Rother District Council audit plan

Year ending 31 March 2023

July 2023

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

Key matters

National context

For the general population, rising inflation rates, in particular for critical commodities such as energy, food and fuel, is pushing many households into poverty and financial hardship, including those in employment. At a national government level, recent political changes have seen an emphasis on controls on spending, which in turn is placing pressure on public services to manage within limited budgets.

Local Government funding continues to be stretched with increasing cost pressures due to the cost-of-living crisis, including higher energy costs, increasing pay demands, higher agency costs and increases in supplies and services. Local authority front-line services play a vital role in protecting residents from rising costs; preventing the most vulnerable from falling into destitution and helping to build households long-term financial resilience. At a local level, councils are also essential in driving strong and inclusive local economies, through their economic development functions and measures like increasing the supply of affordable housing, integrating skills and employment provision, and prioritising vulnerable households to benefit from energy saving initiatives. Access to these services remains a key priority across the country, but there are also pressures on the quality of services. These could include further unplanned reductions to services and the cancellation or delays to major construction projects.

Our recent value for money work has highlighted a number of governance and financial stability issues at a national level, which is a further indication of the mounting pressure on audited bodies to keep delivering services, whilst also managing transformation and making savings at the same time.

In planning our audit, we will take account of this context in designing a local audit programme which is tailored to your risks and circumstances.

Audit Reporting Delays

In a report published in January 2023 the NAO have highlighted that since 2017-18 there has been a significant decline in the number of local government body accounts including an audit opinion published by the deadlines set by government. The NAO outline a number of reasons for this and proposed actions. In March 2023, we issued About time?, which explored the reasons for delayed publication of audited local authority accounts. In our view, it is critical to early sign off that draft local authority accounts are prepared to a high standard and supported by strong working papers.

Key matters

Local issue

The Council's revenue budget for 2022/23 has been balanced, using £3.3m of earmarked reserves. The 2023/24 budget further commits some £2m of reserves to supporting the budget.

Our Responses

- As a firm, we are absolutely committed to audit quality and financial reporting in the local government sector. Our proposed work and fee, as set out further in our Audit Plan, has been agreed with the Chief Finance Officer.
- We will consider your arrangements for managing and reporting your financial resources as part of our audit in completing our Value for Money work.
- Our value for money work will also consider your arrangements relating to governance and improving economy, efficiency and effectiveness.
- We have followed up on management's progress against prior year audit recommendations - refer to page 13. We will follow up the improvement recommendations raised in the 2021-22 Auditor's Annual Report later in the year and report progress against agreed actions in our 2022-23 Auditor's Annual Report.
- We will continue to provide you and your Audit Committee with sector updates providing our insight on issues from a range of sources and other sector commentators via our Audit Committee updates.
- We hold annual financial reporting workshops for our audited bodies to access the latest technical guidance and interpretation, discuss issues with our experts and create networking links with other audited bodies to support consistent and accurate financial reporting across the sector.

Introduction and headlines

Purpose

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

Respective responsibilities

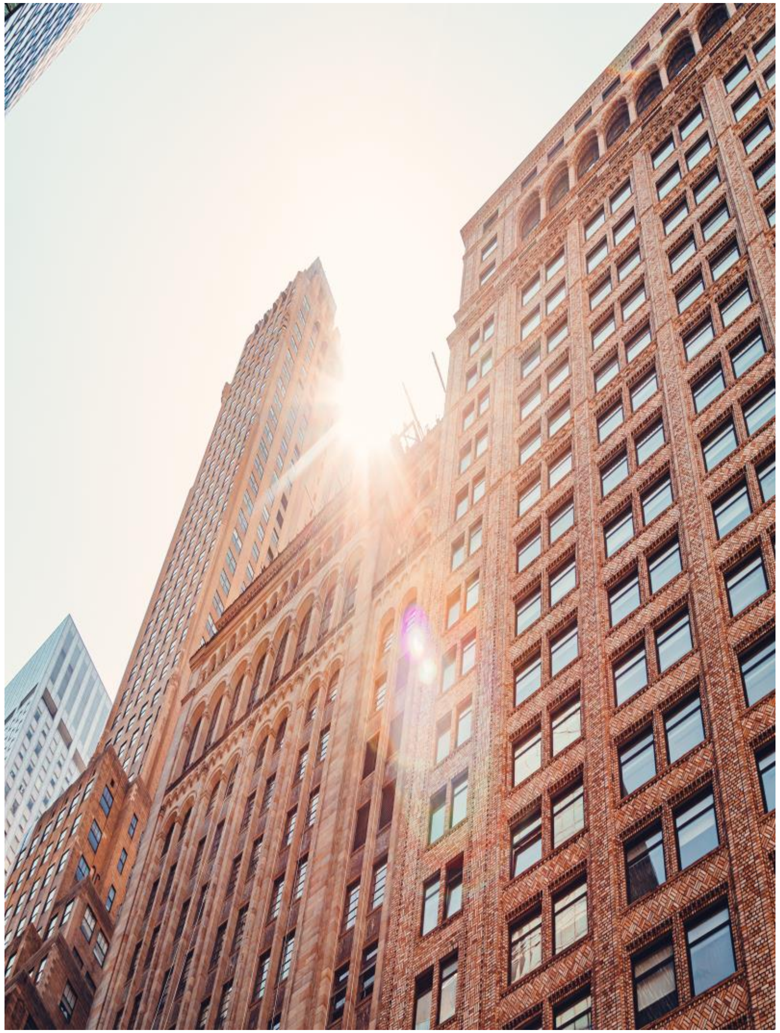
The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set out in the agreed engagement letter and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

Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the Council financial statements that have been prepared by management with the oversight of those charged with governance the Audit and Standards Committee; and we consider whether there are sufficient arrangements in place at the Council for securing economy, efficiency and effectiveness in your use of resources. Value for money relates to ensuring that resources are used efficiently in order to maximise the outcomes that can be achieved.

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

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



Introduction and headlines

Significant risks

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

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

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

Materiality

We have determined planning materiality to be £1.19m for the Council, which equates to 2% of your prior year (2021/22) gross expenditure. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £60k.

Value for Money arrangements

We have identified a significant risk in respect of financial sustainability. We will keep our risk assessment under review until we issue our Auditor's Annual Report.

New Auditing Standards

There are two auditing standards which have been significantly updated this year. These are ISA 315 (Identifying and assessing the risks of material misstatement) and ISA 240 (the auditor's responsibilities relating to fraud in an audit of financial statements). We provide more detail on the work required later in this plan.

Audit logistics

Our planning visit took place in April 2023 and our final visit will take place during October to December 2023. Our key deliverables are this Audit Plan, our Audit Findings Report and Auditor's Annual Report.

Our proposed fee for the audit will be £62,909 for the Council, subject to the Council delivering a good set of financial statements and working papers.

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

Significant risks identified

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

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Management over-ride of controls	Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Council faces external scrutiny of their spending and this could potentially place management under undue pressure in terms of how they report performance. We therefore identified management override of control, and in particular journals, management estimates, and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.	We will: • evaluate the design effectiveness of management controls over journals; • analyse the journals listing and determine the criteria for selecting high risk unusual journals; • test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration; • gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence; and • evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.

'Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty.' (ISA (UK) 315)

Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of land and buildings and Investment Properties	The Council revalue its land and buildings on a rolling, five-yearly basis and investment properties are revalued annually. The valuation represents a significant estimate due to the value and the sensitivity of this estimate to changes in key assumptions. We therefore identified this as a significant risk requiring special audit consideration. We will focus our risk assessment to the valuation of land and buildings and investment properties with large and/or unusual changes to their valuation approach. To identify such assets we will make direct inquiries with the valuer to understand the source data that underpins the valuations; corroborate the source and reasonableness of the external data relied upon; and evaluate the completeness and accuracy of source data provided directly from the Council. For assets which are not revalued by the external valuer in year, work is carried out with the aim of ensuring the carrying value is not materially different from the current value or the fair value (for investment properties and surplus assets) at the financial statements date.	We will: • evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts, and the scope of their work; • evaluate the competence, capabilities and objectivity of the valuation expert; • write to the valuer to confirm the basis on which the valuation was carried out to ensure that the requirements of the Code are met; • challenge the information and assumptions used by the valuer to assess the completeness and consistency with our understanding, the scope of the Council's valuers' work, the Council's valuers' reports and the assumptions that underpin the valuations; • test, on a sample basis, revaluations made during the year to see if they had been input correctly into the Council's asset register; and • evaluate 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 from current value and fair value (for investment properties) at year end.

Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of the net pension fund liability	The pension fund net liability on balance sheet represents a significant estimate in the financial statements. The pension fund net liability is considered a significant estimate due to its value and the sensitivity of the estimate to changes in key assumptions.We therefore identified valuation of the Council's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement. We have pinpointed this significant risk to the assumptions applied by the professional actuary in their calculation of the net liability. We have concluded that there is not a significant risk of material misstatement due to the source data used by the actuary in their calculation.	We will: • update our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluate the design of the associated controls; • evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • assess the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation; • assess the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability; • test the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; • undertake procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report.

Management should expect engagement teams to challenge management in areas that are complex, significant or highly judgmental which may be the case for accounting estimates and similar areas. Management should also expect to provide to engagement teams with sufficient evidence to support their judgments and the approach they have adopted for key accounting policies referenced to accounting standards or changes thereto.

Where estimates are used in the preparation of the financial statements management should expect teams to challenge management's assumptions and request evidence to support those assumptions.

Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
The revenue cycle includes fraudulent transactions (rebutted)	Under ISA (240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.	Having considered the risk factors set out in ISA240 and nature of the revenue streams at the Council, we have determined that the risk of fraud arising from revenue recognition can 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 the Council, mean that all forms of fraud are seen as unacceptable Therefore, we do not consider this to be a significant risk for the Council.
Fraudulent expenditure recognition	We have also considered the risk of material misstatement due to the fraudulent recognition of expenditure. We have considered each material expenditure area, and the control environment for accounting recognition. We were satisfied that this did not present a significant risk of material misstatement in the 2021/22 accounts as: - The control environment around expenditure recognition (understood through our documented risk assessment understanding of your business processes) is considered to be strong; - We have not found significant issues, errors or fraud in expenditure recognition in the prior 2 years audits; - Our view is that, similarly to revenues, there is little incentive to manipulate expenditure recognition.	Significant risk rebutted.

Other matters

Other work

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

- We read your Narrative Report and Annual Governance Statement and any other information published alongside your financial statements to check that they are consistent with the financial statements on which we give an opinion and our knowledge of the Council.
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with requirements set by CIPFA.
- We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions.
- We consider our other duties under legislation and the Code, as and when required, including:
  - giving electors the opportunity to raise questions about your 2021/22 financial statements, consider and decide upon any objections received in relation to the 2021/22financial statements;
  - issuing a report in the public interest or written recommendations to the Council under section 24 of the Local Audit and Accountability Act 2014 (the Act).
  - application to the court for a declaration that an item of account is contrary to law under section 28 or a judicial review under section 31 of the Act
  - issuing an advisory notice under section 29 of the Act
- We certify completion of our audit.

Other material balances and transactions

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

Progress against prior year audit recommendations

We identified the following issues in our 2021/22 audit of the Council's financial statements, which resulted in 7 recommendations being reported in our 2021/22 Audit Findings Report. We have followed up on the implementation of our recommendations and 5 are still to be addressed. The progress to date has to be assessed in the context of the timing of the 2021/22 audit; audit findings were reported to the Council in March 2023.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
X	**Transactions (sundry income) in the general ledger with no descriptions** It was noted multiple journal entries in the general ledger's listing specifically sundry income that had no descriptions. Management advised; the system did not allow users to include descriptions for this type of transactions. The system only automatically posted descriptions that are not clear and have no meaning. We recommended that journals regardless of the amount or number of lines, should be posted with clear descriptions as this provides quick overview of what transactions are being posted for. This is designed to spot errors that can be useful in management's review process of journals before being posted. Management should consider putting a description function for all types of journals and to understand why the system is not allowing descriptions to be recorded for this type of journal.	Management is still investigating how they can overcome the system limitation. Therefore, this recommendation has not yet been addressed.

