

Audit for the year ended 31 March 2017 19 September 2017



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## **SUMMARY**

	AUDIT SCOPE AND OBJECTIVES				
	Audit status	We have substantially completed our audit procedures in accordance with the planned scope and our objectives have been achieved.			
	Audit risks	Since we issued our Audit Plan on 10 March, we have amended the risk from normal risk to significant risk for land and buildings valuations and the calculation of the pension liability due to the extent of the estimation and assumptions used in determining these valuations.  No other additional significant audit risks were identified during the course of our audit procedures			
Materiality Our final materiality is £1.1 million. There was no change since our planning report to you.					

KEY AUDIT AND ACCOUNT	EY AUDIT AND ACCOUNTING MATTERS			
Material and other adjusted misstatements	Our audit identified no material misstatements.  The initial draft financial statements were amended by management prior to the commencement of the audit to reflect the treatment of section 106 capital receipts. The adjustment decreased the surplus on the provision of services by £521,000.  A number of presentational changes have been made to the financial statements as a result of the audit.			
Unadjusted audit differences	No non-trivial misstatements were identified by our audit testing.			
Control environment	Our audit identified no significant deficiencies in internal controls.			

	AUDIT OPINION			
	Financial statements We anticipate issuing an unmodified opinion on the financial statements for the year ended 31 March 2017.			
statement		We have no exceptions to report in relation to the consistency of the annual governance statement with the financial statements or our knowledge.		
		We anticipate issuing an unmodified conclusion on the Council's arrangements to secure economy, efficiency and effectiveness in the use of resources for the year ended 31 March 2017.		

### INTRODUCTION

#### PURPOSE AND USE OF THIS REPORT

We present our Audit Completion Report to the Audit and Standards 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 use of resources. As the purpose of the audit is for us to express an opinion on the financial statements and use of resources, 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 and Standards 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.

### **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 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.

More details can be found in our latest Transparency Report at www.bdo.co.uk.

## **OUTSTANDING MATTERS**

We have substantially completed our audit work for the year ended 31 March 2017.

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

- 1 Partner review clearance
- Final review and approval of the Statement of Accounts, including the financial statements
- 3 Subsequent events review
- 4 Management representation letter, as attached in Appendix VI, to be approved and signed

### **AUDIT RISKS**

We assessed the following matters as audit risks as identified in our earlier Planning Report dated 10 March 2017. Below we set out how these risks have been addressed and the outcomes of our procedures.

**Key:** ■ Significant risk ■ Normal risk

	AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
1	Management override of controls	Under auditing standards, there is a presumed significant risk of management override of the system of internal controls.	We reviewed the appropriateness of journal entries and other adjustments made in the preparation of the financial statements and obtaining an understanding of any significant or unusual transactions.	No issues have been identified in our review of the appropriateness of journal entries and other adjustments to the financial statements.
			We reviewed accounting estimates for biases and evaluated whether the circumstances producing the bias, if any, represented a risk of material misstatements due to fraud.	Our work on accounting estimates has not identified any evidence of bias. Our views on significant management estimates are set out within this report.
2	Revenue recognition	Under auditing standards there is a presumption that revenue recognition presents a fraud risk. In particular, we consider there to be a significant risk in respect of existence (recognition) of revenue and capital grants	We tested an increased sample of revenue and capital grants subject to performance and conditions to confirm that these were only recognised as income when the conditions were met.	No issues have been identified by our testing of revenue from fees and charges and grant revenues.
		that are subject to performance and / or conditions before these may be recognised as revenue in the comprehensive income and expenditure statement (CIES).  We also consider there to be a significant risk in relation to the existence of fees and charges recorded in the CIES.	We tested an increased sample of fees and charges income throughout the year and the date of recognition for income received pre and post year end to underlying documentation and confirmed that income has been recorded in the correct period.	

	AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
3	investment property	Local authorities are required to ensure that the carrying value of land, buildings and investment properties are not materially different to existing use value for operational assets, or fair value for surplus assets and investment properties at the balance sheet date.  Management uses external valuation data to assess whether there has been a material change in the value of classes of assets and periodically (minimum of every five years) employs an external expert (valuer) to undertake a full valuation. A full valuation was undertaken in 2017.  The valuer will use its knowledge of local sales	We reviewed the instructions provided to the valuer to ensure that the correct data was provided. We reviewed the valuer's skills and expertise to determine if we could rely on the management expert.  We checked whether the basis of valuation for assets valued in year was appropriate. In particular, we checked whether 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.	From our review of the instructions provided to the valuer, the valuer's reports and central assurance regarding the work on the valuer commissioned by the National Audit Office, we are satisfied that we can rely on the management expert.  We confirmed that the basis of valuation for assets valued in year is appropriate based on Code requirements.
		or relevant indices for assets valued at depreciated replacement cost, to estimate the existing use value or fair values along with condition reviews for remaining useful economic lives.  We consider there to be a risk over the valuation of land and buildings where valuations are based on assumptions or where updated valuations have not been provided for a class of asset at year-end.	We reviewed valuation movements against indices of price movements for similar classes of assets.	Our comparison of valuation movements to expected movements recorded in the year using available market information concluded that they are not unreasonable (see next page).

#### SIGNIFICANT ACCOUNTING ESTIMATES Land, buildings, and investment property valuations **AUDIT CONCLUSION ESTIMATE** HOW RISK WAS ADDRESSED BY OUR AUDIT Land and buildings are The Council engaged an external valuer to value all of its assets at 31 March 2017. The valuation of assets within valued by reference to the financial statements totalled £31.835 million. This consists of £16.372 million of Land and buildings, £5.003 existing use market values million of Surplus Assets and £10.447 million of investment assets. This resulted in a net upwards revaluation movement of £3.325 million in the year for PPE and a gain of £1.802 million for investment properties. Investment properties are We reviewed the valuations provided and the valuation methodology applied, and confirmed that the basis of valued by reference to valuation for assets valued in year is appropriate based on Code requirements. highest and best use market value Our work on comparing valuations to expected market movements is on-going. We compared the valuations to expected movements using available market information and concluded that the **PRUDENT AGGRESSIVE** movements were reasonable. Where there were significant movements these were further investigated to gain an Some specialist buildings understanding for the larger variances. are valued at depreciated Reasonable explanations were provided and do not consider the valuations to be materially outside of our replacement cost by expectations. reference to building indices

	AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
4	Pension liability assumptions	The net pension liability comprises the Council's share of the market value of assets held in the East Sussex County Council's Pension Fund and the estimated future liability to pay pensions.  An actuarial estimate of the pension fund liability is calculated by an independent firm of actuaries with specialist knowledge and experience. 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.  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.	We agreed the disclosures to the information provided by the pension fund actuary.  We reviewed the reasonableness of the	The pensions note in the draft financial statements and the actuary's report noted that there had been a significant movement from investments with quoted prices not in active markets ('level 2' in the fair value hierarchy) to investments with quoted prices in active markets ('level 1' in the fair value hierarchy) compared to the prior year.  Further to our enquiries, management queried the classification with East Sussex County Council, the pension fund administrators.  Following further investigation, the actuary issued revised reports which reclassified investment funds and unit trust equities and bonds from level 1 to level 2. Management agreed to amend the financial statements for these revised classifications.  Our review of assumptions used to estimate the value the pension liability are not unreasonable (see next
			assumptions used in the calculation against other local government actuaries and other observable data.	page).
			We requested assurance from the auditor of the pension fund over the controls for providing accurate membership data to the actuary.	No concerns were noted regarding the controls over data provided by the pension fund administering authority to the actuary used to prepare the pension liability calculation.
			We checked whether any significant changes in membership data should have been communicated to the actuary.	There were no significant change to staff numbers that would require additional communication with the actuary.

#### SIGNIFICANT ACCOUNTING ESTIMATES

Pension liability assumptions

#### ESTIMATE HOW RISK WAS ADDRESSED BY OUR AUDIT

The key assumptions include estimating future expected cash flows to pay pensions including inflation, salary increases and mortality of members; and the discount rate to calculate the present value of these cash

outflows

The net pension liability decreased by £3.144 million in the year. This included an increase in the pension liability of £11.734 million (to £105.138 million) offset by an increase in the share of the assets of £14.880 million.

expected cash flows to pay pensions including

The key changes assumptions included an increase in the pension increase rate from 2.2% to 2.4%, a reduction in the salary increase rate from 4.2% to 2.8% and a reduction in the discount rate from 3.5% to 2.5%.

