



The Audit Findings for Rother District Council

Year ended 31 March 2020

December 2020

Final version September 2021 – updates to the version reported to the 7 December 2020 Audit and Standards Committee in **bold**



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Your key Grant Thornton team members are:

Darren Wells

Key Audit Partner

T: 01293 554120

E: Darren.J.Wells@uk.gt.com

Trevor Greenlee

Manager

T: 01253-554071

E: Trevor.Greenlee@uk.gt.com

Harpaul Lachhar

Assistant Manager

T: 020 7865 2935

E: Harpaul.s.lachhar@uk.gt.com

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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 for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. 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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Headlines

This table summarises the key findings and other matters arising from the statutory audit of Rother District Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2020 for the Audit and Standards Committee (those charged with governance).

| | | |
|------------------------------------|---|--|
| <p>Covid-19</p> | <p>The outbreak of the Covid-19 coronavirus pandemic has had a significant impact on the normal 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, including the impact on the Council's financial position and wider recovery planning.</p> <p>The national deadline for the preparation of the 2019/20 financial statements was extended to 31 August 2020, and for the publication of audited financial statements to 30 November 2020. The Council published its draft financial statements on 3 July 2020.</p> | <p>We updated our audit risk assessment to consider the impact of the pandemic on our audit. We issued an audit plan addendum in May 2020. In that addendum we reported an additional financial statement risk in respect of Covid -19. Further detail is included at page 7.</p> <p>The pandemic has also had an impact on our wider working arrangements. Following the government's announcement on Monday 16 March 2020 we closed our Grant Thornton offices. All members of the audit team have therefore worked remotely throughout the audit. This environment has meant that the audit has taken longer to complete, with screen-sharing and other procedures required to obtain appropriate supporting evidence trails.</p> <p>Additional work has also been required in 2019/20 to address the issues outlined in our January 2020 audit plan, including the increased depth and challenge of work now required by the Financial Reporting Council in areas such as the valuation of property plant and equipment and the Council's net pension liability.</p> |
| <p>Financial Statements</p> | <p>Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Council's financial statements:</p> <ul style="list-style-type: none"> • give a true and fair view of the financial position of the Council and its income and expenditure for the year; and • have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014. <p>We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS) and the Narrative Report) is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p> | <p>Our audit work has been performed in the period August – November 2020.</p> <p>Our audit is now substantially complete. The areas where work is still to be completed are:</p> <ul style="list-style-type: none"> • testing of journal entries; • obtaining responses and review of supporting evidence for a number of audit queries; • agreeing a final version of the financial statements including all disclosure changes with management • final review and audit quality procedures; • obtaining and reviewing the management letter of representation; and • updating our post balance sheet events review to the date of signing our opinion. <p>Our audit work is now complete, subject to</p> <ul style="list-style-type: none"> • obtaining and reviewing the management letter of representation • obtaining and reviewing responses to enquiries from the Audit and Standards Committee. <p>Following review of this information we anticipate issuing an unmodified audit opinion.</p> |

Headlines

This table summarises the key findings and other matters arising from the statutory audit of Rother District Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2020 for those charged with governance.

Financial Statements

Material valuation uncertainty – Emphasis of Matter

You have disclosed at Note 4 to the accounts that all valuations in respect of the Council's property, plant and equipment (PPE) and investment properties are reported on the basis of "material valuation uncertainty". We are discussing an amendment to Note 4 with management to disclose that the Council's share of property assets in the East Sussex Pension Fund, and the Council's long term holdings in property funds, are also being reported on the basis of "material valuation uncertainty" at 31 March 2020.

We have agreed an amendment to Note 4 which discloses that the Council's share of property assets in the East Sussex Pension Fund and the Council's long term holdings in property funds are also being reported on the basis of "material valuation uncertainty".

Where such disclosures are included in financial statements we consider if we need to include an Emphasis of Matter paragraph. This is not a qualification or modification of the auditor's report, but is used to draw the reader's attention to a matter which, in the auditor's judgement, is of such importance that it is fundamental to the users' understanding of the financial statements.

We have concluded that our audit opinion on your 2019/20 financial statements should include an Emphasis of Matter drawing attention to your disclosure of material valuation uncertainty in respect of the Council's property assets. This is consistent with the approach for our other local government audits.

Other issues

The Council's largest Property Plant and Equipment (PPE) assets are revalued annually. A number of valuations involve calculations using Gross Internal Area (GIA). Management have recently remeasured the GIAs for Bexhill Leisure Centre and Bexhill Leisure Pool and identified that measurements provided to the external valuer for valuation purposes at 31 March 2020 were incorrect. As a result the valuation of Bexhill Leisure Centre has been understated by £1,127,000 and the valuation of Bexhill Leisure Pool has been overstated by £474,000. As the net impact of these errors is not material management have decided not to adjust the accounts.

Further work in this area identified that the valuation calculations at 31 March 2020 for two other assets were also incorrect. As a result the valuation of Bexhill Town Hall had been understated by £388,000 and the valuation for the Treasurer's Offices understated by £246,000. The revised aggregate error was therefore an understatement of £1,287,000. As this value was material management have adjusted the 2019/20 accounts.

We concluded that the impact of these measurement errors had also been material 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. We agreed with management that a prior period adjustment was required to the 2019/20 accounts. To comply with accounting standards the accounts have been restated at both 1 April 2018 and 31 March 2019. A new disclosure note (Note 27) has also been added which summarises the impact of the adjustments.

Headlines

This table summarises the key findings and other matters arising from the statutory audit of Rother District Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2020 for those charged with governance.

Financial Statements

We also agreed a number of minor changes to disclosure notes.

We concluded that the other information to be published with the financial statements is consistent with our knowledge of your organisation and the financial statements we have audited.

Subject to the completion of outstanding work, we anticipate issuing an unqualified audit opinion.

The draft financial statements produced by the Council were of a high standard. This performance was especially commendable given the challenging environment created by the pandemic.

Headlines

This table summarises the key findings and other matters arising from the statutory audit of Rother District Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2020 for those charged with governance.

Value for Money arrangements

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report if, in our opinion, the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion').

