



ADUR & WORTHING
COUNCILS

Audit enquiries to those charged with Governance

Report by the Director for Digital, Sustainability & Resources

Executive Summary

1. Purpose

- 1.1 Our external auditors, Ernst and Young, have asked that the Joint Audit & Governance Committee considers a letter about how the Committee gains assurance from management regarding the financial governance arrangements of the Councils. The Chairmen of the Committee have received two letters, one for Adur District Council, and one for Worthing Borough Council. The letter to Worthing Borough Council is attached as Appendix 1 and is identical to the letter to Adur District Council.
- 1.2 To assist the Committee in its deliberation of the letter, attached at Appendix 2 is the proposed response to each of the questions raised. This will form the basis of a formal letter in response, if approved by the Committee.

2. Recommendations

- 2.1 The Joint Audit and Governance Committee is asked to consider and agree to the proposed responses to the external auditor's letter.

3. Context

3.1 The audit of the Council's financial statements is guided by International Standards of Auditing (ISAs). In order to comply with a number of these ISA's, each year the Chairmen of the Joint Governance Committee are written to by the Council's external auditor. The purpose of this letter is to obtain an understanding on how those charged with governance (the Joint Governance Committee) exercise oversight of management's processes in relation to fraud, laws and regulations and going concern.

4. Issues for consideration

4.1 It is proposed that the Committee discusses its draft response to the letter at Appendix 2. Members should be aware that the Committee is also asked to comment on whether the Councils are a 'going concern'. This is addressed separately below.

5. Going Concern

5.1 In accounting, "going concern" refers to an organisations' ability to continue functioning as a business entity. For the Councils, it is the responsibility of the Joint Governance Committee to assess whether the going concern assumption is appropriate when preparing the financial statements. The Councils are required to disclose in the notes to the Financial Statements whether there are any factors that may put the organisations' status as a going concern in doubt.

5.2 In forming an opinion on whether the Councils and the Joint Committee are 'going concerns' it is important to note the following:

- The budgets reported to Councils and the Joint Strategic Committee were balanced in 2023/24 and 2024/25
- Both Councils have a reasonable level of reserves and have a strategy to build reserves over the forthcoming years.
- To further support the Councils financial position in 2024/25, the impact of budget pressures has been built into the budgets where it is judged that the impact would persist in 2024/25.

Consequently, at this time the Committee should have no concerns about whether the Councils and the Joint Committee are going concerns.

6. Engagement and Communication

- 6.1 The Head of Internal Audit and the Monitoring Officer have been consulted on the proposed responses to the External Auditors.
- 6.2 The purpose of the report is to consult with the members of the Joint Governance Committee on the proposed response to our External Auditors

7. Financial Implications

- 7.1 There are no financial implications arising from this report.

8. Legal Implications

- 8.1 This report concerns the audit of the Statements of Accounts which are prepared in accordance with the Accounts and Audit (England) Regulations 2015 statutory instrument number 2015/234; and the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Local Authority Accounting in the United Kingdom 2020/21, based on International Financial Reporting Standards (IFRS).
- 8.2 Under the Local Government Finance Act 1992, local authorities are to follow a legislative procedure for setting a balanced budget each year.

Legal Officer: Joanne Lee

Date: 27/06/24

Background Papers

Regular reports to the Joint Governance Committee on the progress of the work of internal audit

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Sustainability & Risk Assessment

1. Economic

Matter considered and no issues identified

2. Social

2.1 Social Value

Matter considered and no issues identified

2.2 Equality Issues

Matter considered and no issues identified

2.3 Community Safety Issues (Section 17)

Matter considered and no issues identified

2.4 Human Rights Issues

Matter considered and no issues identified

3. Environmental

Matter considered and no issues identified

4. Governance

The report provides a proposed response to the letter from the External Auditor on how the Committee gains oversight of the Councils' management processes and arrangement.

This forms part of the Councils' annual audit which is part of the financial governance arrangements of the Councils.



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7 February 2024
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Dear Cllr Dan

**Understanding how the Joint Governance Committee gains assurance from management –
Worthing Borough Council**

Auditing standards require us to formally update our understanding of your arrangements for oversight of management processes and arrangements annually. Therefore, we are writing to ask that you please provide a response to the following questions.