We compared the assumptions used by the actuary with the expected ranges provided by the independent consulting actuary prepared on behalf of local authority auditors. We are satisfied that the assumptions used are not unreasonable or outside of the expected ranges.

		Acceptable ange (PwC)	Assessment of assumption against expectations
RPI increase	3.4%	3.4%	Reasonable
CPI increase	2.4%	2.4%	Reasonable
Salary increase	2.8%		Employer specific - appears reasonable in context of CPI/RPI
Pension increase	2.4%	2.4%	Reasonable
Discount rate	2.5%	2.5-2.7%	Lower end of range (will increase liability)
Retired			
- Male	22.1 year	s 21.5-22.8	Reasonable
- Female	24.4 year	s 24.1-25.1	Reasonable)
Future pensioners	5		
- Male	23.8 year	s 23.7-24.4	Reasonable
- Female	26.3 year	s 26.2-26.9	Reasonable)
Commutation rate	e:		
Pre-April 2008	50%	25%-75%	Reasonable
Post-April 2008	75%	25%-75%	Reasonable
The consulting actuary's overall conclusion on Hyman Robertson was that they were comfortable that the methodologies used to establish assumptions would produce reasonable assumptions as at 31 March 2017 for all employees.			

**AUDIT CONCLUSION** 



PRUDENT AGGRESSIVE

	AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
5	Changes in presentation of the financial statements	The Code requires a change to the presentation of some areas of the financial statements. This includes:  • change to the format of the Comprehensive income and Expenditure Statement (CIES)	We reviewed the draft financial statements and checked them against the CIPFA Disclosure Checklist to ensure that all of the required presentational changes have been correctly reflected within the financial statements.	We requested that the council move the new Expenditure and Funding Analysis to the notes to the accounts as it is not a primary statement.
		<ul> <li>change to the format of the Movement in Reserves Statement</li> <li>new Expenditure and Funding Analysis (EFA) note</li> <li>change to the Segmental Reporting note</li> <li>new Expenditure and Income analysis note.</li> </ul>	We compared the re-stated prior year figures to the prior year accounts, adjusting for the prior period adjustments applied by the council and were able to agree the balances.	We required additional disclosure for one prior year adjustment. These adjustments have been made to the final financial statements. No other issues were identified by our audit of these changes.
		These changes will require a restatement to the 2015/16 CIES.  There is a risk that these presentational changes are not correctly applied in the financial statements.		

	AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND C	CONCLUSION
6	Allowances for non- collection of receivables	The Council makes allowance for the non-collection of receivables relating to housing benefit overpayments, council tax, Non Domestic Rates (NDR) and trade receivables. These allowances are management estimates based on historic experience, judgement and benchmarking against other similar authorities.  There is a risk that the assumptions used may not be appropriate, which could lead to a misstatement of the allowance made.	We reviewed the provision model for significant income streams and debtor balances to assess whether it appropriately reflected historical collection rates by age of debt or arrears.	AUDIT FINDINGS AND CONCLUSION  For the impairment of housing benefits overpaymed management compares how much debt has been reach year to how much has been recovered (either cash or as a deduction from on-going benefits) to estimate recovery of the remaining balance.  We noted that the Council still does not retain information on the write off details for the housin benefit debtors to enable it to fully calculate a provision of the recoverability of old debt.  For other debt, historical collection rates are obtain to calculate the impairment.  We have reviewed management's calculations and concluded that the impairment allowances for receivables are reasonable.	
EST	MATE	HOW RISK WAS ADDRESSED BY OUR AUDIT			AUDIT CONCLUSION
Allowances for non-collection of receivables		housing benefits overpayments receivables be However, the collection rates / write off informagainst the recoverability of old debt. A reconcollection rates  Council tax arrears  The impairment allowance for council tax arrof £31,284 from the prior year, against total balances.  We are satisfied that the impairment calculate Business rates arrears  The impairment allowance for NDR arrears in £31,353 from the prior year, against total arrears.	is £604,613, an increase of £82,914 from the prical lance of £2.015 million.  ormation continued to not be available to fully case on the Collection Fund at 31 March 2017 is farrears of £2,125 million. The Council has a 13% at tion is based on actual write off rates and is reason the Collection Fund at 31 March 2017 is £498,45 fears of £751,630. The Council has a 40% share in tion is based on actual write off rates and is reason to the council has a 40% share in tion is based on actual write off rates and is reason.	alculate a provision III.  2802,940, an increase share in these conable.  22, an increase of these balances.	PRUDENT AGGRESSIVE

	AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
7	Consideration of related party transactions	We consider if the disclosures in the financial statements concerning related party transactions are complete, accurate and in line with the requirements of the accounting standards.	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	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.
			which members have interests. No other interests have been identified that require disclosure.	

