



# ROTHER DISTRICT COUNCIL

## ANNUAL AUDIT LETTER

Audit for the year ended 31 March 2018

10 August 2018

# EXECUTIVE SUMMARY

## PURPOSE OF THE LETTER

This annual audit letter summarises the key issues arising from the work that we have carried out at Rother District Council for the year ended 31 March 2018.

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.

## 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 (NAO's) Code of Audit Practice (the Code). Under the Code, we are required to report on:

- Our opinion 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

## AUDIT CONCLUSIONS

### FINANCIAL STATEMENTS

We issued our unmodified opinion on the financial statements on 27 July 2018.

We identified one misstatement that was corrected to reclassify £163,000 of creditors and bank in the final financial statements.

The draft financial statements and supporting working papers presented for audit were of a high standard.

### 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 31 July 2018.

The Council reported a surplus of £830,000 for the general fund in 2017/18 against a budgeted deficit of £889,000. The surplus was achieved through service efficiencies, increased income and additional grant funding. The MTFs continues to include a resource gap in the medium term and further savings of at least £1.7million will need to be found by 2021/22. However, 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.

# FINANCIAL STATEMENTS

## OPINIONS

We issued our unmodified opinion on the Council's financial statements on 27 July 2018.

This means we consider:

- The financial statements give a true and fair view of the financial position and its income and expenditure for the year
- Have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting 2017/18.

## SCOPE OF THE AUDIT

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 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.

The materiality for the Council's financial statements was set at £1.0 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 financial performance.

## 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.

# FINANCIAL STATEMENTS

RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	CONCLUSION
Management override of controls	<p>Under auditing standards, there is a presumed risk of management override of controls as management is in a unique position to manipulate accounting records to prepare fraudulent financial statements.</p> <p>We responded to this risk by testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements.</p> <p>We reviewed the accounting estimates for bias and evaluated whether the circumstances producing the bias, if any, represent a risk of material misstatement due to fraud.</p> <p>We obtained an understanding of the business rationale for significant transactions that were outside the normal course of business or appeared to be unusual.</p>	<p>No issues were identified by our audit work from our review of journals and review accounting estimates for management bias.</p> <p>We found no significant transactions that were outside the normal course of business or otherwise appear unusual.</p>

# FINANCIAL STATEMENTS

RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	CONCLUSION
Revenue recognition	<p>Under auditing standards there is a presumption that income recognition presents a fraud risk.</p> <p>We responded to this risk by testing an increased sample of fees and charges income to underlying documentation to confirm the existence and accuracy of transactions throughout the year.</p> <p>We also tested a sample of fees and charges receipts either side of year end, to confirm that income has been recorded in the correct period and that all income that should have been recorded at year end has been.</p>	<p>No issues have been identified by our testing of revenue from fees and charges to underlying documentation or the recognition of revenue in the correct period.</p>

## FINANCIAL STATEMENTS

RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	CONCLUSION
Valuation of land, buildings and investment property	<p>Due to the significant value of the Council's property assets, and the high degree of estimation uncertainty, there is a significant risk over the valuation of land, buildings and investment properties where valuations are based on assumptions or where updated valuations have not been provided for a class of assets at the year-end.</p> <p>We responded to this risk by:</p> <ul style="list-style-type: none"> <li>• Reviewing the instructions provided to the valuer and the valuer's skills and expertise in order to determine if we can rely on the management expert.</li> <li>• Checking the basis of valuation for assets valued in year as appropriate.</li> <li>• Checking the accuracy and completeness of the source data used by the valuer.</li> <li>• Reviewed the reasonableness of assumptions used in the valuations against indices and price movements for classes of assets, and followed up valuation movements that appeared unusual against indices.</li> <li>• Estimated the potential movement on classes of assets that were not revalued in year to assess whether there is the potential for material movements since the last valuation.</li> </ul>	<p>The Council engaged an external valuer to value a sample of assets and all investment properties at 31 March 2018. This consisted of £4.736 million of land and buildings, £4.623 million of Surplus Assets and £10.805 million of investment assets. This resulted in a net upwards revaluation movement of £355,000 in the year for Property, Plant and Equipment and a gain of £370,000 for Investment Properties.</p> <p>From our review of the instructions provided to the valuer and the valuer's reports, we are satisfied that we can rely on the management expert.</p> <p>We confirmed that the basis of valuation for assets valued in year is appropriate based on the nature and use of the assets.</p> <p>No issues have been identified from our review of the source data provided to the valuer.</p> <p>Assumptions used and valuation movements were found to be reasonable.</p> <p>Our review confirmed that assets not subject to revaluation in year were not materially different to their carrying value. However, we have noted a potential non-trivial increase in valuation that we have estimated at £82,000.</p>