We have completed our risk based review of the Council's value for money arrangements. You are currently forecasting a deficit of £1.9m against the original revenue budget for 2020/21, of which £1.1m is due to additional costs and loss of income arising from the Covid-19 pandemic. You updated your Medium Term Financial Plan (MTFP) in November 2020. You are forecasting that contributions of £11.5m from reserves will be needed to support the revenue budget over the next five years, leaving total reserves of £3.5m at 31 March 2026. You recognise that there are a number of uncertainties associated with this forecast. These uncertainties may create greater risks as the level of reserves reduces over the lifetime of the MTFP.

We concluded that you now face very significant financial pressures. The continued reliance on reserves to support the revenue budget means the Council's room for manoeuvre is limited. You 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 that you have a sustainable financial framework over the medium term.

We concluded that in 2019/20 you continue to have proper arrangements to secure economy, efficiency and effectiveness in the use of resources.

We therefore anticipate issuing an unqualified value for money conclusion, as detailed in Appendix D.

Statutory duties

The Local Audit and Accountability Act 2014 ('the Act') also requires us to:

- report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and
- To certify the closure of the audit.

We have not exercised any of our additional statutory powers or duties.

We have completed the majority of work under the Code and expect to be able to certify the completion of the audit when we give our audit opinion.

Acknowledgements

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.

Audit approach

Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, which is directed towards forming and expressing 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 or those charged with governance of their responsibilities for the preparation of the financial statements.

Audit approach

Our audit approach was based on a thorough understanding of the Council's business and is risk based, and in particular included:

- an evaluation of the Council's internal controls environment, including its IT systems and controls; and
- substantive testing on significant transactions and material account balances, including the procedures

We issued our Audit Plan in March 2020. We issued an addendum to our audit plan in May 2020 to reflect our response to the Covid-19 pandemic.

Conclusion

We have substantially completed our audit of the Council's financial statements. Subject to the completion of outstanding work we anticipate issuing an unqualified audit opinion.

Our audit work is now complete, subject to

- **obtaining and reviewing the management letter of representation**
- **obtaining and reviewing responses to enquiries from the Audit and Standards Committee.**

Following review of this information we anticipate issuing an unmodified audit opinion.

Our approach to materiality

The concept of 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. The table below gives details of our determination of materiality for the Council.

| | Council (£) | |
|--|-------------|---|
| Materiality for the financial statements | 992,000 | This has been calculated based upon 1.93% of your gross expenditure (Cost of Services) in the draft accounts. |
| Performance materiality | 694,000 | This has been calculated as 75% of materiality for the financial statements, based upon our assessment of the likelihood of a material misstatement. Performance materiality is used in audit testing and helps address the risk that there may be multiple errors which are individually below materiality but aggregate to a material amount. |
| Trivial matters | 49,000 | This has been calculated based upon 5% of your headline materiality |
| Materiality for bank and cash balances | 500,000 | 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. |

Significant audit risks

Risks identified in our Audit Plan

Covid- 19

Auditor commentary

We have:

- worked with management to understand the implications of the response to the Covid-19 pandemic on the Council's ability to prepare the 2019/20 financial statements and other financial information;
- evaluated the adequacy of the disclosures in the financial statements that arose in light of the Covid-19 pandemic;
- evaluated whether sufficient audit evidence could be obtained through remote technology;
- evaluated whether sufficient audit evidence could be obtained to corroborate significant management estimates such as assets and the pension fund liability valuations;
- evaluated management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment.

The Council moved to a remote working environment in late 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. We noted the Council published draft accounts on 3 July 2020. We assessed the implications for our materiality calculations, and concluded that no changes were required to the basis for determining materiality reported in our March 2020 Audit Plan.

The revenue cycle includes fraudulent transactions

In our March 2020 Audit Plan we considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council. We determined that the risk of fraud arising from revenue recognition could be rebutted, because:

- 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 Rother District Council, mean that all forms of fraud are seen as unacceptable.

There are no changes to the assessment reported in our Audit Plan.

Significant audit risks

Risks identified in our Audit Plan Auditor commentary

Management override of controls Auditor commentary

We have:

- evaluated the design effectiveness of management controls over journals;
- identified and tested unusual journal entries for appropriateness;
- gained an understanding of the accounting estimates, judgements applied and decisions made by management, and considered their reasonableness;
- evaluated the rationale for any changes in accounting policies or significant unusual transactions.

During 2019/20 the Council's system administrator for the U4BW ERP finance system was on a period of long term sick leave. In his absence a principal accountant in the finance team has exercised system administrator rights.

There is no indication of any issues of concern arising from these arrangements. However, where a member of the finance team also holds system administrator rights to the finance system then the control provided by segregation of duties is weakened. We recommend that arrangements for exercising the system administrator role in the absence of the main post-holder are reviewed.

Our audit work has not identified any other issues in respect of this risk.

Valuation of land and buildings

We have:

- evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work;
- evaluated the competence, capabilities and objectivity of the valuation experts;
- written to the valuers to confirm the basis on which the valuation was carried out;
- challenged the information and assumptions used by the valuers to assess completeness and consistency with our understanding;
- tested revaluations made during the year to see if they had been input correctly into the authority's asset register;
- evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end.

We identified a number of issues from our work on the valuation of land and buildings. These are reported at "Significant findings: Key estimates and judgements"

Significant audit risks

Risks identified in our Audit Plan

Valuation of the pension fund net liability

Auditor commentary

We have

- updated our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated and evaluated the design of the associated controls;
- evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work;
- assessed the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation;
- assessed the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability;
- tested the consistency of the pension fund asset and liability disclosures in the notes to the core financial statements with the actuarial report from the actuary;
- undertaken procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary PWC (as auditor's expert) and performed any additional procedures suggested within the report.
- 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.

We identified a number of issues from our work on the valuation of the pension fund net liability. These are reported at "Significant findings: Key estimates and judgements".

Other audit risks

Risks identified in our Audit Plan

International Financial Reporting Standard (IFRS) 16 Leases –(issued but not adopted)

Auditor commentary

IFRS16 will replace IAS 17 “Leases” and the three interpretations that supported its application. Under the new standard the current distinction between operating and finance leases is removed for lessees. Subject to certain exceptions lessees will recognise all leases on their balance sheet as a right of use asset and a liability to make the lease payments.

In our March 2020 Audit Plan we noted that the public sector intended to implement IFRS16 from 1 April 2020.

