

Informing the audit risk assessment for Rother District Council 2022/23

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Table of Contents

Section	Page
Purpose	4
General Enquiries of Management	6
Fraud	9
Fraud Risk Assessment	10
Laws and Regulations	15
Impact of Laws and Regulations	16
Related Parties	18
Accounting Estimates	20
Accounting Estimates - General Enquiries of Management	21
Appendix A – Accounting Estimates	24

Purpose

The purpose of this report is to contribute towards the effective two-way communication between Rother District Council's external auditors and Rother District Council's Audit Committee, as 'those charged with governance'. The report covers some important areas of the auditor risk assessment where we are required to make inquiries of the Audit Committee under auditing standards.

Background

Under International Standards on Auditing (UK), (ISA(UK)) auditors have specific responsibilities to communicate with the Audit Committee. ISA(UK) emphasise the importance of two-way communication between the auditor and the Audit Committee and also specify matters that should be communicated.

This two-way communication assists both the auditor and the Audit Committee in understanding matters relating to the audit and developing a constructive working relationship. It also enables the auditor to obtain information relevant to the audit from the Audit Committee and supports the Audit Committee in fulfilling its responsibilities in relation to the financial reporting process.

Communication

As part of our risk assessment procedures we are required to obtain an understanding of management processes and the Council's oversight of the following areas:

- General Enquiries of Management
- Fraud,
- Laws and Regulations,
- Related Parties, and
- Accounting Estimates.

Purpose

This report includes a series of questions on each of these areas and the response we have received from Rother District Council's management. The Audit Committee should consider whether these responses are consistent with its understanding and whether there are any further comments it wishes to make.

General Enquiries of Management

Question	Management response
1. What do you regard as the key events or issues that will have a significant impact on the financial statements for 2022/23?	They will again be increased activity within the capital programme and associated capital grant receipts. There will also be an impact from the residual Covid and energy rebate grants which need to be accounted for correctly and reconciled, including the impact of CARF grant on the collection fund entries.
2. Have you considered the appropriateness of the accounting policies adopted by Rother District Council Have there been any events or transactions that may cause you to change or adopt new accounting policies?	Yes, they are deemed appropriate, we had a thorough review of the policies last year with some changes made (leases and componentisation) and we do not intend to make any new changes this year.
3. Is there any use of financial instruments, including derivatives?	Yes, PWLB borrowing and continued investments in property funds, but no derivatives (no change since last year).
4. Are you aware of any significant transaction outside the normal course of business?	Energy Rebate grants, Grants in relation to Ukrainian guests and hosts, increased capital expenditure, sale of land to an NHS Trust, further purchases of Temporary Accommodation properties.

General Enquiries of Management

Question	Management response
5. Are you aware of any changes in circumstances that would lead to impairment of non-current assets?	No, but the Property investment and regeneration manager will highlight to external valuers any properties which may be subject to impairment as part of the instruction to them.
6. Are you aware of any guarantee contracts?	No.
7. Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements?	No.
8. Other than in house solicitors, can you provide details of those solicitors utilised by Rother District Council during the year. Please indicate where they are working on open litigation or contingencies from prior years?	<p>We mainly use Wealden Legal Services as our 'in-house' provider who themselves use various external counsel services.</p> <p>We have also used Bevan Brittan for advice relating to the Blackfriars site.</p>

General Enquiries of Management

Question	Management response
9. Have any of the Rother District Council's service providers reported any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which would affect the financial statements?	No.
10. Can you provide details of other advisors consulted during the year and the issue on which they were consulted?	Link Asset Services – Treasury Management. PS Tax – VAT advice. Caroline Wright – Collection Fund Accounting.

Fraud

Issue

Matters in relation to fraud

ISA (UK) 240 covers auditors responsibilities relating to fraud in an audit of financial statements.

The primary responsibility to prevent and detect fraud rests with both the Audit Committee and management. Management, with the oversight of the Audit Committee, needs to ensure a strong emphasis on fraud prevention and deterrence and encourage a culture of honest and ethical behaviour. As part of its oversight, the Audit Committee should consider the potential for override of controls and inappropriate influence over the financial reporting process.

As Rother District Council's external auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error. We are required to maintain professional scepticism throughout the audit, considering the potential for management override of controls.

As part of our audit risk assessment procedures we are required to consider risks of fraud. This includes considering the arrangements management has put in place with regard to fraud risks including:

- assessment that the financial statements could be materially misstated due to fraud,
- process for identifying and responding to risks of fraud, including any identified specific risks,
- communication with the Audit Committee regarding its processes for identifying and responding to risks of fraud, and
- communication to employees regarding business practices and ethical behaviour.

We need to understand how the Audit Committee oversees the above processes. We are also required to make inquiries of both management and the Audit Committee as to their knowledge of any actual, suspected or alleged fraud. These areas have been set out in the fraud risk assessment questions below together with responses from Rother District Council's management.