## **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
8	The draft financial statements, within the Statement of Accounts, was prepared and provided to us for audit on 13 June 2017.  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.	We have no matters to report.
9	We are required to review the draft Annual Governance Statement and 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 Council's review of effectiveness and our knowledge of the Council.	We have no matters to report with regards to inconsistencies in the annual governance statement.  We requested minor amendments to be made in the wording which management agreed to amend.
10	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.	We have no matters to report.

### **CONTROL ENVIRONMENT**

We are required to report to you, in writing, significant deficiencies in internal control that we have identified during the audit. These matters are limited to those which we have concluded are of sufficient importance to merit being reported to you.

As the purpose of the audit is for us to express an opinion on the Council's financial statements, 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.

We note that the Council's internal audit function has issued a number of observations and recommendations on the Council's control environment during 2016/17. We have not repeated these recommendations in this report unless we consider them to highlight significant deficiencies in control which we are required to report to you.

We are not aware of any significant deficiencies in the Council's internal controls in 2016/17.

# WHOLE OF GOVERNMENT ACCOUNTS

We comment below on other reporting required:

	MATTER	COMMENT
11	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.	Local authorities' were required to submit the unaudited DCT to HM Treasury and auditors by 7 July 2017. The Council submitted its DCT on 31 July 2017, partially due to national issues with the macros in the spreadsheet management which meant that they system was unable to lock it for submission until 25 August 2017.  We will submit the relevant section of the assurance statement to the National Audit Office prior to the statutory deadline.

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
- Working with partners and other third parties.

#### **AUDIT RISKS**

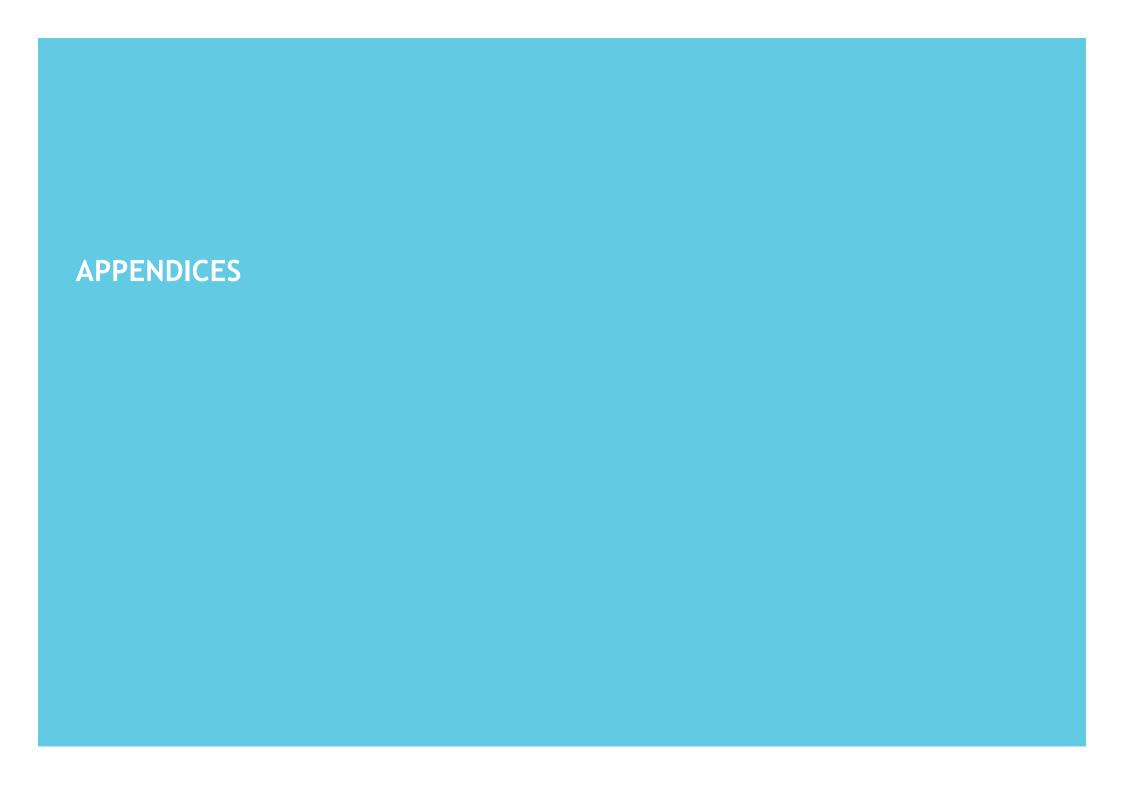
We assessed the following matters as audit risks as identified in our earlier Planning Report dated 10 March 2017. Below we set out how these risks have been addressed and the outcomes of our review.

