

A woman with long brown hair is looking down at a document. A man in a white shirt is also looking at the document. They are both holding pens and appear to be in a meeting or office setting. A large yellow triangle is overlaid on the left side of the image.

## **Adur District Council**

**Auditor's Annual Report  
Year ended 31 March 2021**

September 2022



**EY**

Building a better  
working world

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Public Sector Audit Appointments Ltd (PSAA) issued the “Statement of responsibilities of auditors and audited bodies”. It is available from the PSAA website (<https://www.psaa.co.uk/audit-quality/statement-of-responsibilities/>). The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The “Terms of Appointment and further guidance (updated April 2018)” issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature.

This report is made solely to the Joint Governance Committee and management of Adur District Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Joint Governance Committee and management of Adur District Council those matters we are required to state to them in this 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 Joint Governance Committee and management of Adur District Council for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.

Our Complaints Procedure – If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Hywel Ball, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

Section 1

# Executive Summary



## Executive Summary: Key conclusions from our 2020/21 audit

Area of work	Conclusion
<b>Opinion on the Council's:</b>	
Financial statements	<p>Unqualified – the financial statements give a true and fair view of the financial position of the Council as at 31 March 2021 and of its expenditure and income for the year then ended. The financial statements have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.</p> <p>We issued our auditor's report on 29 July 2022.</p>
Going concern	<p>We concluded that the Chief Financial Officer's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.</p>
Consistency of the Statement of Accounts 2020/21 and other information published with the financial statements	<p>Financial information in the Statement of Accounts 2020/21 and published with the financial statements was consistent with the audited accounts.</p>
<b>Area of work</b>	
<b>Conclusion</b>	
<b>Reports by exception:</b>	
Value for money (VFM)	<p>We had no matters to report by exception on the Council's VFM arrangements.</p> <p>We have included our VFM commentary in Section 04.</p>
Consistency of the annual governance statement	<p>We were satisfied that the annual governance statement was consistent with our understanding of the Council.</p>
Public interest report and other auditor powers	<p>We had no reason to use our auditor powers.</p>

# Executive Summary: Key conclusions from our 2020/21 audit

As a result of the work we carried out we have also:

Outcomes	Conclusion
Issued a report to those charged with governance of the Council communicating significant findings resulting from our audit.	We issued and presented our initial Audit Results Report to the Joint Governance Committee in January 2022. We updated the Chairman of the Joint Governance Committee on 28 July 2022 with our final conclusions; and provided a final version to the Committee on 27 September 2022.
Issued a certificate that we have completed the audit in accordance with the requirements of the Local Audit and Accountability Act 2014 and the National Audit Office's 2020 Code of Audit Practice.	<p>We have performed the procedures required by the National Audit Office on the Whole of Government Accounts (WGA) submission. However, the rights and requirements of the NAO can extend beyond the revised thresholds of £2bn set by HM Treasury, which do not prejudice the rights of the NAO. As group auditor, the NAO WGA team will consider the revised HM Treasury thresholds alongside HM Treasury's developing analytical review controls and may require assurances from auditors of components who are below the HM Treasury thresholds.</p> <p>The change for 2020/21 is that in previous periods the existence of the HM Treasury thresholds has meant that in many instances the work that the NAO WGA team would have otherwise directed non-significant components to undertake in line with ISA 600 had already been carried out. The increase in HM Treasury's local government threshold means that there is a risk the NAO WGA team require some assurances from auditors of bodies below the new limit. Consequently, we cannot issue our certificate for 2020/21 until confirmation on the above-mentioned has been received from the NAO.</p>

## Fees

We carried out our audit of the Council's financial statements in line with PSAA Ltd's "Statement of Responsibilities of auditors and audited bodies" and "Terms of Appointment and further guidance (updated April 2018)". In order to meet regulatory and compliance audit requirements not present in the market at the time of our most recent bid to PSAA, we previously assessed the recurrent cost of additional requirements to carry out our audit and communicated this rebasing fee to the Council in 2019-20. Furthermore, as outlined in the Audit Results Report we were required to carry out additional audit procedures to address audit risks in relation to the valuation of properties in property, plant & equipment and investment properties including addressing valuation differences identified, determining the appropriateness of the actuarial model design, reviewing the appropriateness of the Council's accounting of Covid-19 grants and infrastructure assets and appropriate disclosure of going concern.

