



Audit and Standards Committee

Date and Time - Wednesday 28 July 2021 – 6:30pm

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

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

AGENDA

1. MINUTES

To authorise the Chairman to sign the Minutes of the meeting of the Audit and Standards Committee held on 21 June 2021 as a correct record of the proceedings.

2. APOLOGIES FOR ABSENCE

3. ADDITIONAL AGENDA ITEMS

To consider such other items as the Chairman decides are urgent and due notice of which has been given to the Head of Paid Service by 12 Noon on the day of the meeting.

4. DISCLOSURE OF INTERESTS

To receive any disclosure by Members of personal and disclosable pecuniary interests in matters on the agenda, the nature of any interest and whether the Member regards the personal interest as prejudicial under the terms of the Code of Conduct. Members are reminded of the need to repeat their declaration immediately prior to the commencement of the item in question.

PART A - STANDARDS REPORTS – NONE

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For all enquiries please contact
[**louise.hollingsworth@rother.gov.uk**](mailto:louise.hollingsworth@rother.gov.uk)

PART B - AUDIT REPORTS

5. **REPORT OF THE EXTERNAL AUDITORS, GRANT THORNTON - AUDIT PLAN 2020/21** (Pages 1 - 24)
6. **STATEMENT OF ACCOUNTS 2020/21** (Pages 25 - 28)
7. **TREASURY MANAGEMENT UPDATE - TO FOLLOW**
8. **WORK PROGRAMME** (Pages 29 - 30)

Malcolm Johnston
Chief Executive

Agenda Despatch Date: 20 July 2021

Rother District Council audit plan

Year ending 31 March 2021

July 2021
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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Key matters

Factors

Impact of Covid 19 pandemic

The outbreak of the Covid-19 coronavirus pandemic has had a significant impact on the operations of the Council. Remote working arrangements were introduced from late March 2020 and the Council has been required to take on significant additional responsibilities, including those relating to grant administration. There has also been an increasing focus on dealing with the long-term impacts of the pandemic on the Council and the local economy.

The impact of the pandemic on your financial position in 2020/21 has been significant. You have faced a loss of income in areas such as car parking and commercial property. You have also faced additional costs, including those relating to homelessness and financial support for the De La Warr Pavilion Charitable Trust and the operator of the Council's leisure facilities. However, progress with your capital programme slowed during 2020/21, leading to a reduction in the planned level of funding from revenue contributions. You have also received significant additional grant funding totalling £3,813,000 to mitigate the impact of the pandemic. You are reporting a deficit of £1,284,000 for 2020/21, of which £67,000 was unplanned.

You have also experienced significantly reduced collection rates for both NNDR and council tax. Although additional Section 31 support funding has been provided to offset the impact on the Council's finances, you are reporting a Collection Fund deficit of £11,168,000 for 2020/21. Under new Collection Fund accounting arrangements you will be allowed to spread this deficit over a three-year period. However, the need to meet the Council's share of this deficit will be an additional financial pressure in future years.

Financial position

You face very significant financial challenges. The revenue budget for 2020/21 was supported by net contributions from reserves of £917,000. The agreed budget for 2021/22 anticipates contributions of reserves of £3,319,000, including £2,700,000 to support the revenue budget. The Council's Medium Term Financial Strategy (MTFS) as revised at February 2021 anticipates further substantial contributions from reserves to support the revenue budget in the period to 2023/24. The MTFS also assumes a recurring impact from the delivery of significant additional income and financial savings through the Council's Financial Stability Programme.

You have a significant capital programme, including housing and commercial developments, with capital expenditure of £187,000,000 planned over the lifetime of the MTFS. In 2020/21 due to the impact of the pandemic and other issues actual capital expenditure was £5,479,000 against a plan of £13,519,000. However, much of the difference is a timing issue with expenditure now slipped to future years.

Our response

- As a firm we are absolutely committed to audit quality and financial reporting in the local government sector. Our proposed fee as set out in our Audit Plan reflects the impact of increasing expectations from regulators, changes to accounting standards and the revised approach to Value for Money work.
- We will consider your arrangements for managing and reporting your financial resources as part of our Value for Money work.
- The impact of revisions to auditing standards has been incorporated into our audit approach and methodology. We have already identified the material accounting estimates likely to be impacted by the updated ISA 540 and will work with management to agree on supporting information trails and the disclosures required in the financial statements.
- For our 2019/20 local government audits we identified a specific COVID-19 significant audit risk to address the impact of the pandemic in areas such as asset valuations, debt impairment and the accounts preparation process. Based on the outcomes from our work in 2019/20 and our liaison with officers on the processes for preparing the 2020/21 accounts we have concluded that Covid 19 is not a significant risk for our 2020/21 audit. However, as for other local authorities we have identified a risk relating to the accounting for additional government grants received during the pandemic.
- We will continue to provide the Audit and Standards Committee with sector updates on national issues and emerging developments that may be relevant to the Council.