With the pressures arising from the Covid-19 pandemic the implementation of IFRS16 has been deferred to 2021/22. The Council has disclosed this change at Note 3, “Accounting Standards Issued, not adopted”.

The Council will need to assess the potential impact of the new standard in 2021/22 and disclose this in the 2020/21 financial statements.

The implementation of IFRS16 has now been deferred to 2022/23. The Council will therefore need to assess the potential impact of the new standard in 2022/23 and disclose this in the 2021/22 financial statements.

Significant findings – key estimates and judgements

| Accounting area | Summary of management's policy | Auditor commentary | Assessment |
|--|--|---|--|
| Provision for NNDR appeals: £1,105,000 | <p>Under the accounting policy at Note 1 (paragraph 17) the Council sets aside provisions for liabilities or losses that are either likely to, or certain to be incurred, but where there is uncertainty as to the amount or the date on which they will arise.</p> <p>The Council has assessed the potential liability of valuation appeals arising from business rate premises in respect of monies received up to 31 March 2020. The provision is based on a case by case assessment using information received from the Valuation Office Agency and an external firm, Analyse Local.</p> | <p>We reviewed the calculations supporting the NNDR appeals provision at 31 March 2020. We concluded that;</p> <ul style="list-style-type: none"> the underlying information used to determine the estimate appeared appropriate; there were no significant changes to the basis of estimation compared with the previous year; the estimate was adequately disclosed in the financial statements. <p>We concluded that management's estimation process was appropriate.</p> |  Green |
| Debtors: Impairment allowance: £1,245,000 | <p>The Council makes an impairment allowance for debtor balances taking into account the size and age of the debt outstanding and the likelihood of recovery.</p> | <p>We reviewed the calculation of the Council's impairment allowance for debtor balances at 31 March 2020. We concluded that;</p> <ul style="list-style-type: none"> the underlying information used to determine the estimate appeared appropriate; there were no significant changes to the basis of estimation compared with the previous year; the approach was consistent with that of other local authorities; the estimate was adequately disclosed in the financial statements. <p>We noted that management had considered the impact of the pandemic on the collectability of debt at 31 March 2020, and had increased the impairment allowance for council tax arrears. No adjustment was made in 2019/20 for other categories of debt. We recommend that the impairment allowance for all categories is re-assessed as part of 2020/21 accounts closedown to consider any additional information on the impact of the pandemic.</p> <p>We noted that the accounts disclose the value of the impairment allowance for</p> |  Orange |

Assessment

-  We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
-  We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
-  We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
-  We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Significant findings – key estimates and judgements

| Accounting area | Summary of management's policy | Auditor commentary | Assessment |
|---|---|--|---|
| | | sundry debtors, but not for other categories of debt. The CIPFA Accounting code of Practice requires that impairment allowances for all categories of debtor should be disclosed. We recommend this disclosure is included in the 2020/21 financial statements. | |
| PPE Land & Buildings, Net Book Value: £37,412,000 Surplus Land & Buildings: £7,721,000 Investment Properties £12,357,000 | <p>The Council's accounting policy for Property, Plant and Equipment (PPE) assets (including surplus assets) is at Note 1(section 16), and for investment properties at Note 1(section 12) Both policies cover accounting and valuation issues.</p> <p>The Council re-values its 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 minor assets totalling £60,000.</p> | <p>We identified a significant audit risk in respect of the valuation of land and buildings.</p> <p>We identified a number of issues from our work on the valuation of land and buildings. These are reported below.</p> <p>Valuation of non-current assets – disclosure of material valuation uncertainty</p> <p>The outbreak of Covid-19 has created volatility and uncertainty in markets. As a result RICS instructed its member firms to consider including additional disclosure within valuation reports, and if valuations should be reported on the basis of 'material valuation uncertainty' as per VPS 3 and VPGA 10 of the RICS Red Book Global. In these circumstances valuers advise that less certainty and a higher degree of caution should be attached to valuations than would normally be the case.</p> <p>All of the Council's property valuations in 2019/20 have been performed by an external valuer. The external valuer reported all property valuations on the basis of 'material valuation uncertainty'.</p> <p>The Council also has long term investment holdings in two property investment funds. Dealing in the CCLA fund was suspended in March 2020 as market conditions had created material uncertainty in the valuation of the fund's assets.</p> <p>All valuations in respect of the Council's PPE and investment property assets have been reported on the basis of "material uncertainty". The relevant disclosure is at Note 4 to the accounts ("Estimation uncertainty – Coronavirus assumptions"). We are discussing with management an additional disclosure in respect of the material uncertainty also applying at 31 March 2020 to the valuation of Council's share of property assets in the East Sussex Pension Fund, and the Council's long term holdings in property funds.</p> <p>We have agreed an amendment to Note 4 which discloses that the Council's share of property</p> |  Green |

Assessment

- We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Significant findings – key estimates and judgements

| Accounting area | Summary of management's policy | Auditor commentary |
|--|--------------------------------|--|
| <p>PPE Land & Buildings, Net Book Value: £37,412,000</p> <p>Surplus Land & Buildings: £7,721,000</p> <p>Investment Properties £12,357,000</p> | | <p>assets in the East Sussex Pension Fund, and the Council's long term holdings in property funds, are also being reported on the basis of "material valuation uncertainty" at 31 March 2020.</p> <p>Where such disclosures are included within financial statements auditors consider the need to include an 'emphasis of matter' paragraph within their audit report. An emphasis of matter is not a qualification or modification of the auditor's report, but is used to draw the reader's attention to a matter that has been appropriately presented or disclosed in the financial statements and which, in the auditor's judgement, is of such importance that it is fundamental to the users' understanding of the financial statements.</p> <p>We have concluded that our audit opinion on the Council's 2019/20 financial statements should include an Emphasis of Matter drawing attention to the material valuation uncertainty disclosed at Note 4.</p> |
| | | <p>Error in the valuations for Bexhill Leisure Centre and Bexhill Leisure Pool</p> <p>The Council's largest Property Plant and Equipment (PPE) assets are revalued annually. Where assets are valued on Depreciated Replacement Cost basis then the valuation involves an estimate of building costs based on Gross Internal Area (GIA). Management have recently remeasured the GIAs for Bexhill Leisure Centre and Bexhill Leisure Pool and identified that measurements provided to the external valuer for valuation purposes at 31 March 2020 were incorrect. As a result the valuation of Bexhill Leisure Centre has been understated by £1,127,000 and the valuation of Bexhill Leisure Pool has been overstated by £474,000. As the net impact of these errors is not material management have decided not to adjust the accounts.</p> <p>Subsequent to our report management identified that the measurements used in the 2019/20 valuation calculations for two other significant assets were also incorrect. As a result the valuation of Bexhill Town Hall had been understated by £388,000 and the valuation for the Treasurer's Offices understated by £246,000. The revised aggregate error was therefore an understatement of £1,287,000. As this value was material management agreed to adjust the 2019/20 accounts.</p> <p>The measurements used in the initial calculations for the 2019/20 accounts had also been used in previous years. As the Council's records did not allow the impact in previous years to be calculated, we agreed that management would request additional information from the District Valuer, the Council's external valuer in 2018/19 and earlier years. The Council received final information from the District Valuer in June 2021. The value of the relevant assets had been understated by</p> |