# FINANCIAL STATEMENTS

RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	CONCLUSION
<p>Valuation of pension liability</p>	<p>There is a risk the membership data and cash flows provided to the actuary at 31 March may not be correct, or the valuation uses inappropriate assumptions to value the liability.</p> <p>This is a significant risk due to the higher estimation uncertainty arising from the range of assumptions available to value the pension liability.</p> <p>We responded to this risk by:</p> <ul style="list-style-type: none"> <li>• Agreeing the information provided by the actuary.</li> <li>• Reviewing the reasonableness of the assumptions used in the calculation against other local government actuaries and other observable data.</li> <li>• Requesting assurance from the auditor of the pension fund over the controls for providing accurate membership data to the actuary.</li> <li>• Checking whether any significant changes in membership data have been communicated to the actuary.</li> </ul>	<p>The net pension liabilities decreased by £295,000 compared to the previous year. The majority of assumptions remained consistent between the years other than an increase in the discount rate (this reduced the liability). The movements mainly comprised an increase from current service costs that (along with interest costs) exceeding contributions paid by the Council, that was offset by a reduction in liabilities from the change to the discount rate.</p> <p>We agreed the information provided to the actuary for contributions paid to the pension fund and investment returns for the year. We noted differences in the final investment returns and fund valuation than had been estimated by the actuary but overall these were within the actuary’s tolerable levels for his estimate of the net pension liability.</p> <p>Our review of assumptions used to estimate the value the pension liability were found to be reasonable. We used the PwC consulting actuary report for the review of the methodology of the actuary and reasonableness of the assumptions.</p> <p>We obtained assurance from the pension fund auditor over the controls at the administering authority for providing accurate information on scheme members for the 2016 triennial review and information for 2017/18.</p> <p>There were no significant changes to staff numbers that would require additional communication with the actuary and potential amendment to the roll-forward data to the 2016 triennial valuation.</p>

## USE OF RESOURCES

<b>CONCLUSION</b>	We issued our unmodified conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources on 27 July 2018.
	This means we consider that the Council has proper arrangements to: <ul style="list-style-type: none"><li>• Ensure it took properly informed decisions</li><li>• Deploy resources to achieve planned and sustainable outcomes for taxpayers and local people.</li></ul>

### SCOPE OF THE AUDIT

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

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 annual governance statement, 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 the direction of the efforts of the audit team.

# USE OF RESOURCES

RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	CONCLUSION
<p>Financial sustainability</p>	<p>The Medium Term Financial Strategy (MTFS) to 2022/23 has forecast further reductions in Government core grant funding and falling New Homes Bonus funding. The MTFS is balanced through an efficiency plan requiring savings and increases in income in the coming years.</p> <p>There is a risk that the MTFS efficiencies and income growth plans are not fully delivered, requiring an increased call on the remaining reserves to fund expenditure plans.</p> <p>We reviewed the assumptions used in the MTFS and assessed the reasonableness of the cost pressures and the amount of Government grant reductions applied, the delivery of the budgeted savings in 2017/18, and the Council’s arrangements for monitoring the progress and plans against budgeted targets.</p>	<p>The Council reported a surplus of £830,000 for the general fund in 2017/18 against a budgeted deficit of £889,000. The surplus was achieved through service efficiencies, increased income and additional grant funding. Larger variances include savings on contracts and additional income from car parking and investment income.</p> <p>The MTFS continues to include a resource gap in the medium term. Further savings of at least £1.7million will need to be found by 2021/22. The Council needs to continue with its significant programme of change to secure a balanced budget.</p> <p>Already in place are measures such as the service prioritisation, initiatives to increase income, business processes improvement and demand management.</p> <p>The assumptions used in the MTFS appear to be reasonable.</p> <p>The Rother 2020 Programme Plan is headed by the Programme and Projects Officer (PPO). Regular meetings are held between the PPO and the work stream heads as well as the Corporate Change Implementer. The PPO additionally works closely with the Executive Director to continually review progress against plans.</p> <p>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.</p>

## APPENDIX

### REPORTS ISSUED

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

REPORT	DATE
Housing benefits subsidy certification report 2016/17	30 November 2017
Audit plan 2017/18	13 March 2018
Audit completion report 2017/18	16 July 2018

### FEES

We have not had to amend our planned fees.

AUDIT AREA	FINAL FEES £	PLANNED FEES £
Audit - PSAA scale fee	48,128	48,128
Housing benefits subsidy certification fee	10,000	10,000
<b>Total audit fees</b>	<b>58,128</b>	<b>58,128</b>

We have not provided any non-audit services.



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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