

## Audit and Standards Committee

Date and Time - Monday 6 December 2021 – 6:30pm

Venue - Council Chamber, Town Hall, Bexhill-on-Sea

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### Councillors appointed to the Committee:

A.K. Jeeawon (Chairman), J. Barnes, Mrs M.L. Barnes, P.C. Courtel, K.M. Harmer, Mrs E.M. Kirby-Green, C.A. Madeley and R.B. Thomas.

**Audit Independent Person:** Mr Patrick Farmer

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## AGENDA

### 7. REPORT OF THE EXTERNAL AUDITOR, GRANT THORNTON - ANNUAL AUDIT LETTER 2019/20 (Pages 1 - 16)

Malcolm Johnston  
Chief Executive

Agenda Despatch Date: 26 November 2021

### Invitees in respect of Standards Related Reports only:

Independent Persons: Mr Robert Brown and Mrs Rose Durban.

Parish/Town Councillor Representative(s): Councillors Mrs W.M. Miers and K. Robertson

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**Rother District Council aspiring to deliver...**  
**an Efficient, Flexible and Effective Council, Sustainable Economic Prosperity,**  
**Stronger, Safer Communities and a Quality Physical Environment**

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# The Annual Audit Letter for Rother District Council

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Page  
Year ended 31 March 2020  
November 2021



Agenda Item 7

# Contents



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Section	Page
1. Executive Summary	3
2. Audit of the Financial Statements	5
3. Value for Money conclusion	11

**Appendices**

A Reports issued and fees

# Executive Summary

## Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Rother District Council (the Council) for the year ended 31 March 2020.

This Letter is intended to provide a commentary on the results of our work to the Council and external stakeholders and to highlight issues that we wish to draw to the attention of the public. In preparing this Letter we have followed the National Audit Office (NAO)'s Code of Audit Practice and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'. We reported the findings from our work in our Audit Findings Report to the Council's Audit and Standards Committee as Those Charged With Governance on 7 December 2020. An updated Audit Findings Report was presented to the Audit and Standards Committee on 27 September 2021.

## Respective responsibilities

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

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

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

## Our work

Materiality	We determined materiality for the audit of the Council's financial statements to be £992,000, which is approximately 2% of the Council's gross revenue expenditure.
Financial Statements opinion	<p>We gave an unqualified opinion on the Council's financial statements on 1 October 2021.</p> <p>Our report included an emphasis of matter in respect of the impact of the Covid-19 pandemic on the valuation of the Council's land and buildings, the Council's share of property assets in the East Sussex Pension Fund and the Council's long term holdings in property funds. This does not affect our opinion that the statements give a true and fair view of the Council's financial position and its income and expenditure for the year.</p>
Use of statutory powers	We did not identify any matters which required us to exercise our additional statutory powers.
Value for Money arrangements	We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources. We reflected this in our audit report to the Council on 1 October 2021.
Certificate	We certified that we have completed the audit of the financial statements of Rother District Council in accordance with the requirements of the Code of Audit Practice on 1 October 2021.

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# Executive Summary

## Working with the Council

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during the audit, particularly given the additional issues associated with remote working as a result of the pandemic.

Grant Thornton UK LLP  
November 2021

Page 4

# Audit of the Financial Statements

## Our audit approach

### Materiality

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

We determined materiality for the audit of the Council's financial statements to be £992,000, which is approximately 2% of the Council's gross revenue expenditure. We used this benchmark as, in our view, users of the Council's financial statements are most interested in where the Council has spent its revenue in the year. We set a lower level of materiality, £500,000, for our review of the Council's bank and cash balances, as any error in this area might have added significance for the accounts as a whole.

We set a threshold of £49,000 above which we reported errors to the Audit Committee in our Audit Findings Report.

### The scope of our audit

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

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

We also read the remainder of the Statement of Accounts to check it is consistent with our understanding of the Council and with the financial statements included in the Statement of Accounts on which we gave our opinion.

