

ROTHER DISTRICT COUNCIL

REPORT TO THE AUDIT COMMITTEE

Audit for the year ended 31 March 2016 19 September 2016



PURPOSE AND USE OF THIS REPORT

We present our report to the Audit Committee which details the key findings arising from the audit for the attention of those charged with governance. It forms a key part of our communication strategy with you, a strategy which is designed to promote effective two way communication throughout the audit process.

As auditors we are responsible for performing our audit in accordance with International Standards on Auditing (UK & Ireland) which provide us with a framework which enables us to form and express an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management nor those charged with governance of their responsibilities for the preparation of the financial statements.

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements and providing our value for money conclusion. As the purpose of the audit is for us to express an opinion on the financial statements and provide a value for money conclusion, you will appreciate that our audit cannot necessarily be expected to disclose all matters that may be of interest to you and, as a result, the matters reported may not be the only ones which exist. As part of our work, we considered internal control relevant to the preparation of the financial statements such that we were able to design appropriate audit procedures. This work was not for the purpose of expressing an opinion on the effectiveness of internal control.

This report has been prepared solely for the use of the Audit Committee. In preparing this report we do not accept or assume responsibility for any other purpose or to any other person.

We would like to thank staff for their co-operation and assistance during the audit and throughout the period.



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SUMMARY

AUDIT SCOPE AND OBJECTIVES

- We have completed our audit procedures in accordance with the planned scope and our objectives have been achieved, subject to the completion of work set out within the outstanding matters section of this report.
- There were no significant changes to our planned audit approach nor were any restrictions placed on our work.
- No additional significant audit risks were identified during the course of our audit procedures subsequent to our audit planning report to you dated 9 March 2016
- Our materiality levels have not required reassessment since our audit planning referred to above.

KEY AUDIT AND ACCOUNTING MATTERS

- A number of presentational changes have been made to the financial statements as a result of the audit.
- Action has been taken to amend the prior year's cash flow statement figures for amounts that were misclassified across various lines, identified as part of the current year accounts closedown process.

AUDIT OPINION

- Subject to the successful completion of the work set out within the outstanding matters section of this report we anticipate issuing an unqualified opinion on the financial statements for the year ended 31 March 2016.
- We are satisfied that the Council has adequate arrangements in place to secure economy, efficiency and effectiveness from its use of resources and we anticipate issuing an unqualified value for money conclusion for the year ended 31 March 2016.

OTHER MATTERS FOR THE ATTENTION OF THE AUDIT COMMITTEE

Providing there are no significant amendments required to the unaudited whole of
government accounts, we aim to complete our audit work and provide our audit
opinion on the return at the same time as issuing our audit opinion on the financial
statements.

SIGNIFICANT AUDIT RISKS

We reported our risk assessment, which brought to your attention areas that require additional or special audit consideration and are considered significant audit risks, in the 2015/16 audit planning report dated 9 March 2016. These significant risks have been highlighted in red and findings have been reported in the following table.

We have since undertaken a more detailed assessment of risk following the completion of our review of the Council's internal control environment and draft financial statements, and we have not identified any additional significant risks.

NATURE OF RISK	RISK DESCRIPTION	HOW THE RISK WAS ADDRESSED BY OUR AUDIT	CONCLUSION
MANAGEMENT OVERRIDE OF CONTROLS	Auditing standard presume that a risk of management override of controls is present in all entities. By its nature, there are no controls which can fully mitigate the risk of management override.	We reviewed the appropriateness of journal entries and other adjustments made in the preparation of the financial statements. We also reviewed accounting estimates for evidence of possible bias.	No issues have been identified in our review of the appropriateness of journal entries and other adjustments made in the preparation of the financial statements. Our work on accounting estimates has not identified any evidence of bias.
REVENUE RECOGNITION FEES AND CHARGES	Auditing standards presume that there are risks of fraud in revenue recognition. These risks 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 across all service areas within the Comprehensive Income and Expenditure Statement.	No issues have been identified by our testing of revenue from fees and charges.

Continued

OTHER AUDIT RISKS AND ACCOUNTING ISSUES

We report below our findings of the work designed to address all other risks identified in our 2015/16 audit planning report and any other relevant audit and accounting issues identified as a result of our audit: Normal risk Other issue