Assessment

- We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Significant findings – key estimates and judgements

| Accounting area | Summary of management's policy | Auditor commentary |
|--|--------------------------------|---|
| PPE Land & Buildings, Net Book Value: £37,412,000 | | £1,694,000 at 1 April 2018 and £1,917,000 at 31 March 2019. As the errors were material a prior period adjustment was required to the 2019/20 financial statements. To comply with accounting standards the accounts have been restated at both 1 April 2018 and 31 March 2019. A new disclosure note (Note 27) has also been added which summarises the impact of the adjustments. |
| Surplus Land & Buildings: £7,721,000 | | The Council charges annual depreciation on PPE assets. The impact of the increase in valuations was to also increase the required depreciation charge by approximately £62,000. As this amount was not material, and as a number of primary statements and disclosure notes would have required amendment, management have decided not to adjust the depreciation charge in the financial statements. We concluded that this was not a material issue for our opinion. However, we have included this value as an unadjusted misstatement at Appendix B. |
| Investment Properties £12,357,000 | | |

Assessment

- We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Significant findings – key judgements and estimates

| Summary of management's policy | Audit Comments | Assessment | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|--|--|---|---|------------|---------------|------|------|---|-----------------------|-----|---------|---|---------------|-----|---------|---|---|------|-----------|---|---------|------|-----------|--|---|------|-----------|---|---------|------|-----------|--|--|---|---|
| Net pension liability – £17.8m | <p>The Council's net pension liability at 31 March 2020 is £17,850,000 (PY £25,348,000). The Council is a member of the LGPS as operated through the East Sussex Pension Fund. The Council uses Hymans Robertson to provide actuarial valuations of the Council's assets and liabilities under the scheme. A full actuarial valuation is required every three years. The latest full actuarial valuation was completed in 2019. A roll forward approach is used in intervening periods, which utilises key assumptions such as life expectancy, discount rates, salary growth and investment returns. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements.</p> | <ul style="list-style-type: none"> We assessed your actuary, Hymans Robertson, to be competent, capable and objective; We have used the work and report of a consulting actuary (as an auditor's expert) to consider whether your actuary's method of calculating the estimate, including the roll forward approach, is reasonable; We carried out analytical procedures to conclude on whether the Council's share of the LGPS pension assets and liabilities was reasonable; We concluded that the information used by the actuary was complete and accurate; The auditors' expert has assessed the assumptions made by your actuary and identified indicative ranges for assumptions. There were no issues arising. | ● | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| <table border="1"> <thead> <tr> <th>Assumption</th> <th>Actuary value used for Rother DC</th> <th>Expected range per the auditor's expert</th> <th>Assessment</th> </tr> </thead> <tbody> <tr> <td>Discount rate</td> <td>2.3%</td> <td>2.3%</td> <td>●</td> </tr> <tr> <td>Pension increase rate</td> <td>1.9</td> <td>1.8-2.0</td> <td>●</td> </tr> <tr> <td>Salary growth</td> <td>1.9</td> <td>1.9-2.9</td> <td>●</td> </tr> <tr> <td>Life expectancy – Males currently aged 45</td> <td>22.5</td> <td>21.6-23.3</td> <td>●</td> </tr> <tr> <td>aged 65</td> <td>21.6</td> <td>20.5-22.2</td> <td></td> </tr> <tr> <td>Life expectancy – Females currently aged 45</td> <td>25.3</td> <td>24.6-26.3</td> <td>●</td> </tr> <tr> <td>Aged 65</td> <td>23.9</td> <td>22.9-24.3</td> <td></td> </tr> </tbody> </table> | Assumption | Actuary value used for Rother DC | Expected range per the auditor's expert | Assessment | Discount rate | 2.3% | 2.3% | ● | Pension increase rate | 1.9 | 1.8-2.0 | ● | Salary growth | 1.9 | 1.9-2.9 | ● | Life expectancy – Males currently aged 45 | 22.5 | 21.6-23.3 | ● | aged 65 | 21.6 | 20.5-22.2 | | Life expectancy – Females currently aged 45 | 25.3 | 24.6-26.3 | ● | Aged 65 | 23.9 | 22.9-24.3 | | | <ul style="list-style-type: none"> We concluded that there was appropriate disclosure of the estimate in the financial statements. | ● |
| Assumption | Actuary value used for Rother DC | Expected range per the auditor's expert | Assessment | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Discount rate | 2.3% | 2.3% | ● | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Pension increase rate | 1.9 | 1.8-2.0 | ● | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Salary growth | 1.9 | 1.9-2.9 | ● | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Life expectancy – Males currently aged 45 | 22.5 | 21.6-23.3 | ● | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| aged 65 | 21.6 | 20.5-22.2 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Life expectancy – Females currently aged 45 | 25.3 | 24.6-26.3 | ● | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Aged 65 | 23.9 | 22.9-24.3 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |

Assessment

- We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Significant findings – key judgements and estimates

| Summary of management's policy | Audit Comments | Assessment |
|---------------------------------------|--|--|
| Net pension liability – £17.8m | <p>Property assets within the East Sussex Pension Fund at 31 March 2020: Reporting of material valuation uncertainty</p> <p>The Council's holdings of assets in the East Sussex Pension Fund are analysed at Note 8 to the accounts. Property assets account for 9% of the total assets, with a value of £7,520,000 at 31 March 2020.</p> <p>Our understanding is that the 2019/20 accounts for the East Sussex Pension Fund will include a 'material valuation uncertainty' disclosure in respect of directly held property and pooled property investment valuations. We have also been informed by the auditors of the East Sussex Pension Fund that they will include an emphasis of matter drawing attention to this disclosure.</p> <p>The identification of a material valuation uncertainty in the accounts of the East Sussex Pension Fund is also relevant to the Council's accounts, as the Council's share of property-related assets is material. Any material valuation uncertainty disclosed in the accounts of the East Sussex Pension Fund will therefore also need to be disclosed in the Council's accounts.</p> <p>We are discussing with management the inclusion of an additional disclosure of "material valuation uncertainty" for these assets at Note 4. We will draw attention to this disclosure through an Emphasis of Matter in our audit opinion.</p> <p>McCloud: Government consultation on remedy</p> <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. In June 2019 the Supreme Court refused the government permission to appeal against the judgement.</p> <p>This ruling has implications for other pension schemes, including the Local Government Pension Scheme (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 and is currently in progress. Where material, this further information on remedy is an event that meets the definition of a non-adjusting post balance sheet event.</p> | <p style="text-align: center;">● Green</p> <p style="text-align: center;">● Orange</p> |

Assessment

- We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Significant findings – key judgements and estimates

| Summary of management's policy | Audit Comments | Assessment |
|---------------------------------------|--|------------|
| Net pension liability – £17.8m | <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> <p>Updated version of the actuary's report</p> <p>A report received from the Council's actuary in June 2020 was used to prepare the draft financial statements published on 3 July 2020. However, an updated report from the actuary was received later in July. The only substantive change was a reduction of £369,000 in the fair value of plan assets; this increased the Council's net pension liability by an equivalent amount. As these changes were not material, and would have involved a significant number of amendments to the primary statements and disclosure notes, management decided not to adjust the financial statements.</p> <p>We concluded that there was no material issue for our opinion. However, the amount has been included as an unadjusted misstatement at Appendix B.</p> | |

Assessment

- We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Significant findings – key judgements and estimates

| | Summary of management's policy | Audit Comments | Assessment |
|-------------------------------|--|---|------------|
| Critical judgements | Management disclose critical judgments in applying accounting policies at Note 3 | <p>Note 3 discloses a critical judgement in respect of the business rates appeals provision. The note explains the background to the provision and how it is estimated and updated annually. However, it is unclear if the estimation process involves any critical judgment in applying the Council's standard accounting policy on provisions (Note 1.17). We concluded that it would be more appropriate for this content to be included at Note 4, "Assumptions made about the future and other major sources of estimation uncertainty".</p> <p>Management have decided not to amend the accounts. We concluded the issue was not material for our opinion. However, we recommend that the content of Note 3 is reviewed for future years to ensure that the nature of any critical judgement is clearly identified.</p> | |
| Estimation uncertainty | Management disclose assumptions made about the future and other major sources of estimation uncertainty at Note 4 | <p>Under IAS1 there is a need for sensitivity disclosures to be considered for all estimates. Note 4 includes a sensitivity analysis quantifying the impact of changes to the assumptions used in calculating the net pension fund liability. However, there is no sensitivity analysis for the other estimates referred to at Note 4.</p> <p>We concluded the issue was not material for our opinion. However, we recommend that in future years disclosures for each estimate at Note 4 should include a sensitivity analysis on the impact of changes to assumptions.</p> | |

Assessment

- We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Significant findings – going concern

Our responsibility

As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern” (ISA (UK) 570).

Going concern commentary

Auditor commentary

Management's assessment process

Management has prepared a detailed going concern assessment to support the 2019/20 accounts and has concluded it remains appropriate to prepare the accounts on a going concern basis. The assessment takes into account the financial impact of Covid -19.

- You have a well-established financial planning framework and have set a balanced budget for 2020/21.
- At 31 March 2020 the Council had total general fund and earmarked reserves of £14,970,000.
- The Council has updated its 5-year Medium Term Financial Plan to take account of the impact of the pandemic. After contributions to support the revenue budget over the lifetime of the plan the council is forecasting it will have usable reserves of £3.5m at 31 March 2026.

Work performed

We reviewed management's going concern assessment.

- The information in management's going concern assessment is consistent with financial reporting to members, and the draft 2019/20 financial statements.
- Under the public sector interpretation of IAS 1 unless services provided by a public sector body are likely to be transferred outside the public sector the financial statements should be prepared on a going concern basis.
- A review of the draft financial statements has not identified the existence of going concern events or conditions which cast significant doubt on the Council's ability to continue as a going concern.

Concluding comment

- We concluded that management's continued use of the going concern concept to prepare the financial statements remains appropriate. We did not identify any material uncertainty about the Council's ability to continue as a going concern.

Other matters for communication

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

| Issue | Auditor commentary |
|---|---|
| Matters in relation to fraud | We have not been made aware of any significant incidents of fraud during the period. No other issues have been identified during the course of our audit procedures. |
| Matters in relation to related parties | We are not aware of any related parties or related party transactions which have not been disclosed. |
| Matters in relation to laws and regulations | You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any instances from our audit work. |
| Written representations | A standard letter of representation has been requested from the Council. |
| Confirmation requests from third parties | We seek external confirmations from relevant banks and financial institutions to support our review of the Council's yearend cash and investment balances. We received positive confirmation for all balances. There are no issues to report. |
| Disclosures | <p>Our review found no material omissions in the financial statements.</p> <p>We considered the disclosures relating to the Covid -19 pandemic. We noted that a number of disclosures referred to the material uncertainty applying to PPE valuations at 31 March 2020, and that a reference to the impact of the pandemic has been included in the disclosure on events after the reporting period. We also noted that the Narrative Report included a commentary on the wider impact of the pandemic on the Council's services and financial position.</p> <p>We are discussing with management an additional disclosure on "material valuation uncertainty" in respect of the Council's share of property assets in the East Sussex Pension Fund, and the Council's long term holdings in property funds. Subject to this amendment we have concluded that the financial statements include adequate disclosures relating to Covid 19.</p> <p>An additional disclosure on "material valuation uncertainty" in respect of the Council's share of property assets in the East Sussex Pension Fund and the Council's long term holdings in property funds has now been included at Note 4.</p> |
| Audit evidence and explanations/significant difficulties | <p>The Chief Accountant responsible for preparing the financial statements left the Council's employment before the start of the audit. Arrangements to support the audit were made involving under members of the finance team.</p> <p>All information requested from management was provided.</p> <p>We did not encounter any significant difficulties during our audit.</p> |