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

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

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

# Audit of the Financial Statements

## Significant Audit Risks

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

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>Covid-19</b> The global Covid-19 pandemic has led to unprecedented uncertainty for all organisations, including the Council. We identified risks relating to;</p> <ul style="list-style-type: none"> <li>• the impact of remote working arrangements on the Council's process for producing the financial statements, and on the audit team's ability to obtain sufficient, appropriate audit evidence to support our opinion;</li> <li>• the greater uncertainty applying to assumptions and estimates made by management, including the potential impact of market volatility on property valuations; and</li> <li>• the need for appropriate disclosures in the financial statements on the impact of the pandemic.</li> </ul>	<p>As part of our audit work we:</p> <ul style="list-style-type: none"> <li>• worked with management to understand the implications of the response to the pandemic on the Council's ability to prepare the 2019/20 financial statements;</li> <li>• evaluated the adequacy of the disclosures in the financial statements in the light of the pandemic;</li> <li>• evaluated whether sufficient audit evidence could be obtained through remote technology; and</li> <li>• evaluated whether sufficient audit evidence could be obtained to corroborate significant management estimates such as the valuations for property assets.</li> </ul>	<p>The Council moved to a remote working environment in March 2020. However, there has been no indication of high sickness levels, changes in roles and responsibilities or IT systems issues with a significant impact on the workings of the finance team.</p> <p>Management concluded that all valuations in respect of the Council's land and buildings, holdings in property investment funds, and its share in the East Sussex Pension Fund's property investments should be reported on the basis of "material valuation uncertainty".</p> <p>Our audit opinion includes an emphasis of matter drawing attention to this disclosure in the financial statements.</p>



# Audit of the Financial Statements

## Significant Audit Risks

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

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>Valuation of land and buildings</b></p> <p>The Council re-values its Property Plant and Equipment (PPE) assets using a 5-year rolling programme, but with major assets revalued annually. All investment properties are also revalued annually. At 31 March 2020 all PPE land and buildings, surplus assets and investment properties were revalued other than for minor assets totalling £60,000.</p> <p>For assets not revalued by the external valuer management review the carrying value included in the financial statements to ensure that this is not materially misstated. .</p> <p>The valuation of these assets represents a significant estimate by management in the financial statements.</p> <p>We designed our work to address the risk that the valuation of land and building assets was materially misstated.</p>	<p>As part of our audit work we:</p> <ul style="list-style-type: none"> <li>evaluated management's processes for the calculation of the estimate, including the instructions issued to the Council's external valuers and the scope of their work;</li> <li>evaluated the competence, capabilities and objectivity of the external valuers;</li> <li>challenged the information and assumptions used by the Council's external valuers;</li> <li>tested revaluations made during the year to see if they had been input correctly into the Council's asset register; and</li> <li>evaluated how management concluded that the carrying value of assets not revalued was not materially misstated.</li> </ul>	<p>The Council's largest PPE assets are revalued annually. For some assets the valuations are based in part on floor area or other measurements. Management identified that for four major assets the measurements used in the 2019/20 valuations had been incorrect. As a result the valuation of the Council's assets had been understated by £1,287,000. The accounts were amended.</p> <p>These measurement errors had also occurred in previous years, with the value of the relevant assets understated by £1,694,000 at 1 April 2018 and £1,917,000 at 31 March 2019. As these errors were material a prior period adjustment was made to the 2019/20 financial statements. A disclosure note was also added to summarise the impact of the adjustments.</p>

# Audit of the Financial Statements

## Significant Audit Risks

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

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>Valuation of net pension liability</b></p> <p>The Council's financial statements include a net liability in respect of the Local Government Pension Scheme (LGPS). This represents a significant estimate in the financial statements.</p> <p>We designed our work to address the risk that the pension fund net liability was materially misstated</p>	<p>As part of our audit work we:</p> <ul style="list-style-type: none"> <li>identified and evaluated the design of the controls put in place to ensure that the pension fund net liability was not materially misstated;</li> <li>assessed the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation;</li> <li>assessed the accuracy and completeness of the information provided by the Authority to the actuary;</li> <li>confirmed the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary PWC (as auditor's expert) and performing the additional procedures suggested within the report;</li> <li>checked that the disclosures on pensions included in the financial statements were consistent with the actuary's report; and</li> <li>obtained assurance from the auditor of the East Sussex Pension Fund (ESPF) on the validity and accuracy of the membership, contributions and benefits data provided by ESPF to the actuary, and used by the actuary to calculate the Council's net pension liability.</li> </ul>	<p>In December 2018 the Court of Appeal ruled that provisions in some public sector pension schemes were discriminatory on the basis of age, the so-called "McCloud" judgement. This ruling has implications for other pension schemes, including the LGPS, and gives rise to additional pension scheme liabilities for the Council. The impact of the ruling was assessed by the Council's actuary and accounted for in the 2018/19 financial statements.</p> <p>A consultation by HM Treasury on the next phase of the Government's response to address this discrimination commenced in July 2020. This process may lead to changes in the liabilities arising out of the judgment.</p> <p>The Council has not obtained a revised report from the actuary quantifying the potential impact of the government's proposals as the issue is not considered to be material.</p> <p>Our general understanding is that the remedy will potentially lead to a reduction in liabilities relative to the original estimates included in local authority accounts. We also noted that the actuary's estimate included in the 2018/19 accounts was not material.</p> <p>We concluded that there was no material issue for our opinion.</p>