NATURE OF RISK	WORK PERFORMED AND FINDINGS	CONCLUSION
LAND SWAP	The land swap deal is still due to be resolved as at the time of the audit due to on-going legal issues. The commitment to purchase this site has been disclosed within the Capital Programme in the accounts.	We will review the position in relation to the land swap next year, and carry out additional audit procedures if required.
CONSIDERATION OF RELATED PARTY TRANSACTIONS	We reviewed the Council's procedures for identifying related party transactions for disclosure in the related parties note, including signed declaration forms from members and senior officers. We carried out Companies House checks for all new members and senior officers and checked the completeness of interests included in the declaration forms. We also considered the completeness of related party disclosures based on knowledge gained from our other audit work. The Council has disclosed the total value of community grants paid to organisations in which members have interests. No other interests have been identified that require disclosure.	The Council has robust procedures for identifying related party transactions and our audit did not identify any omissions or inaccuracies in the related parties note in the financial statements.
FRAUD AND ERROR	We enquired of management regarding any instances of fraud in the period, and considered throughout the audit the possibility of material misstatements due to fraud or error. We are not aware of any instances of fraud other than low value housing benefit fraud committed against the Council.	The results of our audit procedures have not identified any instances of fraud.

Continued

ACCOUNTING ESTIMATES

Our views on significant estimates, including any valuations of material assets and liabilities, arrived at the preparation of your financial statements are set out below. We have assessed how prudent or aggressive the estimate is based on the level of caution applied by management in making the estimate under conditions of uncertainty, such that assets or income are not overstated and liabilities or expenditure are not understated.

ESTIMATES

PROPERTY, PLANT & EQUIPMENT (PPE) AND INVESTMENT PROPERTY VALUATIONS

Local authorities are required to ensure that the carrying value of property, plant and equipment (PPE) and investment properties is not materially different to the current value or fair value at the Balance Sheet date.

The valuation for land and buildings included in PPE is a management estimate based on market values for existing use or depreciated replacement cost (DRC). Management uses external valuation data to assess whether there has been a material change in the value of classes of assets. The indices available to management to assess valuation changes are produced independently and are based on observable data (asset sales and building contract prices).

The Code of Practice on Local Authority Accounting 2015/16 (the Code) introduced a change in the basis of valuation of surplus assets and investment properties under International Financial Reporting Standard (IFRS) 13, from existing use value (in the case of surplus assets) or market value (in the case of investment properties) to a highest and best use valuation. This means that valuations may be significantly different in certain circumstances.

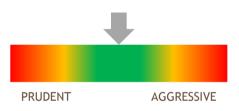
AUDIT FINDINGS AND CONCLUSIONS

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 for PPE and a loss of £56,000 for investment properties.

We assessed the valuer's competence, independence and objectivity and determined we could rely on the management expert.

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 Code requirements.

We compared the valuations to expected movements using available market information and concluded that the movements are within expectations.



KEY AUDIT AND ACCOUNTING MATTERS Continued

AUDIT FINDINGS AND CONCLUSIONS

PENSION LIABILITY ASSUMPTIONS

The pension liability comprises the Council s share of the Fund and the estimated future liability to pay pensions. market value of assets held in the East Sussex Pension

inflation. Management has agreed the assumptions made expected pay rises along with other assumptions around specialist knowledge and experience. The estimate has by the actuary to support the estimate and these are An actuarial estimate of the pension fund liability is calculated by an independent firm of actuaries with regard to local factors such as mortality rates and disclosed in the financial statements. We have reviewed the reasonableness of the assumptions provided by an independent consulting actuary report. applied by comparing these to the expected ranges

As at 31 March 2016 net pension liabilities disclosed in the Balance Sheet decreased by £7.743 million compared to the balance at 31 March 2015.

actually be payable until employees retire but because the Council has a It should be noted that these retirement benefits (liabilities) will not requirement to disclose the information in the accounts at the time commitment to make the payments (for those benefits) there is a employees earn their future entitlement.

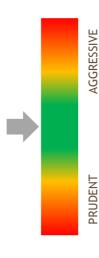
the actuary has rolled forward the value of the liabilities calculated at the The last formal valuation of the Fund was carried out as at 31 March 2013. In order to assess the value of the Council's liabilities as at 31 March 2016 latest formal valuation, allowing for up to date financial assumptions.

The key changes to the financial assumptions relate to:

- a reduction in the pension increase rate from 2.4% to 2.2%
- a reduction in the salary increase rate from 4.3% to 4.2%
- an 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).

These changes have resulted in the significant decrease in the present value of the scheme liabilities at 31 March 2016.

present value of future pension liabilities with the expected ranges provided assumptions used are not unreasonable or outside of the expected ranges. We have compared the assumptions used by the actuary to calculate the by the independent consulting actuary. We are satisfied that the



Continued

ALLOWANCE FOR NON COLLECTION OF RECEIVABLES

The Council's largest allowances for impairment of receivables relate to housing benefit overpayments and collection fund receivables for council tax and business rates.

Historically, to calculate the bad debt provision for housing benefits, management took arrears by individual and then categorised these between age and whether there was a payment plan in place. A provision percentage was then applied to each category based on the history of recovery of such debts. This year, management applied a different methodology, by comparing how much debt has been raised each year to how much has been recovered (either in cash or as a deduction from on going benefits).