Assessment

✓ Action completed

X Not yet addressed

Progress against prior year audit recommendations

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
X	**Lack of capital project monitoring tool or template** Based on our valuation testing, it was noted that there were two areas of land held within the fixed asset register that were either to be developed, sold or transferred in the future. One related to land in Mount View Street acquired in 2021/22 for which a portion was to be sold to an NHS body while the remainder was planned to be developed for commercial use. The other land in Black friars is planned to be transferred to the Council's housing company set up for local housing purposes. While we were able to see Cabinet minutes demonstrating the decision of the committee for the planned use of these assets, there was no documented dialogue and instructions provided to the valuer to ensure the valuation basis was correct. This should include a tracker to show different stages of the decisions held for these assets. Management confirmed that the intended use of these assets specifically the land in Black friars has not been steady depending on the best use at a point in time and will also depend on the viability study undertaken by the housing company. It is therefore crucial that decisions on stages of the plan of the asset is maintained which should also outline the outcome of decisions, actions to be taken and timescale. We recommended that management's valuation team is well aware about the decisions for these assets, but it is important that the concrete plan for the assets are demonstrated not just on the final stages of approval but also in the form of a tracker showing the decisions made, planned and/or alternative actions, and timescale on when will these be achieved. From the auditing perspective, this also provides an understanding on the use of the asset as it affects the assessment on the valuation method that should be applied.	Management has begun the progress of developing a project summary document for use of all capital project. In addition, management's capital project monitoring spreadsheet has been improved to show the expenditure across the project life. The recommendations are still being implemented.
X	**Incomplete supporting evidence for the FTE disclosure** Management confirmed that all FTE quarterly reports in 2021/22 were submitted to National Statistics however we did not see evidence of FTE report submission for the quarter ended June 2021. We recommend that all FTE report submissions be kept to evidence and support completeness of FTE being disclosed to the financial statements and is therefore important to be kept on file.	As part of our work in the FTE disclosure we will review the FTE quarterly reports to confirm the recommendation has been actioned.

Progress against prior year audit recommendations

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
X	**Understated provisions due to out of date supporting documentation** NNDR Provision: Figures for the threat report were not updated for year under audit. The Council accounted for the NNDR provision on the basis of last year threat report figures for 2017 list. This resulted in provisions understated by £42k. We recommended as part of the financial reporting process; management should ensure that up-to-date reports are being used in estimating their general provisions.	Management have entered an agreement with the VOA to obtain better access to the Appeals data and they have sent the latest data to Analyse Local. Additionally, management has taken up a subscription of the Collection Fund Suite Modules with access to their consultants for additional expertise. The recommendations are being implemented and as part of our work on provisions we will confirm whether the action is complete.
X	**Reconciliation of assets by a unique identifier between the fixed asset register, financial system and valuation report** As part of our valuation testing, it was noted that there were no distinct identifier for assets per the valuation report and per the fixed asset register and to the corresponding ownership documents. We recommend management include an identifier or references to each item on the fixed asset register and folders maintained for each individual asset where corresponding evidence can be kept in order. This will make the review process easier and ensures supporting evidence can be pulled out easily. As discussed with management this is being addressed for 2022/23.	The reconciliation exercise is ongoing. As part of our work on the land and building valuations, we will confirm if all aspects of our recommendations have been actioned.
✓	**Inconsistent recording of election staff costs in the financial system** We noted that elections staff costs were inconsistently recorded in different codes. Some of which were posted using basic salary account code while others were posted in employee benefit expense codes. We recommend that separate code be used for other employee remuneration to easily track expenditures of different nature. This would also help the Council when analyzing fluctuations on account level basis.	Management have set up a dedicated account code for elections officers' payments. We have reviewed the account and are satisfied that this issue has been resolved.

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.

Matter	Description	Planned audit procedures
1	**Determination** We have determined financial statement materiality based on a proportion of the gross expenditure of the Council for the financial year. Materiality at the planning stage of our audit is £1.19m, which equates to 2% of your total gross expenditure for the prior year.	We determine planning materiality in order to: – establish what level of misstatement could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements – assist in establishing the scope of our audit engagement and audit tests – determine sample sizes and – assist in evaluating the effect of known and likely misstatements in the financial statements
2	**Other factors** An item does not necessarily have to be large to be considered to have a material effect on the financial statements.	An item may be considered to be material by nature where it may affect instances when greater precision is required. We have identified cash and cash equivalents as a balance where we will apply a lower materiality level, as any error might have added significance for the accounts as a whole. We have set a materiality of £500,000.
3	**Reassessment of materiality** Our assessment of materiality is kept under review throughout the audit process.	We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.
4	**Other communications relating to materiality we will report to the Audit and Standards Committee** We also report to you any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance.	We report to you any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. In the context of the Council, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £60k. If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit and Standards Committee to assist it in fulfilling its governance responsibilities.