Other responsibilities under the Code

| Issue | Commentary |
|--|--|
| Other information | <p>We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement (AGS) and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p> <p>We did not identify any inconsistencies.</p> |
| Matters on which we report by exception | <p>We are required to report on matters by exception in a number of areas:</p> <ul style="list-style-type: none"> • if the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the other information of which we are aware from our audit; • if we have applied any of our statutory powers or duties. <p>We have nothing to report on these matters.</p> |
| Specified procedures for Whole of Government Accounts | <p>We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions.</p> <p>Detailed work is not required as the Council does not exceed the threshold specified by NAO.</p> |
| Certification of the closure of the audit | <p>We intend to certify the closure of the 2019/20 audit in our audit report when issued.</p> |

Value for Money

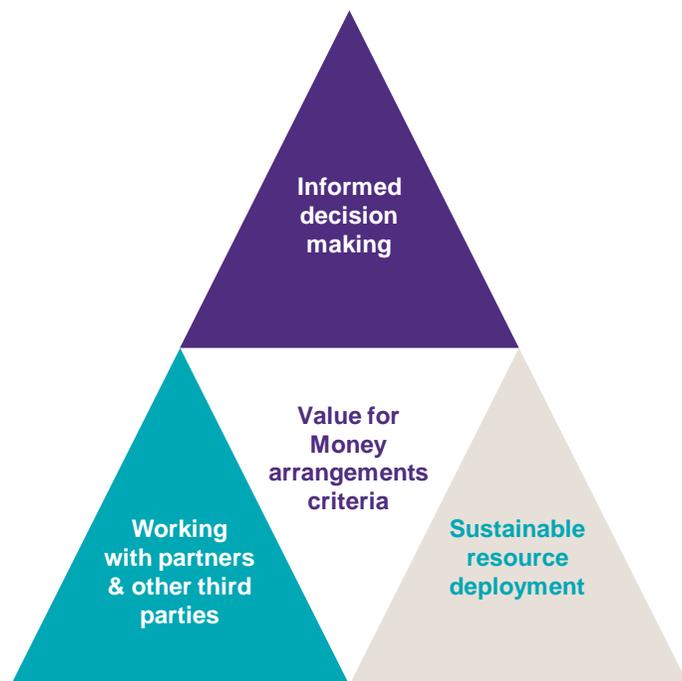
Background to our VFM approach

We are required to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in April 2020. AGN 03 identifies one single 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."

This is supported by three sub-criteria, as set out below:



Risk assessment

We carried out an initial risk assessment to identify significant risks in respect of specific areas of proper arrangements using the guidance contained in AGN03. We identified one significant risk and communicated this to you in our Audit Plan dated March 2020.

We have continued our risk assessment during the year. We issued an Audit Plan addendum in August 2020 in the context of the Covid-19 pandemic. This did not identify any new risks for our VFM conclusion work.

We have continued our review of relevant documents up to the date of giving our report, and have not identified any further significant risks where we need to perform further work.

We carried out further work only in respect of the significant risks we identified from our initial and ongoing risk assessment.

Value for Money

Our work

AGN 03 requires us to disclose our views on significant qualitative aspects of the Council's arrangements for delivering economy, efficiency and effectiveness.

We have focused our work on the significant risks that we identified in the Council's arrangements. In arriving at our conclusion, our main considerations were:

Financial sustainability

- Your financial planning framework based on a 5 year medium term financial plan (MTFP), which has been updated to take account of the financial impact of the pandemic.
- The level of revenue reserves available at 31 March 2020 to address risks and support future spending plans;

Overall conclusion

Based on the work we performed to address the significant risk we are satisfied you have proper arrangements for securing economy, efficiency and effectiveness in your use of resources.

Significant difficulties in undertaking our work

We did not identify any significant difficulties in undertaking our work on your arrangements which we wish to draw to your attention.

Significant matters discussed with management

There were no matters where no other evidence was available or matters of such significance to our conclusion or that we required written representation from management or those charged with governance.

Value for Money

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

| Significant risk | Findings | Conclusion |
|---------------------------------|--|--|
| Financial Sustainability | <p>You have a history of robust financial management. Your 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 you have 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 you recognised that the Council 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 is being supported by net contributions from reserves of £917,000. In February 2020 you 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 also 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 you are 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>You face 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>You have updated your MTFP as at November 2020. The MTFP is now identifying a budget gap of £4,493,000 in 2021/22. You are 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

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

| Significant risk | Findings | Conclusion |
|---------------------------------|--|------------|
| Financial Sustainability | <p>You recognise 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. You are also planning a substantial increase in the Council's capital programme 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 you now face very significant financial pressures. To date you have 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. You 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 you have a sustainable financial framework over the medium term.</p> | |

Independence and ethics

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 and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard 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.

Details of fees charged are detailed in Appendix C

Independence and ethics

Audit and 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 following non-audit services were identified, as well as the threats to our independence and the safeguards that have been applied to mitigate these threats.

| | Fees | Threats identified | Safeguards |
|--|--|---|--|
| Audit related | | | |
| Certification of Housing Benefit Subsidy claim | 2018/19 fee: £12,750 2019/20 fee: TBA | 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 fee for this work is (2018/19) £12,750 in comparison to the total scale fee for the audit of £37,059 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. |