We have reviewed management s calculations and considered the reasonableness of the estimates against collection rates calculated for the current aged debt profile.

AUDIT FINDINGS AND CONCLUSIONS

Overall we have concluded that the impairment allowances for receivables are reasonable

Housing benefit overpayments

The impairment allowance at 31 March 2016 is £521,699, a decrease of £429,588 from the prior year, against a housing benefits overpayments receivables balance of £1.740 million. Management's revised methodology appears reasonable and suggests that prior year impairment allowance was overly prudent.

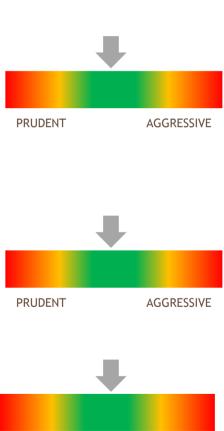
However, the collection rates / write off information was not available to fully calculate a provision against the recoverability of old debt. A recommendation has been included in the Appendix III.

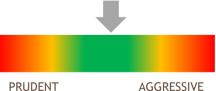
Council tax arrears

The impairment allowance for council tax arrears in the Collection Fund at 31 March 2016 is £771.655, a decrease of £174.753 from the prior year. against total arrears of £2,032,358. The Council has a 13% share in these balances. We are satisfied that the impairment calculation is based on actual write off rates and is reasonable. An immaterial variance was noted between BDO's expectation, based upon historic collection rates, and management's calculation of the impairment allowance.

Business rates arrears

The impairment allowance for NDR arrears in the Collection Fund at 31 March 2016 is £467,099, a decrease of £27,868 from the prior year, against total arrears of £692,505. The Council has a 40% share in these balances. We are satisfied that the impairment calculation is based on actual write off rates and is reasonable. An immaterial variance was noted between BDO's expectation, based upon historic collection rates, and management's calculation of the impairment allowance.





KEY AUDIT AND ACCOUNTING MATTERS Continued

AUDIT FINDINGS AND CONCLUSIONS

We have reviewed the current list of appeals provided by the VOA and how this information is used to calculate a success rate for each category of appeal. No issues have been identified. Billing authorities are required to estimate the value of

We have tested the accuracy of the information used to calculate the success rate, for example, settled appeals and no issues have been identified.

Office Agency (VOA) provides information regarding the

appeals currently being assessed and settled.

appeals, including backdated appeals. The Valuation

potential refund of business rates arising from rate

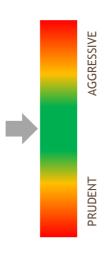
NON DOMESTIC RATES APPEALS PROVISION

Management use this information to calculate a success

rate for specific business types for settled appeals, and

applies an appropriate rate to each type of business

appeal still outstanding at year end.



data and assumptions used in calculating the likely success estimation of the provision due to potential incomplete We consider there to be a risk in relation to the rate of appeals.

Continued

FINANCIAL STATEMENT DISCLOSURES

Our views on the sufficiency and content of your financial statements' disclosures are set out below:

DISCLOSURE AREA	AUDIT FINDINGS AND CONCLUSIONS
ACCOUNTS DISCLOSURES	Amendments have been made to the financial statements as a result of the following presentational issues identified by the audit:
	Councillor's allowances - allowances did not agree to actual amounts received.
	 Property, plant ant equipment - the brought forward land cost total and prior year comparative did not agree to prior year by £200,000 due to a correcting adjustment being posted to the ledger, but not correctly adjusted on the face of the accounts.
	External audit fee: disclosure were updated to agree to the audit plan.
	 Fair value disclosures (IFRS 13) - disclosure regarding the basis of valuations were originally missing from the investment property and financial instruments note and have been subsequently added to the financial statements.
SUBSEQUENT EVENTS	Events after the reporting period and before the approval of the financial statements, which may result in a material adjustment in the future, are required to be disclosed by way of a note to the financial statements. The disclosure should describe the nature of the event and either the potential financial effect or a statement that such an estimate cannot be made.
	Following the 23 June 2016 referendum results for the United Kingdom to leave the European Union, the Council has amended its 'Subsequent events' note to refer to this event. Comprehensive commentary on the range of potential implications for the Council arising from this event has also been included in the Narrative Report.
ACCOUNTING POLICIES	We are satisfied that the accounting policies adopted by the Council are consistent with the requirements of the Code.
IMMATERIAL DISCLOSURES	We review the financial statements for such disclosures on an annual basis and will discuss any items which we consider to be unnecessary with officers. We have worked with officers to identify and remove immaterial disclosures from the financial statements.