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.

	Amount (£)	Qualitative factors considered
Materiality for the Rother District Council financial statements	1,190,000	We have determined financial statement materiality based on a proportion of the total gross expenditure of the Council for the financial year. Materiality at the planning stage of our audit is £1.19m which equates to 2% of your prior year total gross expenditure for the period.
Materiality for specific transactions, balances or disclosures - cash and cash equivalents reconciling items	500,000	We have identified cash and cash equivalents as a balance where we will apply a lower materiality level, as any error might have added significance for the accounts as a whole. We have set a materiality of £500,000.

IT audit strategy

In accordance with ISA (UK) 315 Revised, we are required to obtain an understanding of the relevant IT and technical infrastructure and details of the processes that operate within the IT environment. We are also required to consider the information captured to identify any audit relevant risks and design appropriate audit procedures in response. As part of this we obtain an understanding of the controls operating over relevant Information Technology (IT) systems i.e., IT general controls (ITGCs). Our audit will include completing an assessment of the design and implementation of relevant ITGCs. We say more about ISA 315 Revised on slide 23.

The following IT systems have been judged to be in scope for our audit and based on the planned financial statement audit approach we will perform the indicated level of assessment:

IT system	Audit area	Planned level IT audit assessment
Unit4 Business World Agresso	Financial reporting including Revenue, Expenditure and Payroll	• ITGC assessment (design and implementation) of the ITGCs

Value for Money arrangements

Approach to Value for Money work for the period ended 31 March 2023

The National Audit Office -issued its latest Value for Money guidance -to auditors in January 2023 . The Code expects auditors to consider whether a body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are expected to report any significant weaknesses in the body's arrangements, should they come to their attention. In undertaking their work, auditors are expected to have regard to three specified reporting criteria. These are as set out below:

Improving economy, efficiency and effectiveness

How the body uses information about its costs and performance to improve the way it manages and delivers its services.

Financial Sustainability

How the body plans and manages its resources to ensure it can continue to deliver its services.

Governance

How the body ensures that it makes informed decisions and properly manages its risks.

Risks of significant VFM weaknesses

As part of our planning work, we considered whether there were any risks of significant weakness in the body's arrangements for securing economy, efficiency and effectiveness in its use of resources that we needed to perform further procedures on. The risks we have identified are detailed in the first table below, along with the further procedures we will perform. We may need to make recommendations following the completion of our work. The potential different types of recommendations we could make are set out in the second table below.

Risks of significant weakness

Those risks requiring audit consideration and procedures to address the likelihood that proper arrangements are not in place at the body to deliver value for money.

Financial Sustainability

The 2023/24 budget and updated MTFP commits £2m of reserves to support the budget and further usage of reserves are forecast over the period of the MTFP that will see usable reserves fall below £5m (the minimum level recommended by the Chief Finance Officer) between 24/25 and 27/28.

Potential types of recommendations

A range of different recommendations could be made following the completion of work on risks of significant weakness, as follows:

Statutory recommendation

Written recommendations to the body under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the body to discuss and respond publicly to the report.

Key recommendation

The Code of Audit Practice requires that where auditors identify significant weaknesses in arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the body. We have defined these recommendations as 'key recommendations'.

Improvement recommendation

These recommendations, if implemented should improve the arrangements in place at the body, but are not made as a result of identifying significant weaknesses in the body's arrangements

Audit logistics and team

Darren Wells, Key Audit Partner

Responsible for overall client relationship, quality control, provision of accounts opinions, meeting with key internal stakeholders and final authorization of reports. Attendance of Audit and Standards Committee meetings supported by Manager as required.

Hameem Gulraiz, Audit Manager

Responsible for overall audit management over the course of the year, support and review of work performed by audit In-charge and junior team members.

Audited Entity responsibilities

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

Our requirements

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

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

Audit fees and updated Auditing Standards including ISA 315 Revised

In 2018, PSAA awarded a contract of audit for Rother District Council to begin with effect from 2018/19. Since that time, there have been a number of developments, particularly in relation to the revised Code and ISA's which are relevant for the 2022/23 audit. For details of the changes which impacted on years up to 2021/22 please see our prior year Audit Plans.