Action plan

We have identified recommendations for the Council as a result of issues identified during the course of our audit. We will report on progress with agreed recommendations during the course of the 2020/21 audit. The matters reported here are limited to those deficiencies or issues that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

| Assessment | Issue and risk | Recommendations |
|--|--|--|
|  Medium | We noted that management had considered the impact of the pandemic on the collectability of debt at 31 March 2020, and had increased the impairment allowance for council tax arrears. No adjustment was made in 2019/20 for other categories of debt. | We recommend that the impairment allowance for all categories is re-assessed as part of 2020/21 accounts closedown to consider any additional information on the impact of the pandemic. Management response |
|  Low | We noted that the accounts disclose the value of the impairment allowance for sundry debtors, but not for other categories of debt. The CIPFA Accounting code of Practice requires that impairment allowances for all categories of debtor should be disclosed. | We recommend this disclosure is included in the 2020/21 financial statements. Management response |
|  Low | Note 3 discloses a critical judgement in respect of the business rates appeals provision. However, it is unclear if the estimation process involves any critical judgment in applying the Council's standard accounting policy. | We recommend that the content of Note 3 is reviewed for future years to ensure that the nature of any critical judgement is clearly identified. Management response |
|  Low | Under IAS1 there is a need for sensitivity disclosures to be considered for all estimates. Note 4 includes a sensitivity analysis quantifying the potential impact of changes to the assumptions used in calculating the net pension fund liability. However, there is no sensitivity analysis for the other estimates referred to at Note 4. | We recommend that in future years where an estimate requires a disclosure at Note 4 then this should include a sensitivity analysis on the impact of changes to assumptions. Management response |

Controls

-  High – Significant effect on control system
-  Medium – Effect on control system
-  Low – Best practice

Action plan

We have identified recommendations for the Council as a result of issues identified during the course of our audit. We will report on progress with agreed recommendations during the course of the 2020/21 audit. The matters reported here are limited to those deficiencies or issues that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

| Assessment | Issue and risk | Recommendations |
|---|---|--|
|  Low | <p>The Accounting Code of Practice requires a disclosure of the amount of income accounted for under IFRS15 (revenue recognised from contracts with service recipients). The accounts include a disclosure for “Fees, charges and other service income” at Note 7, but it is not clear if this represents the value of income to be accounted for under IFRS15.</p> | <p>We recommend that a disclosure of the amount of income accounted for under IFRS15 (revenue recognised from contracts with service recipients) is included in future years.</p> <p>Management response</p> |
|  Medium | <p>During 2019/20 a Principal Accountant in the finance team has exercised system administrator rights for the U4BW ERP finance system.</p> | <p>There is no indication of any issues of concern arising from these arrangements. However, where a member of the finance team also holds system administrator rights to the finance system then the control provided by segregation of duties is weakened. We recommend that arrangements for exercising the system administrator role in the absence of the main post-holder are reviewed.</p> <p>September 2021 management update: As of June 2021 an additional system administrator is in post. Although the Principal Accountant currently continues to have system access rights it is not anticipated that these will be exercised going forward.</p> <p>Management response</p> |

Controls

-  High – Significant effect on control system
-  Medium – Effect on control system
-  Low – Best practice

Audit adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2020.

| Detail | Comprehensive Income and Expenditure Statement | Statement of Financial Position | Total net expenditure |
|---|---|---------------------------------|-----------------------|
| | £000 | £000 | £000 |
| Subject to the completion of outstanding work, there are no adjusted misstatements. | | | |
| Value of PPE understated due to measurement errors: | | | |
| PPE | | 1,287 | |
| Revaluation Reserve | | (1,287) | |
| Additional impact on CIES due to impact of prior period adjustments. There is no impact on the surplus/deficit on the provision of services, but the value for "Other Comprehensive Income and Expenditure", which includes movements on the Revaluation Reserve, has increased because of the carry forward impact of the adjustments to previous year figures. | 630 | | 630 |
| Various other matching adjustments to the MIRS and to disclosure notes 11 (Unusable Reserves), 12 (Capital expenditure and financing) and 13 (PPE). | | | |
| Overall impact | 630 | 0 | 630 |

Audit adjustments

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure issues identified during the audit and the action taken in the final set of financial statements.

| Adjustment type | Detail | Auditor recommendations | Adjusted? |
|-----------------|--|--|---|
| Disclosure | Various other minor disclosure issues | A number of minor changes are currently being discussed with management. | TBA |
| Disclosure | Note 6: Adjustments between Accounting basis and Funding basis under regulations. Amount of £1,853,000 included at line "Difference between accounting and statutory credit for pension costs" but should be at line "Difference between accounting and statutory employment benefit". | Amend accounts | Yes |
| Disclosure | Note 13: PPE Additional disclosure added to explain the material impairment loss for an individual asset (Glovers House). | Include additional disclosure | Yes |
| Disclosure | Note 20: Financial instruments The fair value of PWLB long term liabilities at amortised cost is stated to be £11,612,000 but should be £11,479,000. | Amend accounts | Yes |
| Disclosure | MIRS The MIRS includes separate columns for the General Fund balance and Earmarked Reserves. The Accounting Code of Practice suggests that where earmarked reserves are identified separately, a total column should also be added. | Amend disclosure | No Management's view is that the current presentation provides adequate disclosure. |
| Disclosure | The Accounting Code of Practice requires a disclosure of the amount of income accounted for under IFRS15 (revenue recognised from contracts with service recipients). The accounts include a disclosure for "Fees, charges and other service income" at Note 7, but it is not clear if this represents the value of income to be accounted for under IFRS15. | Include additional disclosure | No Management's view is that an additional disclosure would not add value. |
| Disclosure | Various other minor disclosure changes. | Amend disclosure | Yes |

Audit adjustments

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2019/20 audit which have not been made within the final set of financial statements. :

| Detail | Comprehensive Income and Expenditure Statement | Statement of Financial Position | Impact on total net expenditure | Reason for not adjusting |
|--|--|------------------------------------|------------------------------------|---|
| | £000 | £000 | £000 | |
| (1) Assets undervalued as incorrect gross internal area used in calculations | | | | Management consider the adjustment is not material. |
| Dr Revaluation Reserve | | 654 | | |
| Cr PPE | | (654) | | |
| This error has now been adjusted in the accounts as part of the £1,287,000 amendment recorded at “Adjusted misstatements”. | | | | |
| (2) Accounts not updated to include an additional depreciation charge of £62k relating to the increase in asset values. NB: There is no net impact on the CIES as depreciation is not chargeable against the General Fund. | | | | Management consider the adjustment is not material. |
| (3) Net pension liability understated as accounts have not been adjusted for an updated actuary’s report received in July 2020. | | | | Management consider the adjustment is not material. |
| Net Defined Pension Liability | | (369) | | |
| Unusable reserves | | 369 | | |
| On the CIES the issue means that “Remeasurement of the net defined pension liability, and therefore “Other Comprehensive Income and Expenditure” are also understated. | 369 | | 369 | |
| Changes would also be required at Note 8 (Defined Benefit Pension Scheme). | | | | |
| Overall impact | 369 | 0 | 369 | |