Continued

OTHER MATTERS

We are required to communicate certain other matters to you. We deal with these below, either directly or by reference to other communications.

MAT	TER	COMMENT
1	Our responsibility for forming and expressing an opinion on the financial statements	See our audit planning report to you dated 9 March 2016.
2	An overview of the planned scope and timing of the audit	See our audit planning report to you dated 9 March 2016.
3	Significant difficulties encountered during the audit	All relevant matters have been included within this report.
4	Significant matters arising from the audit that were discussed with management or were the subject of correspondence with them, and any other matters arising from the audit that in our judgment are significant to the oversight of the financial reporting process	We have no matters to report.
5	Written representations which we seek	These are reproduced at Appendix VII .
6	Any fraud or suspected fraud issues	See our planning report to you dated 9 March 2016 and additional matters included within this report.
7	Any suspected non compliance with laws or regulations	We have no matters to report.
8	Uncorrected misstatements, including those relating to disclosure	A schedule of uncorrected misstatements is included at Appendix II.
9	Significant matters in connection with related parties	We have no matters to report.

SUMMARY OF AUDIT FINDINGS

STATUS REPORTING LEVEL

Not started Significant issue
In progress Raised for your attention
Complete No issue identified

AUDIT WORK STATUS Journals N N N N N N N N N N N N N	
Debtors Y N N N Cash and cash equivalents N N N N Short and long term investments N N N N	
Cash and cash equivalents N N N N N N N N N N N N N	
Short and long term investments N N N N	
Creditors N N Y N	
Short and long term borrowing NNNNNNNNNNNNNNNNNNNNNNNNNNNNNNNNNNNN	
Employee benefits N N N N	
Other expenditure NNNNNNNNNNNNNNNNNNNNNNNNNNNNNNNNNNNN	
Grant income N N N N	
Other income NNNNNNNNNNNNNNNNNNNNNNNNNNNNNNNNNNNN	
Collection fund NNNNNNNNNNNNNNNNNNNNNNNNNNNNNNNNNNNN	
Housing Revenue Account N N N N	
Related party transactions N N N N	
Financial instruments N N N N	
Cash Flow Statement N N N N	

SUMMARY OF AUDIT FINDINGS

Continued

STATUS	REPORTING LEVEL
Not started	Significant issue
In progress	Raised for your attention
Complete	No issue identified

AUDIT WORK STATUS		REPORTING LEVEL	ISSUE TO REPORT	ADJUSTMENTS MADE	UNADJUSTED ITEMS	REPRESENTATION REQUIRED
	Whole of Government Accounts		N	N	N	N
	Annual Governance Statement		N	N	N	N
	Narrative Report		N	N	N	N
	Use of resources		N	N	N	N

OUTSTANDING MATTERS

We have substantially completed our audit work in respect of the financial statements for the year ended 31 March 2016, and anticipate issuing an unqualified opinion on the financial statements.

The following matters are outstanding at the date of this report. We will update you on their current status at the Audit committee at which this report is considered:

- Review and agreement of the final WGA data collection tool against the final set of financial statements
- 7 Final partner review of financial statements and clearance
- Subsequent events review
 - Management representation letter, as attached in Appendix VII to be approved and signed



OTHER REPORTING MATTERS

We comment below on other reporting required to be considered in arriving at the final content of our audit report:

	MATTER	COMMENT
1	The draft financial statements, within the Statement of Accounts, was prepared and provided to us for audit on 30 June 2016. As part of our planning for the audit, we prepared a detailed document request which outlined the information we would require to complete the audit.	All relevant matters have been included within this report.
2	We are required to review the draft Annual Governance Statement and be satisfied that it meets the disclosure requirements in Delivering Good Governance in Local Government: a Framework published by CIPFA/SOLACE in June 2007. We are also required to be satisfied that it is not inconsistent or misleading with other information we are aware of from our audit of the financial statements, the evidence provided in the Councils review of effectiveness and our knowledge of the Council.	No issues to note.
3	We are required to read all the financial and non financial information in the Narrative Report to the financial statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit.	Our work identified a number of minor amendments to the narrative report which have been corrected.

WHOLE OF GOVERNMENT ACCOUNTS

We comment below on other reporting required:

MATTER COMMENT

Auditors are required to review Whole of Government Accounts (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.

Providing there are no significant amendments required to the unaudited whole of government accounts, we aim to complete our audit work and provide our audit opinion on the return at the same time as issuing our audit opinion on the financial statements.

USE OF RESOURCES

Key informed decisions, deployed resources and sustainable outcomes

We are required to be satisfied that proper arrangements have been made to secure economy, efficiency and effectiveness in the use of resources (value for money). This is 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.

There are three sub criteria that we consider as part of our overall risk assessment: Informed decision making, Sustainable resource deployment and Working with partners and other third parties.