Fraud risk assessment

Question	Management response
<p>1. Have Rother District Council assessed the risk of material misstatement in the financial statements due to fraud?</p> <p>How has the process of identifying and responding to the risk of fraud been undertaken and what are the results of this process?</p> <p>How do the Council's risk management processes link to financial reporting?</p>	<p>Yes.</p> <p>The Internal Audit Team undertake regular audits on related matters, which are reported to Audit & Standards committee throughout the year.</p> <p>Risks identified in the risk register are identified as part of the Medium Term Financial Planning process.</p> <p>The Risk Register is reported to, and managed by, the Corporate Management Team.</p>
<p>2. What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?</p>	<p>Any energy rebate schemes.</p> <p>Council Tax Reduction scheme.</p> <p>Housing Benefit payments.</p>

Fraud risk assessment

Question	Management response
<p>3. Are you aware of any instances of actual, suspected or alleged fraud, errors or other irregularities either within Rother District Council as a whole or within specific departments since 1 April 2022? As a management team, how do you communicate risk issues (including fraud) to those charged with governance?</p>	<p>No.</p> <p>We would communicate them to Internal Audit, if suspected.</p>
<p>4. Have you identified any specific fraud risks?</p> <p>Do you have any concerns there are areas that are at risk of fraud?</p> <p>Are there particular locations within Rother District Council where fraud is more likely to occur?</p>	<p>See answer 2 above.</p> <p>None specifically.</p> <p>They would be most likely to occur within Revenues and Benefits but these are scrutinised by Internal Audit.</p>
<p>5. What processes do Rother District Council have in place to identify and respond to risks of fraud?</p>	<p>Internal Audit team.</p> <p>Various internal control processes covering all areas of the Council's operation. The Council operates a Whistleblowing Policy, an Anti-fraud and Corruption Strategy and other associated strategies which all form part of the Council's Anti-fraud and Corruption framework , details of which can be accessed on the Council's website here.</p>

Fraud risk assessment

Question	Management response
<p>6. How do you assess the overall control environment for Rother District Council, including:</p> <ul style="list-style-type: none"> the existence of internal controls, including segregation of duties; and the process for reviewing the effectiveness the system of internal control? <p>If internal controls are not in place or not effective where are the risk areas and what mitigating actions have been taken?</p> <p>What other controls are in place to help prevent, deter or detect fraud?</p> <p>Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)?</p>	<p>The Internal Audit team perform regular audits and areas deemed to be at a higher risk are audited more often. Recommendations with greater urgency are prioritised to be addressed more quickly.</p> <p>N/A.</p> <p>We operate a Scheme of Delegation upon which segregation of duties is based.</p> <p>No.</p>
<p>7. Are there any areas where there is potential for misreporting?</p>	<p>No</p>

Fraud risk assessment

Question	Management response
<p>8. How do Rother District Council communicate and encourage ethical behaviours and business processes of it's staff and contractors?</p> <p>How do you encourage staff to report their concerns about fraud?</p> <p>What concerns are staff expected to report about fraud?</p> <p>Have any significant issues been reported?</p>	<p>HR policies. Procurement Strategy, procurement rules and contracts.</p> <p>We have a Whistleblowing Policy (see response to 5 above also).</p> <p>Any suspicions of fraudulent activity.</p> <p>No.</p>
<p>9. From a fraud and corruption perspective, what are considered to be high-risk posts?</p> <p>How are the risks relating to these posts identified, assessed and managed?</p>	<p>Any post dealing with banking, cash handling, payment and payroll activities.</p> <p>See previous response (6 above) on Scheme of Delegation and separation of duties.</p>
<p>10. Are you aware of any related party relationships or transactions that could give rise to instances of fraud?</p> <p>How do you mitigate the risks associated with fraud related to related party relationships and transactions?</p>	<p>No.</p> <p>As part of the Statement of Accounts we are required to compile a list of such relationships and transactions for Senior Officers and Members.</p> <p>Members of committees are also required to announce formally any declarations of interests prior to the commencement of all Committee meetings.</p> <p>Direct bank payments require setting up plus dual authorisation. There are also several people involved in payment run transactions (requisitions/approvals).</p>

Fraud risk assessment

Question	Management response
<p>11. What arrangements are in place to report fraud issues and risks to the Audit Committee? How does the Audit Committee exercise oversight over management's processes for identifying and responding to risks of fraud and breaches of internal control? What has been the outcome of these arrangements so far this year?</p>	<p>See previous response re: reporting to Audit & Standards Committee.</p> <p>Via Internal Audit reports.</p> <p>Any issues of concern are raised by Members and Officers respond accordingly.</p>
<p>12. Are you aware of any whistle blowing potential or complaints by potential whistle blowers? If so, what has been your response?</p>	<p>No.</p>
<p>13. Have any reports been made under the Bribery Act?</p>	<p>No.</p>

Law and regulations

Issue

Matters in relation to laws and regulations

ISA (UK) 250 requires us to consider the impact of laws and regulations in an audit of the financial statements.