Consequently, we intend to agree the associated rebasing fee and additional fee with the Chief Finance Officer, which will be presented to the Joint Governance Committee and to PSAA for determination. We include details of the proposed final audit fees in Appendix 1.

# Executive Summary: Key conclusions from our 2020/21 audit

We would like to take this opportunity to thank the Council staff for their assistance during the course of our work.

Helen Thompson

Partner

For and on behalf of Ernst & Young LLP

Section 2

## Purpose and responsibilities



# Purpose and responsibilities

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This report summarises our audit work on the 2020/21 financial statements.

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## **Purpose**

The purpose of the auditor's annual report is to bring together all of the auditor's work over the year. A core element of the report is the commentary on VFM arrangements, which aims to draw to the attention of the Council or the wider public relevant issues, recommendations arising from the audit and follow-up of recommendations issued previously, along with the auditor's view as to whether they have been implemented satisfactorily.

## **Responsibilities of the appointed auditor**

We have undertaken our 2020/21 audit work in accordance with the Audit Plan and update that we issued on 27 May 2021 and 28 September 2021 respectively. We have complied with the NAO's 2020 Code of Audit Practice, International Standards on Auditing (UK), and other guidance issued by the NAO.

As auditors we are responsible for:

Expressing an opinion on:

- The 2020/21 financial statements;
- Conclusions relating to going concern; and
- The consistency of other information published with the financial statements, including the annual report.

Reporting by exception:

- If the governance statement does not comply with relevant guidance or is not consistent with our understanding of the Council;
- If we identify a significant weakness in the Council's arrangements in place to secure economy, efficiency and effectiveness in its use of resources; and
- Any significant matters that are in the public interest.

## **Responsibilities of the Council**

The Council is responsible for preparing and publishing its financial statements and governance statement. It is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Section 3

# Financial Statement Audit



# Financial Statement Audit

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We have issued an unqualified audit opinion on the Council's 2020/21 financial statements.

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## Key issues

The Annual Report and Accounts is an important tool for the Council to show how it has used public money and how it can demonstrate its financial management and financial health.

On 29 July 2022, we issued an unqualified opinion on the financial statements. We issued and presented our initial Audit Results Report to the Joint Governance Committee in January 2022. We updated the Chairman of the Joint Governance Committee on 28 July 2022 with our final conclusions; and provided a final version to the Committee on 27 September 2022.

We outline below the key issues identified as part of our audit, reported against the significant risks and other areas of audit focus we included in our Audit Plan.

Significant risk	Conclusion
<b>Misstatements due to fraud or error - management override of controls</b> An ever present risk that management is in a unique position to commit fraud because of its ability to manipulate accounting records directly or indirectly, and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.	We did not identify any material weaknesses in controls or evidence of material management override, instances of inappropriate judgements being applied; or any other transactions during our audit which appear unusual or outside the Council's normal course of business.
<b>Inappropriate capitalisation of expenditure</b> Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition. We have identified an opportunity and incentive to capitalise expenditure under the accounting framework, to remove it from the general fund.	<p>Our sample testing of additions to PPE:</p> <ul style="list-style-type: none"><li>• Found costs were correctly classified as capital and included at the correct value.</li><li>• Did not identify any revenue items that were incorrectly classified as capital.</li></ul> <p>Our data analytical procedures also did not identify any journal entries that incorrectly moved expenditure into capital codes.</p> <p>We did identify a misstatement below our performance materiality which was subsequently corrected by management. We were consequently satisfied that the revenue expenditure funded from capital under statute was appropriately classified.</p>

Continued over.

## Financial Statement Audit (continued)

Significant Risk	Conclusion
<p><b>Valuation of land and buildings under Existing Use Value (EUV) and Investment Properties (IP) under Fair Value (FV)</b></p> <p>Land and buildings is the most significant balance in the Council's balance sheet. The valuation of land and buildings under EUV and IP under FV is complex and is subject to a number of assumptions and judgements. A small movement in these assumptions can have a material impact on the financial statements.</p>	<p>The audit team reviewed the revaluation of 9 properties selected from PPE under EUV and IP under FV. We also employed the use of our own expert to support the work in relation to the valuation of a further 5 properties in PPE under EUV and IP under FV.</p> <p>From our work performed, we identified material differences that required changes to the valuations. Three of these required adjustments to the financial statements whilst a further immaterial difference of £211,000 remained uncorrected.</p> <p>Subsequently, we were satisfied that the valuation of land and buildings in PPE under EUV and IP under FV are fairly stated and appropriately disclosed.</p>

In addition to the significant risks above, we also concluded on the following areas of audit focus.