We reported our risk assessment, which included use of resources significant risks, in the 2015/16 Audit Plan dated 9 March 2016. We have since undertaken a more detailed assessment of risk following our completion of the interim review of financial controls and review of the draft financial statements, and we have not included any additional significant risks.

We report below our findings of the work designed to address these significant risks and any other relevant use of resources work undertaken.

RISK DETAIL AND WORK PERFORMED **AUDIT ISSUES AND IMPACT ON CONCLUSION** The Resources Overview and Scrutiny Committee (OSC) approved the Medium **SUSTAINABLE** The Council reported an outturn financial surplus of £1.9 million in 2015/16 **FINANCES** Term Financial Strategy (MTFS) at the October 2014 committee meeting. The against a budget originally supported through £0.022 million use of reserves. MTFS set out the main financial issues affecting the Council for the years The surplus was achieved through service efficiencies and increased income. 2015/16 to 2019/20. While the MTFS financial position in the year to 31 March Underspends in Environmental and regulatory services (£399,000) were 2017 shows no gaps, funding gaps have been identified in 2017/18 of £0.557 achieved through the Waste and Street Cleaning contract via a combination of million, 2018/19 of £0.977 million and 2019/20 of £1.3 million. An updated lower than budgeted annual inflation uplift and the Environmental Health draft of the MTFS covering the period 2017/18 to 2021/22 is due to go to OSC Partnership with Wealden District Council delivering savings. in October 2016. In the updated draft, the funding gaps identified are 2017/18 Additional Retained Business Rates income (£387,000) was delivered through of £0.338 million, 2018/19 of £0.738 million, 2019/20 of £0.731 million, increased compensatory grants (Section 31 Grants) from Government relating 2020/21 of £0.835 million and 2021/22 of £1.024 million. to the additional rate reliefs given to small businesses. Any slippage or shortfall in achieving savings in 2016/17 will, in the short Underspends in support Services (£245,000) were due to savings in IT spend in term, have to be met from earmarked reserves. This will not be able to be 2015/16 owing to delays in completing the capital IT maintenance programme. sustained and the Council must focus on achieving the required reduction in its net revenue budget. The MTFS reflects known savings and known cost pressures. We are satisfied that the key underlying assumptions regarding reductions in central Identifying the required level of savings in the medium term will be a government grant funding, increases in council tax and business rates income, challenge and is likely to require further difficult decisions around service and staff pay and performance awards are not unreasonable. provision and alternative delivery models. There is a risk that the Council does not have appropriate arrangements to continue to remain financially sustainable over the period of the MTFS.

USE OF RESOURCES Continued

RISK	RISK DETAIL AND WORK PERFORMED	AUDIT ISSUES AND IMPACT ON CONCLUSION
SUSTAINABLE FINANCES		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.
(Continued)		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.
		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.
INFORMED DECISION MAKING	We have reviewed the Council's processes for informed decision making, ensuring the Council is acting in the public interest, through demonstrating and applying the principles and values of sound governance.	The financial governance arrangements provide clear leadership on financial matters through the work of the Overview and Scrutiny Committee (OSC) and the Cabinet. Performance against financial plans is reported to the Cabinet and OSC on a quarterly basis providing reliable financial information on a timely basis. This enables the Council's finances to be understood consistently across the organisation. Additionally, performance towards the Council's stated aims, outcomes and actions in the Corporate Plan through KPIs is monitored and reported to the OSC on a quarterly basis.
WORKING WITH PARTNERS AND OTHER THIRD PARTIES	We have reviewed the Council's practices for working with third parties effectively to deliver strategic priorities.	We note that the Council has introduced a variety of saving measures through working with other parties, such as the East Sussex Procurement Hub partnership and a joint waste contract with 4 of the 5 East Sussex authorities. The Council is part of the Three Southern Counties Devolution project, which is a proposed deal in which the authorities are seeking to work with government to deliver strong and sustainable economic growth, enhance productivity, transform public services and build a track record for fiscal efficiency. We have no concerns regarding the Council's arrangements for working with partners and other third parties.

USE OF RESOURCES

Continued

RISK	RISK DETAIL AND WORK PERFORMED	AUDIT ISSUES AND IMPACT ON CONCLUSION
VALUE FOR MONEY PROFILE TOOL	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. This is available at www.vfm.psaa.co.uk.	The Council's overall cost of services is in the middle third in comparison to other councils. Where necessary, plans are in place to address areas for improvement.
	We have reviewed the reports available with data populated in July 2016, which includes mainly 2014/15 outturn costs, comparing the Council with other District Councils.	
	The report highlights that the Council's overall spend per head in 2014/15 was below average across all services. This was a decrease from the prior year where spend per head was above average in Environmental, Housing and cultural service. Planned net current expenditure per head of population for 2015/16 was in the highest 20%.	
	The data indicates that the Council is performing well overall, in comparison to other authorities, however there are a few areas where the Council's performance or costs are below benchmark. Management should assess its performance for average number of days taken to process housing benefits changes of circumstance and new claims which take longer than average.	
	Throughout 2015/16 the Council selected 15 key performance indicators to be a measure of overall performance. Of these, 14 met or exceeded targets and one was not met in respect of recycling and composting of household waste.	