The major change impacting on our audit for 2022/23 is the introduction of ISA (UK) 315 (Revised) - Identifying and assessing the risks of material misstatement ('ISA 315'). There are a number of significant changes that will impact the nature and extent of our risk assessment procedures and the work we perform to respond to these identified risks. Key changes include:

- Enhanced requirements around understanding the Council's IT Infrastructure, IT environment. From this we will then identify any risks arising from the use of IT. We are then required to identify the IT General Controls ('ITGCs') that address those risks and assess the design and implementation of ITGCs that address the risks arising from the use of IT.
- Additional documentation of our understanding of the Council's business model, which may result in us needing to perform additional inquiries to understand the Council's end-to-end processes over more classes of transactions, balances and disclosures.
- We are required to identify controls within a business process and identify which of those controls are controls relevant to the audit. These include, but are not limited to, controls over significant risks and journal entries. We will need to identify the risks arising from the use of IT and the general IT controls (ITGCs) as part of obtaining an understanding of relevant controls.
- Where we do not test the operating effectiveness of controls, the assessment of risk will be the inherent risk, this means that our sample sizes may be larger than in previous years.

These are significant changes which will require us to increase the scope, nature and extent of our audit documentation, particularly in respect of your business processes, and your IT controls. We will be unable to determine the full fee impact until we have undertaken further work in respect of the above areas. However, for an authority of your size, we estimate an initial increase of £3,000. We will let you know if our work in respect of business processes and IT controls identifies any issues requiring further audit testing. There is likely to be an ongoing requirement for a fee increase in future years, although we are unable yet to quantify that.

The other major change to Auditing Standards in 2022/23 is in respect of ISA 240 which deals with the auditor's responsibilities relating to fraud in an audit of financial statements. This Standard gives more prominence to the risk of fraud in the audit planning process. We will let you know during the course of the audit should we be required to undertake any additional work in this area which will impact on your fee.

Taking into account the above, our proposed work and fee for 2022/23, as set out below, is detailed overleaf.

Audit fees

	Planned fee 2021/22	Actual Fee 2021/22	Proposed fee 2022/23
Council Audit	£65,934	£TBC	£62,909
Total audit fees (excluding VAT)	£65,934	£TBC	£62,909

Assumptions

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

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

Relevant professional standards

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

Audit fees – detailed analysis

Scale fee published by PSAA	£44,559
Additional work on Value for Money (VfM) under new NAO Code	£9,000
Increased audit requirements of revised ISAs 540 and journals testing	£5,100
Enhanced audit procedures for Payroll – Change of circumstances	£500
Enhanced audit procedures for Collection Fund- reliefs testing	£750
Increased audit requirements of revised ISAs 315/ 240	£3,000
Total proposed audit fees 2022/23 (excluding VAT)	**£62,909**

All variations to the scale fee will need to be approved by PSAA

Independence and non-audit services

Auditor independence

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

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

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

Independence and non-audit services

Other services

The following other services provided by Grant Thornton were identified.

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

None of the services provided are subject to contingent fees.

Service	Fees £	Threats	Safeguards
Audit related			
Certification of Housing Benefit Subsidy claim	22,000	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 low value in comparison to the total fee for the audit 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.

Communication of audit matters with those charged with governance

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	•	
Overview of the planned scope and timing of the audit, form, timing and expected general content of communications including significant risks and Key Audit Matters	•	
Confirmation of independence and objectivity of the firm, the engagement team members and all other indirectly covered persons	•	•
A statement that we have complied with relevant ethical requirements regarding independence. Relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	•	•
Significant matters in relation to going concern	•	•
Significant findings from the audit		•
Significant matters and issue arising during the audit and written representations that have been sought		•
Significant difficulties encountered during the audit		•
Significant deficiencies in internal control identified during the audit		•
Significant matters arising in connection with related parties		•
Identification or suspicion of fraud(deliberate manipulation) involving management and/or which results in material misstatement of the financial statements (not typically council tax fraud)		•
Non-compliance with laws and regulations		•
Unadjusted misstatements and material disclosure omissions		•
Expected modifications to the auditor's report, or emphasis of matter		•

ISA (UK) 260, as well as other ISAs (UK), prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table here.

This document, the Audit Plan, outlines our audit strategy and plan to deliver the audit, while the Audit Findings will be issued prior to approval of the financial statements and will present key issues, findings and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via an audit progress memorandum.

Respective responsibilities

As auditor we are responsible for performing the audit in accordance with ISAs (UK), 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.

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