Other area of audit focus	Conclusion
<p><b>Valuation of Land &amp; Buildings in PPE under Depreciated Replacement Cost (DRC) and Housing Revenue Account (HRA) properties</b></p> <p>Land and buildings is the most significant balance in the Council's balance sheet. The valuation of land and buildings under DRC and HRA requires a lesser degree of material judgemental inputs and apply estimation techniques to calculate these balances held in the balance sheet and HRA notes. Although there is still risk in the valuation of these assets, we believe it to be less than for the properties under EUV and FV as listed above.</p>	<p>The audit team reviewed the revaluation of 1 property selected from PPE under DRC and 29 properties selected from HRA properties. We also employed the use of our own expert to support the work in relation to the valuation of a further 2 properties in PPE under DRC.</p> <p>From our work, we were satisfied that the valuation of land and buildings in PPE under DRC and HRA properties are fairly stated and appropriately disclosed.</p>

Continued over.

## Financial Statement Audit (continued)

Other area of audit focus	Conclusion
<p><b>Pension Asset and Liability valuation</b></p> <p>The Pension Fund asset and liability is a material balance in the Balance Sheet. Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.</p>	<p>We modified our planned approach to address the requirements of the revised auditing standard on accounting estimates by testing the method of measurement of accounting estimates to determine whether the model is appropriately designed, consistently applied and mathematically accurate, and that the integrity of the assumptions and the data has been maintained in applying the model.</p> <p>From our work, we identified a judgemental difference in the pension fund assets of £436,000 which was not corrected by management. We were however satisfied that the pension liability and asset valuation is fairly stated and appropriately disclosed.</p>
<p><b>Going concern disclosures</b></p> <p>The Council is required to carry out an assessment of its ability to continue as a going concern for the foreseeable future, being at least 12 months after the date of the approval of the financial statements. There is a risk that the Council's financial statements do not adequately disclose the assessment made, the assumptions used and the relevant risks and challenges that have impacted the going concern period.</p>	<p>We reviewed management's going concern assessment and confirmed their conclusion that the Council remains a going concern was based on reasonable and supportable assumptions.</p> <p>We also reviewed management's going concern disclosure and confirmed it was sufficiently detailed, transparent and accurately reflects management's underlying going concern assessment</p>
<p><b>Accounting for Covid-19 related grant funding</b></p> <p>The Council received government funding in relation to Covid-19. Whilst there is no change in the CIPFA Code or accounting standard (IFRS 15) in respect of accounting for grant funding, the emergency nature of some of the grants received and in some cases the lack of clarity on any associated restrictions and conditions, means that the Council will need to apply a greater degree of assessment and judgement to determine the appropriate accounting treatment in 2020/21.</p>	<p>We were satisfied that the accounting treatment adopted for Covid-19 related government grants accorded with the Council's assessment of whether it was acting as agent or principal, the underlying conditions of the grant and whether those conditions had been met.</p>

Continued over.

## Financial Statement Audit (continued)

Other area of audit focus	Conclusion
<p><b>Accounting treatment for infrastructure assets</b></p> <p>The value of infrastructure non-current assets is material in the financial statements. Once an item of PPE has been recognised and capitalized, the Council may incur further costs on that asset at a later date. The accounting treatment requires such subsequent expenditure to be capitalized to the value of the asset where these costs meet the recognition criteria. Where the subsequent expenditure represents the replacement of a component, the old component must be written out of the balance sheet. There is a need for the Council to ensure that it has recognised and accounted for such subsequent expenditure appropriately.</p>	<p>We were satisfied that the Council has sufficient information available and was compliant with the CIPFA Code.</p>

Continued over.

## Financial Statement Audit (continued)

### Audit differences

We identified a small number of misstatements in disclosures which management corrected.

We furthermore identified two misstatements greater than £915,000 which were corrected by management. These pertain to the valuation of land and buildings in PPE under EUV and IP which were respectively overstated by £3.1m and understated by £1.27m.