APPENDIX I: DEFINITIONS

TERM	MEANING
The Council	Rother District Council
'Those charged with governance'	The persons with responsibility for overseeing the strategic direction of the Council and obligations related to the accountability of the entity. Responsibility for governance for overseeing the financial reporting process has been allocated to the Audit Committee.
Management	 The persons responsible for achieving the objectives of the Council and who have the authority to establish policies and make decisions by which those objectives are to be pursued. Management is responsible for: The financial statements (including designing, implementing, and maintaining effective internal control over financial reporting) Putting in place proper arrangements to secure economy, efficiency and effectiveness in the use of resources and to ensure proper stewardship and governance, and regularly to review the adequacy and effectiveness of them.
ISAs (UK & Ireland)	International Standards on Auditing (UK & Ireland)
IAS	International Accounting Standards
IFRS	International Financial Reporting Standards as adopted by the European Union
Materiality	The size or nature of a misstatement that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable user of the financial statements would have been changed or influenced as a result of the misstatement.
The 'Code'	Code of Practice on Local Authority Accounting in the United Kingdom issued by CIPFA / LASAAC (Chartered Institute of Public Finance and Accountancy / Local Authority Scotland Accounts Advisory Committee)
SeRCOP	Service Reporting Code of Practice for Local Authorities issued by CIPFA / LASAAC
CIES	Comprehensive Income and Expenditure Statement

APPENDIX II: AUDIT DIFFERENCES

We are required to bring to your attention audit differences identified during the audit, except for those that are clearly trivial, that the Audit Committee is required to consider. This includes: audit differences that have been corrected by management; and those that remain uncorrected along with the effect that they have individually, or in aggregate, on the opinion in the auditor's report.

CORRECTED AUDIT DIFFERENCES

There were no differences that have been corrected in the revised draft financial statements that affect the reported surplus for the year. However, a number of amendments to classifications have been made, as detailed in the 'Key Audit and Accounting Matters' section of this report.

UNADJUSTED AUDIT DIFFERENCES

There was one unadjusted audit difference identified by our audit work which would have an impact on the Cash Flow Statement of £39k between employee costs and cash paid for services. This would have no impact on the draft surplus on the provision of services in the CIES if adjusted.

Management has stated that it considers these identified misstatements to be immaterial in the context of the financial statements taken as a whole.

APPENDIX III: RECOMMENDATIONS AND ACTION PLAN

AREA	CONCLUSIONS FROM WORK	RECOMMENDATIONS	MANAGEMENT REPSONSE	RESPONSIBILITY	TIMIMG			
FINANCIAL STATE	FINANCIAL STATEMENTS							
IMPAIRMENT PROVISION FOR HOUSING BENEFITS OVERPAYMENTS	Management revised the methodology for calculating recovery rates on aged housing benefits overpayments debts, based on collections rates. However, not all collection rates and write off information was available to support the recovered amounts on the older debts to confirm that the reduction in debt was as a result of collection rather than write off. A review of additional information showed that there was movement on older debts going back through to year ended 31 March 2007.	We recommend that going forward the Council retain information on the collection rates and write off information to enable it to fully calculate a provision of the recoverability of old debt.	Agreed information will be retained as appropriate. Note that minimal information exists on debt raised prior to 2006 when the mainframe computer system was replace by the Academy system.	Revenue Systems Control Officer.	March 2017			

APPENDIX III: RECOMMENDATIONS AND ACTION PLAN FOLLOW UP OF PRIOR YEAR CONTROL ISSUES

AREA	RECOMMENDATIONS	MANAGEMENT RESPONSE	RESPONSIBILITY	TIMING	FOLLOW UP	COMPLETED
NDR DEBT RECOVERY PROCEDURES	We recommend the Council review its debt recovery procedures for older NDR debt, and continue to pursue debt for organisations in administration. Older debt that is unlikely to be collected should be written off.	Officers are reviewing a number of income areas in 2015. Improvements to processes and administration will be implemented as appropriate.	Chris Watchmen	March 2016	Management has reviewed and improved controls over recovery of aged NDR debt.	Resolved.