- 1) How does the Joint Governance Committee, as 'those charged with governance' at the Authority, exercise oversight of management's processes in relation to:
 - undertaking an assessment of the risk that the financial statements may be materially misstated due to fraud or error (including the nature, extent and frequency of these assessments);
 - communicating to employees its view on business practice and ethical behaviour (for example by updating, communicating and monitoring against the Authority code of conduct);
 - encouraging employees to report their concerns about fraud; and
 - communicating to you the processes for identifying and responding to fraud or error?
- 2) How does the Joint Governance Committee oversee management processes for identifying and responding to the risk of fraud and the controls established by management to address specific risks of fraud the Authority has identified, or that otherwise help prevent, deter and detect fraud?
- 3) Is the Committee aware of any:
 - breaches of, or deficiencies in, internal control;
 - any instances of management override of controls and the nature and circumstances of such overrides; and
 - actual, suspected or alleged frauds during 2023/24?

- 4) Is the Committee aware allegations regarding the Authority's financial reporting (including those received through a whistleblower program)? If so, what are the Committee's responses to such allegations
- 5) Is the Committee aware of any matters arising from the procedures implemented for the receipt, retention and treatment of allegations (including whistleblowers) regarding accounting, internal accounting controls or auditing matters? Such procedures include those for the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters, and the response to such allegations.
- 6) Is the Joint Governance Committee aware any organisational or management pressure to meet financial or operating targets?
- 7) How does the Joint Governance Committee gain assurance that all relevant laws and regulations have been complied with? Are you aware of any instances of non-compliance during 2023/24?
- 8) Is the Joint Governance Committee aware of any actual or potential litigation or claims that would affect the financial statements?
- 9) How does the Joint Governance Committee satisfy itself that it is appropriate to adopt the going concern basis in preparing the financial statements?
- 10) What does the Joint Governance Committee consider to be the related parties that are significant to the CCG and what is its understanding of the relationships and transactions with those related parties?
- 11) Does the Joint Governance Committee have concerns regarding relationships or transactions with related parties and, if so, what is the substance of those concerns?
- 12) Is the Joint Governance Committee aware if the Authority has entered into any significant unusual transaction? If so, please provide details.

Please would you provide a response, after 1 April 2024, covering the whole of 2023/24, by email or letter either on behalf of those charged with governance or from yourself in your capacity as Chair of the Joint Governance Committee. If possible, please could we have your response by 3 April 2024.

Thank you for your assistance. If you have any queries in respect of this letter, please contact Aphiwe Dudeni at Aphiwe.Dudeni@uk.ey.com

Yours sincerely



Kevin Suter
Partner
For and on behalf of Ernst & Young LLP

QUESTION	PROPOSED RESPONSE
<p>1. How does the Joint Governance Committee, as 'those charged with governance' at the authority exercise oversight of management's processes in relation to:</p> <ul style="list-style-type: none"> ● undertaking an assessment of the risk that the financial statements may be materially misstated due to fraud or error (including the nature, extent and frequency of these assessments)? ● communicating to employees its view on business practice and ethical behaviour (for example by updating, communicating and monitoring against the Authority's code of conduct); ● encouraging employees to report their concerns about fraud; 	<p>The Joint Governance Committee has received regular reports from the Head of Internal Audit in relation to the operation of the control environment which is used to inform the Committee's view of management processes.</p> <p>Management has assessed that the risk of material fraud affecting the financial statements is very low. There is a robust system of internal control operating as reported by the Head of Internal Audit to the council and no evidence of material fraud.</p> <p>The Joint Governance Committee has oversight of this. The Councils have a code of conduct which is approved by the Committee. The Committee is also aware that Democratic Services keeps a register of Officer and Member interests.</p> <p>The Committee is aware that the Council has a well-publicised whistle blowing policy for staff to use. The Council also has several other policies and procedures in place which the Committee has oversight of including:</p> <ul style="list-style-type: none"> ● Code of conduct for members ● Council Policies (e.g. counter Fraud & Corruption). ● Financial and Contract Standing Orders ● Staff & Member declarations of interest. ● Programme of audits by Internal Audit. ● Work by External Audit. <p>These promote ethical behaviour and seek to support the identification of any potential issues.</p>

QUESTION	PROPOSED RESPONSE
<p>1. How does the Joint Governance Committee, as ‘those charged with governance’ exercise oversight of management's processes in relation to: (continued)</p> <ul style="list-style-type: none"> • communicating to you the processes for identifying and responding to fraud or error? 	<p>The Joint Governance Committee has oversight of this and receives regular reports from internal audit. These include regular updates from the Corporate Fraud manager.</p>
<p>2. How does the Joint Governance Committee oversee management processes for identifying and responding to the risk of fraud and the controls established by management to address specific risks of fraud the Authority has identified, or that otherwise prevent, deter and detect fraud?</p>	<p>The Joint Governance Committee has oversight of this and monitors this through the reports provided by internal audit.</p> <p>The committee receives details of any limited and nil assurance audit reports and any special audit reviews commissioned.</p> <p>The Committee maintains and seeks to improve internal control by monitoring the implementation and clearance of audit recommendations.</p> <p>Any concerns in respect of fraud or related issues are investigated promptly and where necessary appropriate action taken.</p>