Key matters

Factors

Changes to auditing standards

The Financial Reporting Council issued a number of updated International Auditing Standards (ISAs (UK)) which are effective for audits of financial statements for periods beginning on or after 15 December 2019. ISA (UK) 540 (revised): Auditing Accounting Estimates and Related Disclosures includes significant enhancements in respect of the audit risk assessment process for accounting estimates. As part of this process auditors also need to obtain an understanding of the effectiveness of the role of those charged with governance relating to accounting estimates adopted by management, particularly for estimates which have high estimation uncertainty or require significant judgement.

New Code of Audit Practice

On 1 April the National Audit Office introduced a new Code of Audit Practice with effect from the audit year 2020/21. The Code introduces a revised approach to the audit of Value for Money . These changes are explained in more detail on page 15, but include a revised set of assessment criteria, more extensive reporting requirements and the replacement of the binary qualified/unqualified approach to VFM conclusions.

Introduction and headlines

Purpose

This document provides an overview of the planned scope and timing of the statutory audit of Rother District Council ('the Council') for those charged with governance.

Respective responsibilities

The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set out in the *Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of Rother District Council*. We draw your attention to both of these documents.

Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the:

- Council's financial statements that have been prepared by management with the oversight of those charged with governance (the Audit committee); and
- Value for Money arrangements in place at the Council for securing economy, efficiency and effectiveness in your use of resources.

The audit of the financial statements does not relieve management or the Audit and Standards Committee of your responsibilities. It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

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

Significant risks

Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as:

- Management override of controls
- Valuation of land and buildings
- Valuation of the net pension liability

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.

Materiality

We have determined planning materiality to be £992,000 for the Council, which equates to approximately 2% of your prior year gross revenue expenditure.

We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £49,600.

Value for Money arrangements

Our initial risk assessment regarding your arrangements to secure value for money has not identified any risks of significant weakness. However, we have identified the following key areas of focus for our work;

- Review of arrangements to ensure the Council has a sustainable financial position over the medium term.

Audit logistics

Our key deliverables are this Audit Plan, our Audit Findings Report and Auditor's Annual Report. Our audit approach is detailed in Appendix A. We are aiming to complete our audit by 30 November 2021.

Our fee for the audit will be £60,059, subject to the Council delivering a good set of financial statements and working papers.

We have complied with the Financial Reporting Council's Ethical Standard (revised 2019) and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements..

Significant risks identified

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Management over-ride of controls	<p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities.</p> <p>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk.</p>	<p>We will:</p> <ul style="list-style-type: none"> • evaluate the design effectiveness of management controls over journals; • analyse journal transactions for the year, determine criteria for identifying high risk or unusual journals and test a selection of journal entries for appropriateness; • gain an understanding of the accounting estimates and critical judgements applied and consider their reasonableness; • evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.
The revenue cycle includes fraudulent transactions	<p>Under ISA (UK) 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition; • opportunities to manipulate revenue recognition are very limited; • the culture and ethical frameworks of local authorities, including the Council, mean that all forms of fraud are seen as unacceptable. <p>Therefore we do not consider this to be a significant risk for the Council.</p>

Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of land and buildings	<p>The Council regularly revalues its land and buildings to ensure that the carrying value is not materially different from the current value at the financial statements date. Investment properties are revalued annually at fair value.</p> <p>These valuations represent a significant estimate by management in the financial statements.</p>	<p>We will:</p> <ul style="list-style-type: none"> • review management's processes and assumptions for the calculation of the estimate, the instructions issued to valuers and the scope of their work; • consider the competence, expertise and objectivity of any valuation experts used.; • write to the valuer to confirm the basis on which the valuation was carried out; • review the information and assumptions used by the valuer to assess completeness and consistency with our understanding; • test that revaluations made during the year are input correctly into the Council's asset register; • evaluate the assumptions made by management for those property, plant and equipment assets not revalued during the year and how management have satisfied themselves that these are not materially different to current value
Valuation of the pension fund net liability	<p>The valuation of the Council's net pension liability as reflected in its balance sheet represents a significant estimate in the financial statements.</p>	<p>We will:</p> <ul style="list-style-type: none"> • Update our understanding of management processes and controls to ensure that the Council's pension fund net liability is not materially misstated and evaluate the design of the associated controls; • evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • assess the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation; • assess the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability; • test the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; • confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report.