APPENDIX IV: MATERIALITY

MATERIALITY - FINAL AND PLANNING

	FINAL	PLANNING
Materiality	£1,100,000	£1,100,000
Clearly trivial threshold	£30,000	£30,000

Planning materiality for the Council was based on 2% of the prior year gross expenditure. The clearly trivial amount is based on 3% of the materiality level. Following receipt of the draft financial statements we had no reason to revise our final materiality level.

APPENDIX V: INDEPENDENCE

INDEPENDENCE ENGAGEMENT TEAM ROTATION				
SENIOR TEAM MEMBERS	NUMBER OF YEARS INVOLVED	ROTATION TO TAKE PLACE IN YEAR ENDING		
LEIGH LLOYD-THOMAS - Engagement Lead	2 nd year	31 March 2020		
RYAN BARLOW - Project manager	1 st year	31 March 2026		

APPENDIX V: INDEPENDENCE

Continued

INDEPENDENCE THREATS TO INDEPENDENCE AND APPROPRIATE SAFEGUARDS

We have not provided any non audit services . Our audit fees are recorded on the following page.

We are not aware of any financial, business, employment or personal relationships between the audit team, BDO and the Council.

We confirm that the firm complies with the Financial Reporting Council's Ethical Standards and, in our professional judgement, is independent and objective within the meaning of those Standards.

In our professional judgement the policies and safeguards in place ensure that we are independent within the meaning of all regulatory and professional requirements and that the objectivity of the audit engagement lead and audit staff is not impaired.

Should you have any comments or queries regarding this confirmation we would welcome their discussion in more detail.

APPENDIX VI: FEES SCHEDULE

	CURRENT YEAR		
	£	THREATS TO INDEPENDENCE ARISING	SAFEGUARDS APPLIED AND WHY THEY ARE EFFECTIVE
Code Audit fee	48,128	N/A	N/A
Certification fee (Housing benefits subsidy claim)	19,470	N/A	N/A
TOTAL AUDIT FEE	67,598		

APPENDIX VII: DRAFT REPRESENTATION LETTER

TO BE TYPED ON CLIENT HEADED NOTEPAPER

BDO LLP 55 Baker Street London W1U 7EU

<Date> <Month> <Year>

Dear Sirs

Financial statements of Rother District Council for the year ended 31 March 2016.

We confirm that the following representations given to you in connection with your audit of the Council's financial statements (the 'financial statements') for the year ended 31 March 2016 are made to the best of our knowledge and belief, and after having made appropriate enquiries of other officers and members of the Council.

The Service Manager - Finance and Welfare has fulfilled his responsibilities for the preparation and presentation of the financial statements as set out in the Accounts and Audit Regulations 2015 and Statement of responsibilities of auditors and of audited bodies: local government issued by Public Sector Audit Appointments (PSAA), and in particular that the financial statements give a true and fair view of the financial position of the Council as of 31 March 2016 and of its income and expenditure and cash flows for the year then ended in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code) and for making accurate representations to you.

We have fulfilled our responsibilities on behalf of the Council, as set out in the Accounts and Audit Regulations 2015, to make arrangements for the proper administration of the Council's financial affairs, to conduct a review at least once in a year of the effectiveness of the system of internal control and approve the Annual Governance Statement, to approve the Statement of Accounts (which include the financial statements), and for making accurate representations to you.

We have provided you with unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence. In addition, all the accounting records have been made available to you for the purpose of your audit and all the transactions undertaken by the Council have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of all management and other meetings have been made available to you.

In relation to those laws and regulations which provide the legal framework within which the Council's business is conducted and which are central to our ability to conduct our business, we have disclosed to you all instances of possible non-compliance of which we are aware and all actual or contingent consequences arising from such instances of non-compliance.

Other than already disclosed, there have been no events since the balance sheet date which either require changes to be made to the figures included in the financial statements or to be disclosed by way of a note. Should any material events of this type occur, we will advise you accordingly.

We are responsible for adopting sound accounting policies, designing, implementing and maintaining internal control, to, among other things, help assure the preparation of the financial statements in conformity with international financial reporting standards and preventing and detecting fraud and error.

We have considered the risk that the financial statements may be materially misstated due to fraud and have identified no significant risks.

To the best of our knowledge we are not aware of any fraud or suspected fraud involving councillors, management or employees that could materially affect the financial statements. Additionally, we are not aware of any fraud or suspected fraud involving any other party that could materially affect the financial statements.

To the best of our knowledge we are not aware of any allegations of fraud or suspected fraud affecting the financial statements that have been communicated by councillors, employees, former employees, analysts, regulators or any other party.

You have identified one unadjusted error. In our opinion, the effects of not recording such identified financial statement misstatements is immaterial to the financial statements.