Management, with the oversight of the Audit Committee, is responsible for ensuring that Rother District Council's operations are conducted in accordance with laws and regulations including those that determine amounts in the financial statements.

As auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error, taking into account the appropriate legal and regulatory framework. As part of our risk assessment procedures we are required to make inquiries of management and the Audit Committee as to whether the entity is in compliance with laws and regulations. Where we become aware of information of non-compliance or suspected non-compliance we need to gain an understanding of the non-compliance and the possible effect on the financial statements.

Risk assessment questions have been set out below together with responses from management.

Impact of laws and regulations

Question	Management response
<p>1. How does management gain assurance that all relevant laws and regulations have been complied with?</p> <p>What arrangements does Rother District Council have in place to prevent and detect non-compliance with laws and regulations?</p> <p>Are you aware of any changes to the Council's regulatory environment that may have a significant impact on the Council's financial statements?</p>	<p>Wealden District Council (WDC) Legal Services, East Sussex Procurement Hub (based at WDC) and Democratic Services ensure compliance. Also, The Information Officer regarding Data Protection.</p> <p>See above response.</p> <p>No.</p>
<p>2. How is the Audit Committee provided with assurance that all relevant laws and regulations have been complied with?</p>	<p>Reports to Audit & Standards committee have mandatory sections on legal and financial implications, which must be reviewed/completed by the relevant professional officers. Also, all reports must be cleared by the Corporate Management Team before going to the committee.</p>
<p>3. Have there been any instances of non-compliance or suspected non-compliance with laws and regulation since 1 April 2022 with an on-going impact on the 2022/23 financial statements?</p>	<p>No.</p>
<p>4. Is there any actual or potential litigation or claims that would affect the financial statements?</p>	<p>No.</p>

Impact of laws and regulations

Question	Management response
5. What arrangements does Rother District Council have in place to identify, evaluate and account for litigation or claims?	We refer such cases to WDC Legal Services.
6. Have there been any report from other regulatory bodies, such as HM Revenues and Customs which indicate non-compliance?	No.

Related Parties

Issue

Matters in relation to Related Parties

Rother District Council are required to disclose transactions with entities/individuals that would be classed as related parties. These may include:

- entities that directly, or indirectly through one or more intermediaries, control, or are controlled by Rother District Council
- associates;
- joint ventures;
- an entity that has an interest in the authority that gives it significant influence over the Council;
- key management personnel, and close members of the family of key management personnel, and
- post-employment benefit plans (pension fund) for the benefit of employees of the Council or of any entity that is a related party of the Council.

A disclosure is required if a transaction (or series of transactions) is material on either side, i.e. if a transaction is immaterial from the [type of body]'s perspective but material from a related party viewpoint then the Council must disclose it.

ISA (UK) 550 requires us to review your procedures for identifying related party transactions and obtain an understanding of the controls that you have established to identify such transactions. We will also carry out testing to ensure the related party transaction disclosures you make in the financial statements are complete and accurate.

Related Parties

Question	Management response
<p>1. Have there been any changes in the related parties including those disclosed in Rother District Council's 2021/22 financial statements?</p> <p>If so please summarise:</p> <ul style="list-style-type: none"> the nature of the relationship between these related parties and Rother District Council whether Rother District Council has entered into or plans to enter into any transactions with these related parties the type and purpose of these transactions 	<p>No major changes have been identified at this stage, but the data is subject to review during the closedown process.</p>
<p>2. What controls does Rother District Council have in place to identify, account for and disclose related party transactions and relationships?</p>	<p>Members and senior officers are approached to disclose their interests in third parties and a report is run and data analysed to show payments to those. For 2022-23 we have introduced an electronic declaration form with the information on those parties which will be sent to Members to read, amend if necessary and submit electronically</p>
<p>3. What controls are in place to authorise and approve significant transactions and arrangements with related parties?</p>	<p>A scheme of delegation function of the ERP system (Unit 4) ensures only authorised persons are allowed to approve requisitions, dual authorisation on online direct payments from the bank account</p>
<p>4. What controls are in place to authorise and approve significant transactions outside of the normal course of business?</p>	<p>As above. Any transactions paid directly from the bank account go through three officers, one setting the payment and two authorised approvers.</p>

Accounting estimates

Issue

Matters in relation to Related Accounting estimates

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

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

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

Specifically do Audit Committee members:

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

We would ask the Audit Committee to satisfy itself that the arrangements for accounting estimates are adequate.

