that we have completed the audit of the financial statements of Rother District Council in accordance with the requirements of the Code of Audit Practice on 9 September 2019.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in November 2017 which specified the criterion for auditors to evaluate:

In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.

Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the risks where we concentrated our work.

The risk we identified and the work we performed are set out overleaf.

Overall Value for Money conclusion

We are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2019.

Value for Money conclusion

Value for Money Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>The Council faces significant financial pressures associated with reductions in government funding. It has taken action over recent years to address these issues, both to reduce costs and generate additional income. However, it made a contribution from reserves of £1.6m to balance the revenue budget in 2019/20, and further contributions from reserves to support revenue and capital expenditure are anticipated over the lifetime of the MTFS.</p> <p>The strength of the Council's financial planning framework is key to maintaining a sustainable financial position and delivering its objectives over the medium term.</p> <p>We reviewed the Council's medium term financial plan and the supporting information trails.</p>	<p>The Council has a history of sound financial management. In recent years it has been proactive in responding to the implications of sustained reductions in government funding, both by making financial savings, including through the Rother 2020 programme, and developing alternative sources of income. It has also reported regular annual underspends against revenue budget, including an underspend of £631,000 for 2018/19.</p> <p>The Council entered into a new waste collection and street cleansing contract commencing from June 2019. The anticipated costs are approximately £1.5m more than the 2018/19 budget in a full year. It also faces continuing revenue cost pressures in other service areas, the need to support capital expenditure through revenue contributions and continuing reductions in New Homes Bonus funding. The Medium Term Financial Strategy (MTFS) shows that the Council proposes to address these pressures by additional service-based savings and increasing the income generated through property investment. It also plans to support the revenue budget by contributions from earmarked reserves of approximately £7m over the lifetime of the MTFS.</p> <p>The Council recognises that achieving the planned levels of income from property investment will depend upon market conditions and the availability and timing of suitable acquisitions. The planned service-based savings in future years have yet to be identified and it may be difficult to achieve continuing savings on this scale. Any shortfall in planned savings or investment income will require greater use of reserves to achieve balanced budgets, making it more difficult to respond to future financial pressures. There are also wider uncertainties for financial planning by local authorities, including over the future framework for the localisation of business rates and the impact of the Fair Funding review.</p> <p>However, allowing for these uncertainties the Council continues to have a robust financial planning framework. It has a 5-year MTFS which is regularly updated and closely aligned with the budget-setting process. A review of supporting trails shows that it is based on a comprehensive consideration of the relevant income and expenditure streams. Based on the position at 31 March 2019 the Council's forecasts indicate that it will retain earmarked reserve and general fund balances of £10.3m at 31.3.24.</p> <p>We concluded that the Council has effective arrangements for financial planning. However, it faces increasing risks over the medium term. A strong focus on developing responses to financial pressures will continue to be required to provide a sustainable framework for the Council.</p>	<p>We concluded that the risk we identified was sufficiently mitigated and that the Council has proper arrangements for securing economy, efficiency and effectiveness in the use of resources.</p>

A. Reports issued and fees

We confirm below our final reports issued and fees charged for the audit and for the provision of non audit services.

Reports issued

Report	Date issued
Audit Plan	March 2019
Audit Findings Report	July 2019
Annual Audit Letter	November 2019

Fees

Category	Planned £	Actual fees £
Statutory audit	37,059	44,959
Total fees	37,059	44,959

Audit fee variation

As outlined in our audit plan, the planned fee of £37,059 for 2018/19, which is the scale fee published by Public Sector Audit Appointments (PSAA), was based on the assumption that the scope of our audit did not significantly change. However, for 2018/19 there are a number of areas where we have been required to perform additional work over and above that originally envisaged in our audit plan. These are set out in the following table. The proposed fee variation is subject to approval by PSAA.

Area	Reason	Fee proposed £
Assessing the impact of the McCloud ruling	The Government's transitional arrangements for pensions were ruled discriminatory by the Court of Appeal last December. The Supreme Court refused the Government's application for permission to appeal this ruling in June 2019. As part of our audit we have been required to review the basis of the revised actuarial assessment and the impact on the financial statements, and address any audit reporting considerations.	1,600
Pensions – IAS 19	The Financial Reporting Council has concluded that improvements are required in the scope and coverage of work by audit firms on IAS 19 issues across local government audits. We have increased the scope and coverage of our work on IAS 19 issues this year across the sector in response to these findings. For Rother we have also been required to review amendments following updating of the financial statements for the final report produced by the Council's actuary.	2,300
PPE Valuation – work of experts	The Financial Reporting Council has concluded that improvements are required in the scope and coverage of work by audit firms on PPE valuation issues across the sector. We have increased the scope and coverage of our work on PPE valuation issues this year in response to these findings.	1,800
New ledger system and changes in departmental structures	The Council moved to a new ERP ledger system from April 2018. This has required additional work on data migration issues and coding changes. The Council also implemented a new management and departmental structure from June 2018. This has required auditing the restatement of previous year comparative information.	2,200
Total		7,900

A. Reports issued and fees (continued)

Fees for non-audit services

	Planned £	Actual fees £
Audit related services	8,750	TBC
- Certification of Housing Benefit Subsidy claim (from 2018/19)		
Non-Audit related services		
- None		
Total fees for non-audit services	8,750	TBC

Non-audit services

- For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The table above summarises all non-audit services which were identified.
- We have considered whether non-audit services might be perceived as a threat to our independence as the Council's auditor and have ensured that appropriate safeguards are put in place.

This page is intentionally left blank