# Audit of the Financial Statements

## Significant Audit Risks - continued

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

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>Management override of internal controls</b></p> <p>Under ISA (UK) 240 there is a non-rebuttable presumption that the risk of management over-ride of controls is present in all entities.</p> <p>The Council faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>We designed our work to address the risk associated with management override of internal controls.</p>	<p>As part of our audit work we;</p> <ul style="list-style-type: none"> <li>evaluated the design effectiveness of management controls over journals;</li> <li>identified and tested unusual journal entries for appropriateness;</li> <li>gained an understanding of the accounting estimates, judgements applied and decisions made by management, and considered their reasonableness; and</li> <li>evaluated the rationale for any changes in accounting policies or significant unusual transactions.</li> </ul>	<p>We considered the disclosures on estimation uncertainty and agreed a number of changes with management.</p> <p>We did not identify any other issues in respect of management override of controls.</p>

# Audit of the Financial Statements

## Audit opinion

We gave an unqualified opinion on the Council's financial statements on 1 October 2021.

## Issues arising from the audit of the financial statements

As a result of the Covid-19 pandemic remote working arrangements for both the Council and the audit team have been in place throughout the audit. This has meant that the audit has taken longer to complete, with screen-sharing and other procedures required to obtain appropriate supporting evidence.

Additional work has also been required in 2019/20 to address the depth and challenge of work now required by the Financial Reporting Council in areas such as the valuation of property assets and the Council's net pension liability.

We agreed amendments to PPE valuations for four assets as the measurements used in the valuation calculations were incorrect. However, in general the standard of the Council's draft financial statements was high. This performance was especially commendable given the challenging environment created by the pandemic.

We reported the key issues from our audit to the Council's Audit and Standards Committee on 7 December 2020. The Council needed to obtain additional information from the District valuer before finalising the amendments required to the valuation of PPE assets. We provided an updated report to the Audit and Standards Committee on 27 September 2021.

## Annual Governance Statement and Narrative Report

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

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

## Whole of Government Accounts (WGA)

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

## Certificate of closure of the audit

We certified that we have completed the audit of the financial statements of Rother District Council in accordance with the requirements of the Code of Audit Practice on 1 October 2021.

# Value for Money conclusion

## Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in April 2020 which specified the criterion for auditors to evaluate:

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

## Key findings

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

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

## Overall Value for Money conclusion

We are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2020.