Other risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Accounting for grant revenues and expenditure correctly	<p>In common with other local authorities the Council has received significant additional grant income in 2020/21 relating to the pandemic. This includes both grant funding to support the Council and grant funding for other organisations which has been administered by the Council.</p> <p>The Council will need to consider for each type of grant whether it is acting as principal or agent, and depending on that decision how the grant income and the amounts paid out should be accounted for.</p>	<p>We will:</p> <ul style="list-style-type: none"> consider the different types of grant received in 2020/21 and the conditions of the grant agreements; consider whether the Council is acting as principal or agent and assess if grant income has been accounted for correctly.
Risk of fraud in expenditure recognition	<p>We consider the risk that material misstatements due to fraudulent financial reporting may arise from the manipulation of expenditure recognition (for instance by deferring expenditure to a later period). As most public sector bodies are net spending bodies there may be an incentive to manipulate expenditure to meet targets or budgets. The risk of material misstatement due to fraud relating to expenditure recognition may in some cases be greater than the risk of material misstatements due to fraud related to revenue recognition.</p> <p>Having considered the risk factors and the nature of the expenditure streams at the Council, we have determined that the risk of fraud arising from expenditure recognition can be rebutted, because:</p> <ul style="list-style-type: none"> there is little incentive to manipulate revenue recognition; opportunities to manipulate revenue recognition are very limited; the culture and ethical frameworks of local authorities, including the Council, mean that all forms of fraud are seen as unacceptable. <p>However, although we rebutted the risk of fraud, as with other local authorities we have assessed there is an increased risk of error around estimation and cut-off processes at yearend.</p>	<p>We will:</p> <ul style="list-style-type: none"> test transactions around the end of the financial year to assess whether they have been included in the correct accounting period; test if payables and accruals included in the financial statements have been appropriately valued; compare listings of payables and accruals with the previous year to assess if these are complete.

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings Report.

Accounting estimates and related disclosures

The Financial Reporting Council issued an updated ISA (UK) 540 (revised): *Auditing Accounting Estimates and Related Disclosures* which includes significant enhancements in respect of the audit risk assessment process for accounting estimates.

Introduction

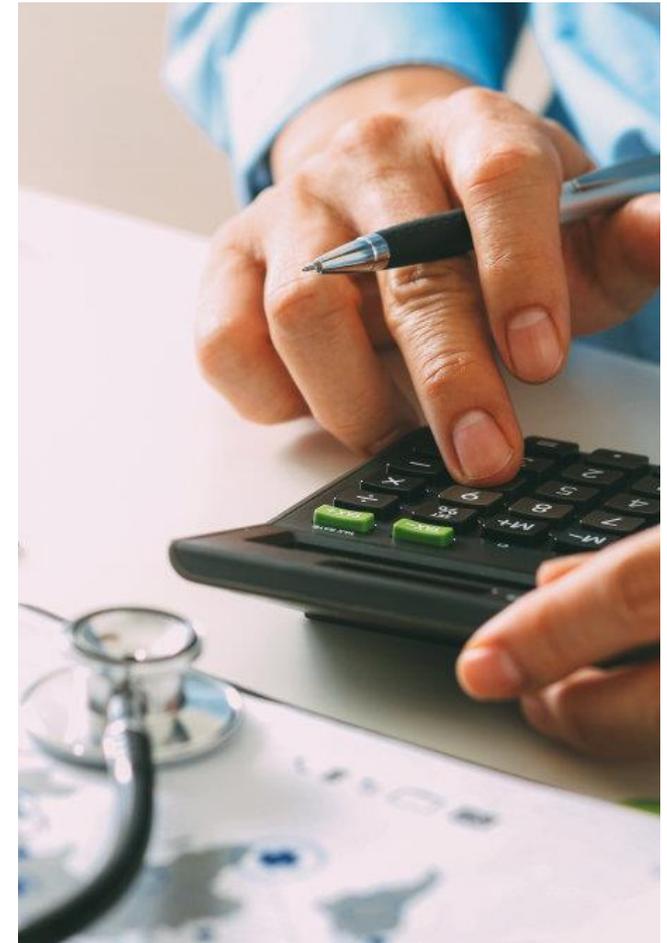
Under ISA (UK) 540 (Revised December 2018) auditors are required to understand and assess an entity's internal controls over accounting estimates, including:

- The nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates;
- How management identifies the need for and applies specialised skills or knowledge related to accounting estimates;
- How the entity's risk management process identifies and addresses risks relating to accounting estimates;
- The entity's information system as it relates to accounting estimates;
- The entity's control activities in relation to accounting estimates; and
- How management reviews the outcomes of previous accounting estimates.

As part of this process auditors also need to obtain an understanding of the role of those charged with governance, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Specifically do Audit and Standards Committee members:

- Understand the characteristics of the methods and models used to make the accounting estimates and the risks related to them;
- Oversee management's process for making accounting estimates, including the use of models, and the monitoring activities undertaken by management; and
- Evaluate how management made the accounting estimates?