Accounting Estimates - General Enquiries of Management

Question	Management response
<p>1. What are the classes of transactions, events and conditions, that are significant to the financial statements that give rise to the need for, or changes in, accounting estimate and related disclosures?</p>	<p>Fixed asset valuations/Impairments. Pension fund asset/liabilities (RDC share only). NNDR Appeals – reported to Audit & Standards Committee as part of the critical judgements report. Investments (Fair Value adjustment). Accruals.</p>
<p>2. How does the Authority's risk management process identify and addresses risks relating to accounting estimates?</p>	<p>Risk Management is monitored and managed at CMT level. The Chief Finance Officer would identify any such risks and advise CMT accordingly.</p>
<p>3. How do management identify the methods, assumptions or source data, and the need for changes in them, in relation to key accounting estimates?</p>	<p>Accountants use actual and extrapolate from historical data, they use POs, advice from departments and their own judgement. They are explained in the working papers.</p>
<p>4. How do management review the outcomes of previous accounting estimates?</p>	<p>Actuals from previous years are compared with estimates by individual accountants to inform methodology going forward. We will continue with this approach this year.</p>
<p>5. Were any changes made to the estimation processes in 2022/23 and, if so, what was the reason for these?</p>	<p>For accruals we continued using a report with expenditure transactions reviewed by individual accountants and processed by one of them coordinating the process. We will restrict this activity to the middle of April and further accruals will be done by individual accountants based on historical data, existing Purchase orders and their judgement. Accruals below £100 would not normally be processed unless they resulted</p>

Accounting Estimates - General Enquiries of Management

Question	Management response
<p>6. How do management identify the need for and apply specialised skills or knowledge related to accounting estimates?</p>	<p>If there is no internal expertise, we would use the skills of external consultants (LINK) who in turn use the actual new loan rates from the DMO.</p> <p>We use Wilkes Head and Eve (WHE) for Property valuations. We use Analyse Local to provide a view on NNDR Appeals provision.</p> <p>Staff attend specific professional training events organized by CIPFA and others.</p>
<p>7. How does the Authority determine what control activities are needed for significant accounting estimates, including the controls at any service providers or management experts?</p>	<p>As above, the information provided would be reviewed and challenged if appropriate.</p>
<p>8. How do management monitor the operation of control activities related to accounting estimates, including the key controls at any service providers or management experts?</p>	<p>As above.</p>
<p>9. What is the nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates, including:</p> <ul style="list-style-type: none"> - Management's process for making significant accounting estimates - The methods and models used - The resultant accounting estimates included in the financial statements. 	<p>Methods are agreed with accountants prior to closedown, working papers are required, journals require management's approval before being posted.</p>

Accounting Estimates - General Enquiries of Management

Question	Management response
10. Are management aware of transactions, events, conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement (other than those in Appendix A)?	We would review and amend our assumptions and estimates made on NNDR Appeals and Impairment of doubtful debts. We would consider any other issues in due course for inclusion.
11. Are the management arrangements for the accounting estimates, as detailed in Appendix A reasonable?	As above, we would review them in the process.
12. How is the Audit Committee provided with assurance that the arrangements for accounting estimates are adequate ?	Any changes to accounting policies The CFO will communicate any significant changes to accounting policies as part of the accounts reporting cycle if any are introduced or amended following annual reviews.

Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Land and buildings valuations	Wilks, Head & Eves undertake annual cycle of valuations	Output reviewed by ATRS and Finance	Yes	Review by ATRS and Finance	No
Investment property valuations	Wilks, Head & Eves undertake annual cycle of valuations These are 100% revalued each year	Output reviewed by ATRS and Finance	Yes	Review by ATRS and Finance	No
Depreciation	Straight Line method	Output reviewed by Senior Finance Officers	No	Asset lives reviewed for suitability. Sensitivity analysis presented as part of the statements	Yes, possible Useful Economic Lives of Assets reviewed

Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Valuation of defined benefit net pension fund liabilities	Report from East Sussex Local Government Pension scheme	Output reviewed by Senior Finance Officer	Yes	Review of actuary's report.	No
Fair value loans	Report from external consultants Link Treasury Services	Output reviewed by Senior Finance Officers	Yes	Review of the Fair Value Report from Link	No

Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
NDR Appeals provision	Use data provided by VOA and analysed by Analyse Local	Review by Senior Finance Officers	Yes	Data taken from Analyse Local portal	No, but this will be reviewed this year
Significant Accruals	Year on year comparisons/analytical reviews carried out by Accountants. Use of available information on Covid/Energy Rebate grants	Year end instructions communicated to Accountants and monitored during weekly closedown meetings.	No	Accruals based on actual invoices, raised Purchase Orders and/or estimated values agreed with Service Managers.	No
Credit loss allowance	Per Council's accounting policies.	Year end instructions produced by year end Accountant.	No	Estimates based on professional judgement of the Year End accountant.	No



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