**Key:** ■ Significant risk ■ Other issue

RISK AREA	RISK DESCRIPTION AND WORK PERFORMED	AUDIT FINDINGS AND CONCLUSION	
Sustainable finances	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 savings in 2018/19 (£250,000), 2019/20 (£600,000), 2020/21 (£1,200,000) and 2021/22 (£1,800,000) and support from draw down of reserves in 2017/18 (£775,000), 2018/19 (£236,000), 2019/20 (£793,000) and 2020/21 (£314,000). The budget being in surplus again by 2021/22.  There is a risk that savings may not be delivered as planned, placing additional pressures on reserves and sustainable finances in the medium term.  Financial outturn 2016/17  The Council reported a surplus of £3.5 million in 2016/17 against a budget originally supported through £8,000 support from reserves. The surplus was achieved 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. While this is included in the surplus for the year it can only be spent on areas directed by the funding and is not available to support general services.  MTFS financial assumptions and savings plans  The MTFS continues to include a resource gap in the medium term and further savings of at least £1.8million will need to be found by 2020/21. 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. (continued)	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.	

### RISK DESCRIPTION AND WORK PERFORMED **AUDIT FINDINGS AND CONCLUSION RISK AREA** Sustainable finances The Rother 2020 programme includes details of delivery of the savings required and additional income. The programme is made of five key work streams: (continued) • Service Prioritisation Increase income • Demand Management • Business Process Improvement/Lean Organisational Form The assumptions used in the MTFS appear to be reasonable and we note that savings and additional income has already been identified early in the revenue and capital monitoring report 2017/18. This includes £100,000 additional amount each year from the investment in CCLA property funds. The Rother 2020 Programme Plan is headed by the Programme and Projects Officer (PPO). It sets out the approach to management of the Programme, including a budget and savings and income record. Both of these are live documents updated as project managers identify required changes or savings/ additional income. Programme initiation documents (outlines of project plans) have been prepared for each of the components, and from this, the 'headline' actions (milestones) and outputs (products/services) are plotted on the Programme Plan (Excel chart) in order to monitor progress. 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 of Business Operations to continually review progress against plans. We consider the monitoring procedures in place to be robust.

RISK	AREA	RISK DESCRIPTION AND WORK PERFORMED	AUDIT FINDINGS AND CONCLUSION
2	Value for money profile (VfM) tool	The 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. We have reviewed the reports available with data populated in February 2017, which includes mainly 2015/16 outturn costs, comparing the Council with its nearest statistical neighbours and other district councils.  The report highlights that the Council's overall spend per head in 2015/16 remains in the highest 25% across all services. This indicated an increase from the prior year spend (2014/15) where spend per head was previously below average in Environmental and Housing services.  The performance data indicates that the Council is performing well overall, in comparison to other authorities. However, there remain a few areas where the Council's performance or costs are below benchmark and the Council should assess its performance in and targets for 2017/18.  Outlier performance metrics include average number of days taken to process housing benefits changes of circumstance and average number of days taken to process housing benefits new claims as in the highest 5%.	Management should assess whether additional savings can be driven through review of higher cost service areas identified in the VfM Profile Tool and ensure these are investigated through the savings programme.



## **APPENDIX I: 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 and Standards 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, and in aggregate, on the financial statements.

#### ADJUSTED AUDIT DIFFERENCES

Our audit has not identified any material misstatements.