QUESTION	PROPOSED RESPONSE
<p>3. Is the Joint Governance Committee aware of any:</p> <ul style="list-style-type: none"> • breaches of or deficiencies in internal control? • Any instances of management override of controls and the nature and circumstances of such overrides? • actual, suspected or alleged frauds during 2023/24? 	<p>We are not aware of any breaches of internal control other than those brought to our attention through the work of internal audit.</p> <p>We are not aware of any instances of management override of controls.</p> <p>We are not aware of any actual, suspected or alleged frauds other than those brought to our attention through the work of internal audit, the monitoring officer, and the S151 Officer.</p>
<p>4. Is the Joint Governance Committee aware of any allegations regarding the Authority's financial reporting (including those received through a whistleblower program)? If so, what are the committee's responses to such allegations?</p>	<p>The committee is not aware of any allegations regarding the Authorities financial reporting.</p>
<p>5. Is the Committee aware of any matters arising from the procedures implemented for the receipt, retention and treatment of allegations (including whistleblowers) regarding accounting, internal accounting controls or auditing matters? Such procedures include those for the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters, and the response to such allegations</p>	<p>The Committee is not aware of any matters arising from procedures implemented for the receipts, retention and treatment of allegations.</p>

QUESTION	PROPOSED RESPONSE
<p>6. Is the Committee aware of any organisational or management pressure to meet financial or operating targets?</p>	<p>Officers are asked to monitor budgets and report to members over or under spends in a transparent manner, they will be questioned on any over or under performance against budget.</p> <p>However, there is no undue organisational or management pressure to meet financial or operating targets. There are no staff incentives for meeting financial or operating targets.</p>
<p>7. How does the Joint Governance Committee gain assurance that all relevant laws and regulations have been complied with? Are you aware of any instances of non-compliance in 2023/24?</p>	<ul style="list-style-type: none"> • The Councils Legal Service Team lead by the Monitoring Office has a general advisory role to all Council Services as supplemented by specialist legal advice when necessary; • All reports must be reviewed by the legal officers and include a legal implications paragraph before any decision is made; • A legal officer is present at all meetings of the Council to ensure that Council operates within the law; • Legal issues are considered as part of audit work; • Committee approves the constitution, delegations, financial regulations and contract standing orders which provide guidance on procedural matters to ensure Council operates within the law. • Training is arranged by the legal team on new legislation and matters of particular significance. • The Committee is not aware of any instances of non-compliance other than those brought to our attention through the work of internal audit or by the monitoring officer.

QUESTION	PROPOSED RESPONSE
<p>8. Is the Joint Governance Committee aware of any actual or potential litigation or claims that would affect the financial statements?</p>	<p>Any potential litigation claims are disclosed within the statement of accounts.</p> <p>The Committee is not aware of any instances of any other potential claims other than those brought to our attention by the Chief Financial Officer or by the monitoring officer.</p>
<p>9. How does the Joint Governance Committee satisfy itself that it is appropriate to adopt the 'going concern' basis in preparing the financial statements?</p>	<p>The Committee considers the overall financial information available to it. These include:</p> <ul style="list-style-type: none"> ● The annual revenue budget; ● The Councils track record in spending within the budgets set; ● The Councils' levels of reserves. ● The level of any contingency budgets <p>The Committee has carried out this assessment and we are of the opinion that the Councils' and the Joint Committee have the ability to continue as a going concern.</p>
<p>10. What does the Joint Governance Committee consider to be the related parties that are significant to the Authority and what is its understanding of the relationships and transactions with those related parties?</p>	<p>The members of the Committee have received guidance on related party transactions from the S151 officer. The Committee understands that significant related parties include members and officers of the Council or their close family members.</p> <p>The Committee is not aware of any significant related parties or transactions other than those disclosed within the Statement of Accounts</p>
<p>11. Does the Joint Governance Committee have concerns regarding relationships with related parties and, if so, what is the substance of those concerns?</p>	<p>The Committee does not have any concerns regarding relationships with related parties.</p>
<p>12. Is the Joint Governance Committee aware if the Authority has entered into any significant unusual transaction? If so, please provide details.</p>	<p>The committee is not aware of any unusual transactions.</p>