# Value for Money conclusion

## Value for Money Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>Financial sustainability</b></p> <p>We identified a significant risk in respect of the Council's arrangements to ensure financial sustainability.</p>	<p>The Council has a history of robust financial management. The planning framework is based on a 5 year Medium Term Financial Plan (MTFP) which is aligned with the budget-setting process and updated annually. In recent years the Council has been proactive in responding to the implications of reductions in government funding, both by making financial savings and developing alternative sources of income. However, prior to the pandemic the Council recognised that it faced financial challenges going forward, in part due to the additional costs associated with the new waste collection and street cleansing contract. The revenue budget for 2020/21 was supported by net contributions from reserves of £917,000. In February 2020 the Council also anticipated that further contributions from reserves of approximately £8,000,000 would be required to support the revenue budget over the lifetime of the MTFP. The MTFP assumed delivery of recurring revenue savings rising to £3,000,000 per annum from 2022/23. As at 31.3.20 the Council's reserves available to support the revenue budget totalled £14,970,000.</p> <p>The impact of the Covid 19 pandemic on the council's financial position in 2019/20 has been limited, with lockdown arrangements commencing in late March 2020. However, the impact in 2020/21 has been significant. At the end of quarter 2 the Council was forecasting a deficit of £1,871,000 against the original revenue budget, of which £1,109,000 has been identified as due to the pandemic. This is after the receipt of additional government support of £2,372,000.</p> <p>The Council faces pressures both from the loss of income and additional costs. The loss of income reflects the impact of wider economic conditions, including reduced income from car parks and commercial property. The pandemic has also led to increases in expenditure, in particular relating to homelessness and financial support for the De La Warr Pavilion Charitable Trust and the operator of the Council's leisure facilities. The Council is also experiencing reduced collection rates for both NNDR and council tax, leading to a forecast deficit on the Collection Fund at 31.3.21. This will have no financial impact in the current year, and Councils are allowed to spread any 2020/21 deficit over a three-year period. However, the need to meet the Council's share of the deficit will be an additional financial pressure in future years.</p> <p>The Council has updated its MTFP as at November 2020. The MTFP is now identifying a budget gap of £4,493,000 in 2021/22. The Council is forecasting that contributions of £11,500,000 from reserves will be needed to support the revenue budget over the next five years, leaving total reserves of £3,462,000 at 31 March 2026.</p>	<p>We concluded that the risk we identified was sufficiently mitigated and that the Council has proper arrangements for securing economy, efficiency and effectiveness in the use of resources.</p>

# Value for Money conclusion

## Value for Money Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<b>Financial sustainability (continued)</b>  <div>Page 13</div>	<p>The Council recognises that there are a number of risks associated with this forecast. There is uncertainty over the future framework for business rates funding, where any rebasing or change to current pooling arrangements may have a significant effect on the Council's income. In addition a substantial increase in the Council's capital programme is planned over the lifetime of the MTFP, including housing and commercial developments, with capital expenditure of £186,000,000 planned over the next five years. A number of projects require construction or refurbishment, and any delays or void periods may make it more difficult to deliver the income targets in the early years of the MTFP, and to cover the borrowing costs associated with the projects. The MTFP requires the delivery of significant reductions in expenditure associated with service prioritisation and development; action in these areas has still to be agreed. The ongoing impact of the pandemic on the wider economy, and on any related council costs or income streams, is also unclear at this stage. These uncertainties may create greater risks as the level of reserves reduces over the lifetime of the MTFP.</p> <p>We concluded that the Council now faces very significant financial pressures. To date it has been proactive in updating the MTFP and in reviewing the plan's underlying assumptions. However, the continued extent of reliance on reserves to support the revenue budget over the lifetime of the plan means the Council's room for manoeuvre is limited. It will need a clear focus on delivering annual budgets within the framework set by the MTFP, and on taking early action to address any emerging budget gaps, to ensure it has a sustainable financial framework over the medium term.</p>	

# A. Reports issued and fees

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

## Reports issued

Report	Date issued
Audit Plan	January 2020
Audit Findings Report	September 2021
Annual Audit Letter	November 2021

## Non- audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The table summarises all non-audit services which were identified.

We have considered whether non-audit services might be perceived as a threat to our independence as the Council's auditor and have ensured that appropriate safeguards are put in place.

The non-audit services identified are consistent with the Council's policy on the allotment of non-audit work to the auditor of the Council's financial statements.

## Audit fee variation

As outlined in our audit plan the planned fee of £44,559 for 2019/20 was based on the assumption that the scope of our audit did not significantly change. However, for 2019/20 we have been required to perform additional work over and above that originally envisaged due to;

- the impact of the Covid 19 pandemic (£6,684)
- the work associated with PPE asset valuation errors (£8,000).

The proposed fee variation of £14,684 has been agreed with management but is subject to approval by Public Sector Audit Appointments.

Page 14  
Fees

	Planned £	Actual fees £	2018/19 fees £
Statutory audit	44,559	59,243	44,959
<b>Total fees</b>	<b>44,559</b>	<b>59,243</b>	<b>44,959</b>

## Fees for non-audit services

	Planned £	Actual fees £	2018/19 fees £
<b>Audit related services</b>	12,750	12,750	12,750
Certification of Housing Benefit Subsidy claim			
<b>Non-Audit related services</b>			
- None			
<b>Total fees for non-audit services</b>	<b>12,750</b>	<b>12,750</b>	<b>12,750</b>





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