The initial draft financial statements were amended by management prior to the commencement of the audit to reflect the treatment of section 106 capital receipts. The adjustment decreased the surplus on the provision of services by £521,000.

A number of presentational changes have been made to the financial statements as a result of the audit.

## **APPENDIX II: RECOMMENDATIONS AND ACTION PLAN**

**Key:** ■ Other deficiency in internal control

AREA OBSE	RVATION AND IMPLICATION	RECOMMENDATION	MANAGEMENT RESPONSE	RESPONSIBLE OFFICER	TIMING
FINANCIAL STAT	EMENTS				
IMPAIRMENT PROVISION FOR HOUSING BENEFITS OVERPAYMENTS	In the prior year, 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 continue to 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	Revenue Systems Control Officer.	March 2018
USE OF RESOUR	CES				
VFM PROFILE TOOL	The performance data indicates that the Council is performing well overall, in comparison to other authorities. However, there remain a few areas where the Council's performance or costs are below benchmark and the Council should assess its performance in and targets for 2017/18.	Management should assess whether additional savings can be driven through review of higher cost service areas identified in the VfM Profile Tool and ensure these are investigated through the savings programme.	Agreed	Service Manager - Finance and Welfare	March 2018

## **APPENDIX III: MATERIALITY**

MATERIALITY - FINAL AND PLANNING					
	FINAL	PLANNING			
Materiality	£1,100,000	£1,100,000			
Clearly trivial threshold	£20,000	£20,000			
Planning materiality of £1,100,000 was based on 2% of the budgeted gross expenditure. We had no reason to revise our final materiality level					

## **APPENDIX IV: INDEPENDENCE**

We confirm that the firm complies with the Financial Reporting Council's Ethical Standards for Auditors 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. These policies include engagement lead and manager rotation, for which rotation is required after 5 years and 10 years respectively.

INDEPENDENCE - ENGAGEMENT TEAM ROTATION				
Senior team members	Number of years involved			
LEIGH LLOYD-THOMAS - Audit engagement lead	3			
ARCHFORD RWAVAZHINJI - Audit manager	1			

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

## **APPENDIX V: FEES SCHEDULE**

	2016/17 FINAL PROPOSED	2016/17 PLANNED	2015/16 FINAL	
	£	£	£	EXPLANATION FOR VARIANCES
Code audit fee	48,128	48,128	48,128	As per PSAA scale fee
Housing benefits subsidy claim	10,000	20,453	19,470	The PSAA indicative fee was £20,453 but was reduced in respect appointing an external contractor to undertaken testing of benefit cases as part of the Certification work
TOTAL AUDIT AND CERTIFICATION FEES	58,128	60,581	67,598	
NON-AUDIT ASSURANCE SERVICES	Nil	Nil	Nil	
TOTAL ASSURANCE SERVICES	58,128	60,581	67,598	

### APPENDIX VI: DRAFT REPRESENTATION LETTER

#### TO BE TYPED ON CLIENT HEADED NOTEPAPER

BDO LLP 55 Baker Street London WIU 7EU

27 September 2017

Dear Sirs

#### Financial statements of Rother District Council for the year ended 31 March 2017

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 2017 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 Chief Finance Officer 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 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 2017 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.

There have been no events since the balance sheet date, other than those which have already been disclosed in the 'Events after the reporting period' note to the financial statements, which either require changes to be made to the figures included in the financial statements or to be disclosed in the 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.

### APPENDIX VI: DRAFT REPRESENTATION LETTER

We have considered the risk that the financial statements may be materially misstated due to fraud and have made the results available to you.

To the best of our knowledge we are not aware of any fraud or suspected fraud involving councillors, management or employees. 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.

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

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 (CPI): 3.4%
- Rate of increase in salaries: 2.8%
- Rate of increase in pensions: 2.4%
- Rate of discounting scheme liabilities: 2.5%
  - Take up option to convert the annual pension into retirement grant pre 31 March 2008 at 50% and post April 2008 at 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) land and buildings, Surplus Assets and investment properties

We are satisfied that the useful economic lives of the 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 and are not materially misstated at year end.

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

### APPENDIX VI: DRAFT REPRESENTATION LETTER

### (c) Allowance for non-collection of receivables

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

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.

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 and member has taken all the steps that they ought to have taken 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 and Standards Committee

[date]

#### 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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