APPENDIX VII: DRAFT REPRESENTATION LETTER

Continued

We have disclosed to you the identity of all related parties and all the related party relationships and transactions of which we are aware. We have appropriately accounted for and disclosed such relationships and transactions in accordance with the applicable financial reporting framework.

We have no plans or intentions that may materially affect the carrying value and where relevant, the fair value measurement, or classification of assets or liabilities reflected in the financial statements.

We confirm that the significant assumptions used in making accounting estimates, including those measured at fair value, are reasonable.

a) Pension fund assumptions

We confirm that the actuarial assumptions underlying the valuation of the Local Government Pension Scheme (LGPS) scheme liabilities, as applied by the scheme actuary, are reasonable and consistent with our knowledge of the business. These assumptions include:

- Rate of inflation (RPI) 2.2%
- Rate of increase in salaries 4.2%
- Rate of increase in pensions 2.2%
- Rate for discounting scheme liabilities 3.5%
- Take up option to convert the annual pension into retirement grant pre 31 March 2008 50%
- Take up option to convert the annual pension into retirement grant post 1 April 2008 75%

We also confirm that the actuary has applied up-to-date mortality tables for life expectancy of scheme members in calculating scheme liabilities.

b) Valuation of land and buildings and investment properties

We are satisfied that the useful economic lives of land and buildings, and their constituent components, used in the valuation of the land and buildings, and the calculation of the depreciation charge for the year, are reasonable.

We confirm that the valuations applied to land and buildings revalued in the year, as provided by the valuer and accounted for in the financial statements, are reasonable and consistent with our knowledge of the business and current market prices.

We are satisfied that investment properties have been appropriately valued at fair value, based on highest and best use.

c) Allowance for non-collection of receivables

We are satisfied that the impairment allowances for council tax and business rates receivables and housing benefit overpayments receivables are reasonable, based on write-off rates or collection rates data.

(d) Non-domestic rates appeals provision

We are satisfied that the provision recognised for non-domestic rates appeals is materially correct, and the calculation of historical appeals are consistent with those advised to me by the Valuation Office Agency. We confirm that the successful rates applied to outstanding appeals as at 31 March 2016 is consistent with our knowledge of the business.

We consider that the Council is able to continue to operate as a going concern and that it is appropriate to prepare the financial statements on a going concern basis.

We have disclosed all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements and these have been disclosed in accordance with the requirements of accounting standards.

APPENDIX VII: DRAFT REPRESENTATION LETTER Continued

We confirm that the above representations are made on the basis of enquiries of councillors, management and staff with relevant knowledge and experience (and, where appropriate, of inspection of supporting documentation) sufficient to satisfy ourselves that we can properly make each of the above representations to you.

We confirm that the financial statements are free of material misstatements, including omissions.

We acknowledge our legal responsibilities regarding disclosure of information to you as auditors and confirm that so far as we are aware, there is no relevant audit information needed by you in connection with preparing your audit report of which you are unaware. Each director has taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that you are aware of that information.

Yours faithfully

Robin Vennard

Service Manager - Finance and Welfare

[date]

Councillor Martin Mooney

Chair of the Audit Committee

Signed on behalf of the Audit Committee

[date]

APPENDIX VIII: AUDIT QUALITY

BDO is totally committed to audit quality. It is a standing item on the agenda of BDO's Leadership Team who, in conjunction with the Audit Stream Executive (which works to implement strategy and deliver on the audit stream's objectives), monitor the actions required to maintain a high level of audit quality within the audit stream and address findings from external and internal inspections. BDO welcome feedback from external bodies and is committed to implementing a necessary actions to address their findings.

We recognise the importance of continually seeking to improve audit quality and enhancing certain areas. Alongside reviews from a number of external reviewers, the AQR (the Financial Reporting Council's Audit Quality Review team), QAD (the ICAEW Quality Assurance Department) and the PCAOB (Public Company Accounting Oversight Board who oversee the audits of US firms), the firm undertake a thorough annual internal Audit Quality Assurance Review and as member firm of the BDO International network we are also subject to a quality review visit every three years. We have also implemented additional quality control review processes for all listed and public interest audits.

We seek to make improvements and address weaknesses identified from both external and internal quality reviews. Where issues have been identified an action plan is put in place. These plans may relate to individual assignments, individual offices to be firm-wide and in each instance the outcome of these actions is subject to monitoring and have been the subject of our analysis of root causes. The actions may include, but are not necessarily limited to , one or more of the following:

- The implementation, where appropriate, of relevant training for the engagement team where the issue is team specific:
- The revision and production of additional guidance in connection with the firm's audit approach where we identify that an issue is more wide-spread;
- The development and delivery of firm-wide training;
- Amendments and/or enhancements to stream policies and procedures.



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 your attention. They do not purport to be a complete recor 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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