Accounting estimates and related disclosures

Additional information that will be required

To ensure our compliance with this revised auditing standard, we will be requesting further information from management and those charged with governance during our audit for the year ended 31 March 2021.

Based on our knowledge of the Council we have identified the following material accounting estimates for which this is likely to apply:

- Valuations of land and buildings
- Valuation of investment properties
- Depreciation
- Year end provisions and accruals
- Credit loss and impairment allowances
- Valuation of defined benefit net pension fund liabilities
- Fair value estimates for loans

The Council's Information systems

In respect of the Council's information systems we are required to consider how management identifies the methods, assumptions and source data used for each material accounting estimate and the need for any changes to these. This includes how management selects, or designs, the methods, assumptions and data to be used and applies the methods used in the valuations.

When the models used include increased complexity or subjectivity, as is the case for many valuation models, auditors need to understand and assess the controls in place over the models and the data included therein. Where adequate controls are not in place we may need to report this as a significant control deficiency and this could affect the amount of detailed substantive testing required during the audit.

If management has changed the method for making an accounting estimate we will need to fully understand management's rationale for this change. Any unexpected changes are likely to raise the audit risk profile of this accounting estimate and may result in the need for additional audit procedures.

We are aware that the Council uses management experts in deriving some of its more complex estimates, e.g. asset valuations and pensions liabilities. However, it is important to note that the use of management experts does not diminish the responsibilities of management and those charged with governance to ensure that:

- All accounting estimates and related disclosures included in the financial statements have been prepared in accordance with the requirements of the financial reporting framework, and are materially accurate;
- There are adequate controls in place at the Council (and where applicable its service provider or management expert) over the models, assumptions and source data used in the preparation of accounting estimates.



Estimation uncertainty

Under ISA (UK) 540 we are required to consider the following:

- How management understands the degree of estimation uncertainty related to each accounting estimate; and
- How management address this estimation uncertainty when selecting their point estimate.

For example, how management identified and considered alternative, methods, assumptions or source data that would be equally valid under the financial reporting framework, and why these alternatives were rejected in favour of the point estimate used.

The revised standard includes increased emphasis on the importance of the financial statement disclosures. Under ISA (UK) 540 (Revised December 2018), auditors are required to assess whether both the accounting estimates themselves and the related disclosures are reasonable.

Where there is a material uncertainty, that is where there is a significant risk of a material change to the estimated carrying value of an asset or liability within the next year, there needs to be additional disclosures. Note that not all material estimates will have a material uncertainty and it is also possible that an estimate that is not material could have a risk of material uncertainty.

Where there is material estimation uncertainty, we would expect the financial statement disclosures to detail:

- **What the assumptions and uncertainties are;**
- **How sensitive the assets and liabilities are to those assumptions, and why;**
- **The expected resolution of the uncertainty and the range of reasonably possible outcomes for the next financial year; and**
- **An explanation of any changes made to past assumptions if the uncertainty is unresolved.**

Planning enquiries

As part of our planning risk assessment procedures we have made general enquiries of management in areas such as fraud, laws and regulations, related parties, and accounting estimates. We will share management's responses with the Audit & Standards Committee and ask the Committee to confirm that the responses are consistent with its understanding.

Further information

Further details on the requirements of ISA (UK) 540 (Revised December 2018) can be found in the auditing standard on the Financial Reporting Council's website:

[https://www.frc.org.uk/getattachment/0fa69c03-49ec-49ae-a8c9-cc7a2b65382a/ISA-\(UK\)-540_Revised-December-2018_final.pdf](https://www.frc.org.uk/getattachment/0fa69c03-49ec-49ae-a8c9-cc7a2b65382a/ISA-(UK)-540_Revised-December-2018_final.pdf)

Other matters

Other work

In addition to our responsibilities under the Code of Practice, we have a number of other audit responsibilities, as follows:

- We read your Narrative Report and Annual Governance Statement to check that they are consistent with the financial statements on which we give an opinion and our knowledge of the Council.

We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with requirements set by CIPFA.

We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions.

We consider our other duties under legislation and the Code, as and when required, including:

- giving electors the opportunity to raise questions about your 2020/21 financial statements, consider and decide upon any objections received in relation to the 2020/21 financial statements;
- issuing a report in the public interest or written recommendations to the Council under section 24 of the Local Audit and Accountability Act 2014 (the Act).
- application to the court for a declaration that an item of account is contrary to law under section 28 or a judicial review under section 31 of the Act
- issuing an advisory notice under section 29 of the Act
- We certify completion of our audit.

Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in this report.

Going concern

As auditors, we are required to obtain sufficient appropriate audit evidence regarding, and conclude on:

- whether a material uncertainty related to going concern exists; and
- the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements.