Fees

We confirm below our final fees charged for the audit.

| Audit fees | Proposed fee | Final fee |
|---|---------------|------------|
| | £ | £ |
| Council Audit | 44,559 | TBC |
| Total audit fees (excluding VAT) | 44,559 | TBC |

The fees reconcile to the financial statements. Over the past six months the pandemic has had a significant impact on all of our lives, both at work and at home and the recent announcements show that this is now likely to continue for some time to come. The impact of COVID 19 on the audit of your financial statements includes:

- Revisiting planning - we have needed to revisit our planning and refresh risk assessments, materiality and testing levels. This has driven additional areas of audit work (see below).
- Management's assumptions and estimates - there is increased uncertainty over many estimates including property, pension and other investment valuations. Many of these valuations are impacted by the reduction in economic activity and we are required to understand and challenge the assumptions applied by management. There are similar challenges for management and ourselves on areas such as credit loss allowances, financial guarantees, and other provisions.
- Financial resilience assessment – we are required to consider the financial resilience of audited bodies. COVID 19 has impacted on the financial resilience of all local government bodies, including Coventry. This has increased the amount of work that we have undertake on going concern and value for money (financial sustainability). In your report we make reference to the long term financial resilience of the Council. We have not had to include an emphasis of matter or use our statutory powers.
- Remote working – the most significant impact in terms of delivery is the move to remote working (both our teams and yours). The Council has worked effectively with us. Despite our efforts and the Council's we have needed to put additional resources into the audit. Where possible we have mitigated this with reduced travel and expense costs.

We have been discussing this issue with PSAA over the last few months and note these issues are similar to those experienced in the commercial sector and NHS. In both sectors there has been a recognition that audits will take longer with commercial audit deadlines being extended by 4 months and NHS deadline by a month. The FRC has also issued guidance to companies and auditors setting out its expectation that audit standards remain high and of additional work needed across all audits. The link attached <https://www.frc.org.uk/covid-19-guidance-and-advice> (see guidance for auditors) sets out the expectations of the FRC. **The audit has taken longer and our final fee will recognise this impact. All fees in excess of the scale fee will be subject to PSAA approval.**

| Non-audit fees for other services | Proposed fee | Final fee |
|--|---------------|------------|
| Audit related services | 12,750 | TBC |
| Certification of the 2019/20 Housing Benefit Subsidy claim | | |
| Total non- audit fees (excluding VAT) | 12,750 | TBC |

Audit opinion

We will provide the Council with an unmodified audit report

Independent auditor's report to the members of Rother District Council

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of **Rother District Council** (the 'Authority') for the year ended 31 March 2020 which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, the Collection Fund Statement and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2020 and of its expenditure and income for the year then ended;
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

The impact of macro-economic uncertainties on our audit

Our audit of the financial statements requires us to obtain an understanding of all relevant uncertainties, including those arising as a consequence of the effects of macro-economic uncertainties such as Covid-19 and Brexit. All audits assess and challenge the reasonableness of estimates made by the Assistant Director Resources and the related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the Authority's future operational arrangements.

Covid-19 and Brexit are amongst the most significant economic events currently faced by the UK, and at the date of this report their effects are subject to unprecedented levels of uncertainty, with the full range of possible outcomes and their impacts unknown. We applied a standardised firm-wide approach in response to these uncertainties when assessing the

Authority's future operational arrangements. However, no audit should be expected to predict the unknowable factors or all possible future implications for an authority associated with these particular events.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the use by the Assistant Director Resources of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Assistant Director Resources has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

In our evaluation of the Assistant Director Resources' conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20 that the Authority's financial statements shall be prepared on a going concern basis, we considered the risks associated with the Authority's operating activities, including effects arising from macro-economic uncertainties such as Covid-19 and Brexit. We analysed how those risks might affect the Authority's financial resources or ability to continue operations over the period of at least twelve months from the date when the financial statements are authorised for issue. In accordance with the above, we have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Authority will continue in operation.

Emphasis of Matter – effects of Covid-19 on the valuation of land and buildings and property investments

We draw attention to Note 4 of the financial statements, which describes the effects of the Covid-19 pandemic on the valuation of the Authority's land and buildings, the Authority's holdings in property investment funds, and the Authority's share of pension fund property investments as at 31 March 2020. As disclosed in Note 4 to the financial statements the outbreak of Covid-19 has impacted market activity; valuations are therefore reported on the basis of 'material valuation uncertainty'. Our opinion is not modified in respect of this matter.

Other information

The Assistant Director Resources is responsible for the other information. The other information comprises the information included in the Financial Report and Statement of Accounts other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Audit opinion

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge of the Authority obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Other information we are required to report on by exception under the Code of Audit Practice

Under the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with the 'delivering good governance in Local Government Framework 2016 Edition' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

Opinion on other matter required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Authority gained through our work in relation to the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources, the other information published together with the financial statements in the Statement of Accounts for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

Under the Code of Audit Practice, we are required to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

We have nothing to report in respect of the above matters.

Responsibilities of the Authority, the Assistant Director Resources and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of

those affairs. In this authority, that officer is the Assistant Director Resources. The Assistant Director Resources is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20, for being satisfied that they give a true and fair view, and for such internal control as the Assistant Director Resources determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Assistant Director Resources is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the Authority will no longer be provided.

The Audit and Standards Committee is Those Charged with Governance. Those charged with governance are responsible for overseeing the Authority's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Report on other legal and regulatory requirements - Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Conclusion

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in April 2020, we are satisfied that the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

Responsibilities of the Authority

The Authority is responsible for putting in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities for the review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Audit opinion

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in April 2020, as to whether in all significant respects the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to be satisfied that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Report on other legal and regulatory requirements - Certificate

We certify that we have completed the audit of the financial statements of Rother District Council in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

[Signature]

Darren Wells
Key Audit Partner
for and on behalf of Grant Thornton UK LLP, Local Auditor

London

[Date]



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