The Public Audit Forum has been designated by the Financial Reporting Council as a "SORP-making body" for the purposes of maintaining and updating Practice Note 10: Audit of financial statements and regularity of public sector bodies in the United Kingdom (PN 10). It is intended that auditors of public sector bodies read PN 10 in conjunction with (ISAs) (UK).

PN 10 has recently been updated to take account of revisions to ISAs (UK), including ISA (UK) 570 on going concern. The revisions to PN 10 in respect of going concern are important and mark a significant departure from how this concept has been audited in the public sector in the past. In particular, PN 10 allows auditors to apply a 'continued provision of service approach' to auditing going concern, where appropriate. Applying such an approach should enable us to increase our focus on wider financial resilience (as part of our VfM work) and ensure that our work on going concern is proportionate for public sector bodies. We will review the Council's arrangements for securing financial sustainability as part of our Value for Money work and provide a commentary on this in our Auditor's Annual Report.

Materiality

The concept of materiality

Materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Materiality for planning purposes

We have determined financial statement materiality based on a proportion of the gross expenditure of the Council for the financial year. In the prior year we used the same benchmark. Materiality at the planning stage of our audit is £992,000 which equates to approximately 2% of your forecast gross expenditure for the year.

We design our procedures to detect errors in specific accounts at a lower level of precision. We concluded that any error relating to bank and cash balances might have added significance for the accounts as a whole. We therefore applied a lower level of materiality of £500,000 for our work in this area, defined as any unexplained or unreconciled differences which in aggregate exceeded £500,000.

We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.

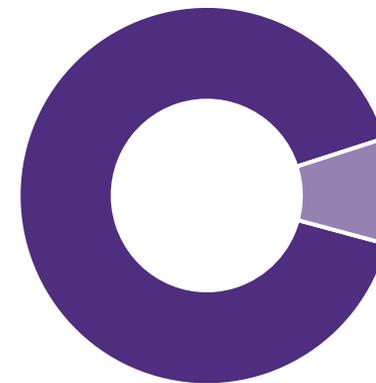
Matters we will report to the Audit and Standards Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit and Standards Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In the context of the Council, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £49,600.

If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit and Standards Committee to assist it in fulfilling its governance responsibilities.

Prior year gross operating costs

£49,615,000



■ Prior year gross operating costs

Materiality

£992,000

Council financial statements materiality (PY: £992,000)



£49,600

Misstatements reported to the Audit and Standards Committee (PY: £49,600)

Value for Money arrangements

Revised approach to Value for Money work for 2020/21

On 1 April 2020, the National Audit Office introduced a new Code of Audit Practice which comes into effect from audit year 2020/21. The Code introduced a revised approach to the audit of Value for Money. (VFM)

Page 14 There are three main changes arising from the NAO's new approach:

- A new set of key criteria, covering financial sustainability, governance and improvements in economy, efficiency and effectiveness
- More extensive reporting, with a requirement on the auditor to produce a commentary on arrangements across all of the key criteria, rather than the current 'reporting by exception' approach
- The replacement of the binary (qualified / unqualified) approach to VFM conclusions, with far more sophisticated judgements on performance, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

The Code require auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under three specified reporting criteria. These are as set out below:



Improving economy, efficiency and effectiveness

Arrangements for improving the way the body delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.



Financial Sustainability

Arrangements for ensuring the body can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years)



Governance

Arrangements for ensuring that the body makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the body makes decisions based on appropriate information



Risks of significant VFM weaknesses

As part of our planning work, we considered whether there were any risks of significant weakness in the body's arrangements for securing economy, efficiency and effectiveness in its use of resources that we needed to perform further procedures on. We have not identified any significant weaknesses from our initial planning work. However, we have identified key areas of focus for our work as below. We will continue our review of your arrangements, including reviewing your Annual Governance Statement, before we issue our auditor's annual report.

Key areas of focus

Our Value for Money work will focus on documenting and assessing your arrangements against the expanded scope of the VFM requirements. In particular, we will need to understand the areas of focus below, although the scope could increase as further work is performed.

- Financial sustainability

The Covid 19 pandemic has had a significant impact on the Council and on local authorities generally. The ongoing impact of the pandemic on the wider economy, and on any related council costs or income streams, is unclear. There is also uncertainty about the future funding framework for local government, including for business rates where any rebasing or change to current pooling arrangements may have a significant effect on the Council's income.

The Council's MTFS anticipates substantial contributions from reserves to support the revenue budget over the period to 2023/24.

We will consider the Council's arrangements to ensure it has a sustainable financial position over the medium term.

Audit logistics and team



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Darren Wells, Key Audit Partner

Responsible for overall quality control; accounts opinions; final authorisation of reports; liaison with the Council.



Trevor Greenlee, Audit Manager

Responsible for overall audit management, quality assurance of audit work and liaison with the Council

Audited body responsibilities

Where audited bodies do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other audits. Where the elapsed time to complete an audit exceeds that agreed due to a client not meeting its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to a client not meeting their obligations we are not able to guarantee the delivery of the audit to the agreed timescales. In addition, delayed audits will incur additional audit fees.

Our requirements

To minimise the risk of a delayed audit, you need to ensure that you:

- produce draft financial statements of good quality to the timetable you have agreed with us, including all notes, the Narrative Report and the Annual Governance Statement
- ensure that good quality working papers are available at the start of the audit in accordance with the working paper requirements schedule that we have shared with you
- ensure that the agreed data reports are available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of samples for testing
- ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audit
- respond promptly and adequately to audit queries.

Audit fees

In 2018 PSAA awarded a contract of audit for Rother District Council to begin with effect from 2018/19. The fee agreed in the contract was £37,059. Since that time there have been a number of developments, particularly in relation to the revised Code and ISA's which are relevant for the 2020/21 audit.

As referred to on page 4 the 2020/21 Code introduces a revised approach to our VFM work. This requires auditors to produce a commentary on arrangements across all of the key criteria, rather than the current 'reporting by exception' approach. Auditors now have to make far more sophisticated judgements on performance, as well as issue key recommendations if any significant weaknesses in arrangements are identified during the audit. We will be working with the NAO and other audit firms to discuss and share learning in respect of common issues arising across the sector.

The new approach will be more challenging for audited bodies, involving discussions at a wider and more strategic level. Both the reporting, and the planning and risk assessment which underpins it, will require more audit time, delivered through a richer skill mix than in previous years. Our estimate is that for your audit this will result in an increased fee of £9,000. This is in line with increases we are proposing at all our local audits.

Additionally, across all sectors and firms, the FRC has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing, as noted in the number of revised ISA's issued by the FRC that are applicable to audits of financial statements commencing on or after 15 December 2019, as detailed in Appendix 1..

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and public sector financial reporting. Our proposed work and fee for 2020/21, as set out below, is detailed overleaf

	Planned Fee 2019/20	Actual Fee 2019/20	Proposed fee 2020/21
Rother District Council Audit	£44,559	TBC	£60,059

Assumptions

In setting the above fees, we have assumed that the Council will:

- prepare a good quality set of accounts, supported by comprehensive and well presented working papers which are ready at the start of the audit
- provide appropriate analysis, support and evidence to support all critical judgements and significant judgements made during the course of preparing the financial statements
- provide early notice of proposed complex or unusual transactions which could have a material impact on the financial statements.

Relevant professional standards

In preparing our fee estimate, we have had regard to all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's [Ethical Standard \(revised 2019\)](#) which stipulate that the Engagement Lead (Key Audit Partner) must set a fee sufficient to enable the resourcing of the audit with partners and staff with appropriate time and skill to deliver an audit to the required professional and Ethical standards.

Audit fees – detailed analysis

Scale fee published by PSAA	£37,059
<i>Ongoing increases to scale fee first identified in 2019/20</i>	
Raising the bar/regulatory factors	£4,000
Enhanced audit procedures for Property, Plant and Equipment	£1,750
Enhanced audit procedures for Pensions	£1,750
Planned baseline Audit fee 2019/20 *	£44,559
<i>New issues for 2020/21</i>	
Additional work on Value for Money (VfM) under new NAO Code	£9,000
Increased audit requirements of revised ISAs	£6,500
Total audit fees (excluding VAT)	£60,059

Note 1 – The baseline 2019/20 audit fee does not include any costs associated with the audit overrun. These will be determined on completion of the 2019/20 audit.

Independence and non-audit services

Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons, relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard (Revised 2019) and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

We confirm that we have implemented policies and procedures to meet the requirements of the Ethical Standard. For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council.

Other services

The following other services provided by Grant Thornton were identified/ No other services provided by Grant Thornton were identified

The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit.

None of the services provided are subject to contingent fees.

Service	Fees £	Threats	Safeguards
Audit related			
Certification of Housing Benefit Subsidy claim	TBC	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the proposed fee for this work in 2019/20 was £12,750 in comparison to the total fee for the audit of £60,059, and in particular relative to Grant Thornton UK LLP's turnover overall. Further it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
Non-audit related	None		

Appendix 1: Revised Auditor Standards and application guidance

FRC revisions to Auditor Standards and associated application guidance

The following Auditing Standards and associated application guidance that were applicable to 19/20 audits, have been revised or updated by the FRC, with additional requirements for auditors for implementation in 2020/21 audits and beyond.

	Date of revision	Application to 2020/21 Audits
ISQC (UK) 1 – Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and other Assurance and Related Service Engagements	November 2019	
ISA (UK) 200 – Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing (UK)	January 2020	
ISA (UK) 220 – Quality Control for an Audit of Financial Statements	November 2019	
ISA (UK) 230 – Audit Documentation	January 2020	
ISA (UK) 240 – The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements	January 2020	
ISA (UK) 250 Section A – Consideration of Laws and Regulations in an Audit of Financial Statements	November 2019	
ISA (UK) 250 Section B – The Auditor’s Statutory Right and Duty to Report to Regulators of Public Interest Entities and Regulators of Other Entities in the Financial Sector	November 2019	

Appendix 1: Revised Auditor Standards and application guidance continued

	Date of revision	Application to 2020/21 Audits
ISA (UK) 260 – Communication With Those Charged With Governance	January 2020	
ISA (UK) 315 – Identifying and Assessing the Risks of Material Misstatement Through Understanding of the Entity and Its Environment	July 2020	
ISA (UK) 500 – Audit Evidence	January 2020	
ISA (UK) 540 – Auditing Accounting Estimates and Related Disclosures	December 2018	
ISA (UK) 570 – Going Concern	September 2019	
ISA (UK) 580 – Written Representations	January 2020	
ISA (UK) 600 – Special considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)	November 2019	
ISA (UK) 620 – Using the Work of an Auditor’s Expert	November 2019	
ISA (UK) 700 – Forming an Opinion and Reporting on Financial Statements	January 2020	

Appendix 1: Revised Auditor Standards and application guidance continued

	Date of revision	Application to 2020/21 Audits
ISA (UK) 701 – Communicating Key Audit Matters in the Independent Auditor’s Report	January 2020	
ISA (UK) 720 – The Auditor’s Responsibilities Relating to Other Information	November 2019	
Practice Note 10: Audit of Financial Statements of Public Sector Bodies in the United Kingdom	December 2020	



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Rother District Council

Report to:	Audit and Standards
Date:	28 July 2021
Title:	Statement of Accounts 2020/21
Report of:	Anthony Baden – Finance Manager
Purpose of Report:	This report asks Members to note the draft Statement of Accounts ahead of the external audit and discusses the main issues affecting the Statement and provides a commentary on the core financial statements.
Officer	
Recommendation(s):	It be RESOLVED : That the Council's draft 2020/21 Statement of Accounts be noted.

Introduction

1. This report discusses the main issues affecting the Council's draft Statement of Accounts 2020/21 and provides a commentary on the core financial statements. (The full Statement will be circulated separately to Members, when available.) At the time of writing this report, the Council's external auditors, Grant Thornton, were yet to commence their work on the accounts for 2020/21. Grant Thornton will report on the outcome of their work later in the year in line with the revised national timescales, if possible. Extra dates for this Committee have been earmarked in case Grant Thornton are unable to meet the 30 September deadline. The draft accounts include the Annual Governance Statement as amended and approved by the Committee at its meeting on 21 June 2021 (Minute AS21/09 refers).

Changes to the Format of the Statement of Accounts

2. The Code of Practice has required no major changes in the presentation of the accounts.

Statement of Accounts (circulated separately)

3. Detailed below is a brief description of the core financial statements and the issues relating to them.
4. **Movement in Reserves Statement** – this shows the movement in the year on the different reserves held by the authority, analysed into “useable reserves” (i.e. those that can be applied to fund expenditure or reduce local taxation) and un-useable reserves such as the revaluation reserve for land and property. The deficit of £1.174m on the provision of services line shows the true economic cost of providing the authority's services, and these are shown in greater detail in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be

charged to the General Fund Balance for Council Tax setting. The net change of £3.293m before transfers to Earmarked Reserves line shows the statutory General Fund Balance before any discretionary transfers to earmarked reserves is made by the Council.

5. **Comprehensive Income and Expenditure Statement** – this shows the Council's actual financial performance for the year, measured in terms of the resources consumed and generated over the last 12 months. It therefore does not show the "cash" position for the Council and is intended to reflect private sector accounting practice in presenting a profit and loss account.
6. **Balance Sheet** – this is fundamental to the understanding of the Council's year-end financial position. It shows the balances and reserves at the Council's disposal and its long-term indebtedness, the net current assets employed in its operations and summarised information on the fixed assets held. The net worth of the Council has decreased by £7.651m (as shown in the total reserves line). This is largely due to an increase in the Pension Fund liability (£4.8m), Collection Fund deficit (£3.6m) and Revaluation Reserve (£3.4m) partially offset by an increase in usable reserves (£4.9m). A detailed analysis of the Council's earmarked reserves is shown in the notes to the accounts.
7. The Pension Fund liability of (£22.648m) shown in the Balance Sheet is a long term financial assessment of a possible shortfall on the Fund, based on the current situation and performance. As such, no immediate action is required to manage the deficit.
8. **Cash Flow Statement** – this brings together in a single statement the inflows and outflows of cash arising from the Council's transactions with third parties for revenue, investment and capital purposes. Under International Financial Reporting Standards, the statement only reflects those flows of funds directly related to the Council. Where the Council acts as an agent, as in the case of collecting the Council Tax on behalf of precepting authorities, these inflows and outflows of cash are excluded.
9. **Collection Fund Income and Expenditure Account** – this reflects a statutory requirement for the Council, which collects the local taxes, to maintain a separate account in relation to Business Rates and the Council Tax and their distribution. Overall the Collection Fund balance was in deficit for the year by just over (£13m). This balance is made up of both Council Tax and Business Rates. For Council Tax the Fund was in deficit by (£1.256m) as at 31 March 2021, with East Sussex County Council entitled to the majority of this amount. For business rates the Fund was in deficit by (£11.8m), with the Government paying the highest amount followed by this Council. The majority of the deficit relates to the additional rate relief for businesses provided by the Government due to the COVID-19 Pandemic, which halved the amount collectable. The deficit on the Collection Fund will be spread over three financial years and will form part of the 2022/23 budget setting process. It is hoped the impact will be minimised through the additional Government grants received in 2020/21 which have been accounted for through the General Fund.

Conclusion

10. The Balance Sheet shows that overall the financial position of the Authority remains sound with an adequate amount of reserves in place to meet short term needs. The COVID-19 pandemic has exacerbated the financial pressure on the Council both in 2020/21 and continuing into the current financial year. It is therefore essential that in the medium term, the Council continues to deliver the target savings set out in the Medium Term Financial Plan in order for the Council to balance its budget.

Other Implications	Applies?	Other Implications	Applies?
Human Rights	No	Equalities and Diversity	No
Crime and Disorder	No	Consultation	No
Environmental	No	Access to Information	No
Sustainability	No	Exempt from publication	No
Risk Management	No		

Chief Executive:	Malcolm Johnston
Report Contact Officer:	Antony Baden
e-mail address:	Antony.baden@rother.gov.uk
Appendices:	A – Statement of Accounts
Relevant Previous Minutes:	AS 21/09
Background Papers:	None
Reference Documents:	Local Government Accounting Code of Practice 2020/21 and associated guidance

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AUDIT AND STANDARDS COMMITTEE

WORK PROGRAMME 2021 – 2022	
DATE OF COMMITTEE	SUBJECT
Wednesday 28 July 2021	<p>Part A – Standards Reports (none scheduled)</p> <p>Part B – Audit Reports</p> <ul style="list-style-type: none"> • Grant Thornton – Audit Plan 2020/21 • Statement of Accounts 2020/21 • Treasury Management Update
Monday 27 September 2021	<p>Part A – Standards Reports (none scheduled)</p> <p>Part B – Audit Reports</p> <ul style="list-style-type: none"> • Internal Audit Report to 30 June 2021 • Internal Audit Plan Update • Treasury Management Update • Risk Register Update • Service Area Risk Management Update – Environmental Health
Xx November 2021 (provisional date if required)	<p>Part A – Standards Reports (none scheduled)</p> <p>Part B – Audit Reports</p> <ul style="list-style-type: none"> • Grant Thornton – Annual Governance Report 2020/21 • Statement of Accounts 2020/21
Monday 6 December 2021	<p>Part A – Standards Reports</p> <ul style="list-style-type: none"> • Code of Conduct Complaints Monitoring • Local Government Ombudsman Complaints Monitoring and Annual Review 2020-2021 <p>Part B – Audit Reports</p> <ul style="list-style-type: none"> • Grant Thornton – Annual Audit Letter 2020-21 • Internal Audit Report to 30 September 2021 • Internal Audit Plan Update • Risk Management Update - TBC • Treasury Management Update
Xx January 2021 (provisional date if required)	<p>Part A – Standards Reports (none scheduled)</p> <p>Part B – Audit Reports</p> <ul style="list-style-type: none"> • Grant Thornton – Annual Governance Report 2020/21 • Statement of Accounts 2020/21
Monday	Page 29

WORK PROGRAMME 2021 – 2022

DATE OF COMMITTEE	SUBJECT
21 March 2022	<p>Part A – Standards Reports (none scheduled)</p> <p>Part B – Audit Reports</p> <ul style="list-style-type: none">• Grant Thornton – Audit Progress Report and Sector Update• Grant Thornton – External Audit Plan 2021-22• Internal Audit Report to 31 December 2021• Internal Audit Plan 2022-23• Review of Internal Audit 2021-22• Annual Governance Statement• Annual Property Investment Update• Treasury Management Update• Accounting Policies 2021-22• Annual Risk Register Update