We also identified differences of £436,000 in the valuation of pension fund assets and in the valuation of properties in IP £211,000, resulting in the respective overstatement of the Pension Reserve Liability and IP at year end. These differences were not corrected by management as they are immaterial and result from differences in opinion between qualified valuers that are judgemental in nature.

### Our application of materiality

When establishing our overall audit strategy, we determined a magnitude of uncorrected misstatements that we judged would be material for the financial statements as a whole.

Item	Thresholds applied
<b>Planning materiality</b>	We determined planning materiality to be £1.2m as 2% of gross revenue expenditure reported in the accounts. We consider gross revenue expenditure to be one of the principal considerations for stakeholders in assessing the financial performance of the Council.
<b>Reporting threshold</b>	We agreed with the Joint Governance Committee that we would report to the Committee all audit differences in excess of £61,000.

Section 4

## Value for Money



# Value for Money (VFM)

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We did not identify any risks of significant weaknesses in the Council's VFM arrangements for 2020/21.

## Scope and risks

We have complied with the NAO's 2020 Code and the NAO's Auditor Guidance Note in respect of VFM. We presented our VFM risk assessment to the 28 September 2021 Joint Governance Committee meeting which was based on a combination of our cumulative audit knowledge and experience, our review of Council and committee reports, meetings with the senior officers and evaluation of associated documentation through our regular engagement with management and the finance team. We reported that we had not identified any risks of significant weaknesses in the Council's VFM arrangements for 2020/21.

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We had no matters to report by exception in the audit report.

## Reporting

We completed our planned VFM arrangements work on 28 September 2021 and did not identify any significant weaknesses in the Council's VFM arrangements. As a result, we had no matters to report by exception in the audit report on the financial statements.

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Our VFM commentary highlights relevant issues for the Council and the wider public.

## VFM Commentary

In accordance with the NAO's 2020 Code, we are required to report a commentary against three specified reporting criteria:

- Financial sustainability  
How the Council plans and manages its resources to ensure it can continue to deliver its services;
  - Governance  
How the Council ensures that it makes informed decisions and properly manages its risks; and
  - Improving economy, efficiency and effectiveness:  
How the Council uses information about its costs and performance to improve the way it manages and delivers its services.
-

## Introduction and context

The 2020 Code confirms that the focus of our work should be on the arrangements that the audited body is expected to have in place, based on the relevant governance framework for the type of public sector body being audited, together with any other relevant guidance or requirements. Audited bodies are required to maintain a system of internal control that secures value for money from the funds available to them whilst supporting the achievement of their policies, aims and objectives. They are required to comment on the operation of their governance framework during the reporting period, including arrangements for securing value for money from their use of resources, in a governance statement.

We have previously reported the VFM work we have undertaken during the year including our risk assessment. The commentary below aims to provide a clear narrative that explains our judgements in relation to our findings and any associated local context.

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The Council has had the arrangements we would expect to see to enable it to plan and manage its resources to ensure that it can continue to deliver its services.

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For 2020/21, the significant impact that the Covid-19 pandemic has had on the Council has shaped decisions made, how services have been delivered and financial plans have necessarily had to be reconsidered and revised.

We have reflected these national and local contexts in our VFM commentary.

## Financial sustainability

*How the body ensures that it identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds these into them*

The Council's service delivery objectives for 2020-2022 have been set out in their strategic plan "Platforms for Our Places" and forms the basis of the Council's strategic planning, including its short-term and medium-term financial plans, under the following five themes or platforms:

- Prosperous Places
- Thriving People and Communities
- Tackling Climate Change and Supporting our Natural Environment
- Good Services and New Solutions
- Leadership of Place.

The Council prepares an annual revenue budget as part of its short-term financial planning. The 2020-21 Revenue Budget was set as a balanced budget and compiled within the context of the Government's Comprehensive Spending Review, the Chancellor's Budget, and the local government settlement. There has been a significant decline in overall government income in recent years with increasing amounts of income being generated locally through Council Tax, Business Rates, fees and charges, and income from commercial property.

In addition to the national context, the Council's budget strategy has also taken account of pressures and risks such as:

## Financial sustainability (continued)

- inflation
- income generated by the Council which may be affected by lack of demand
- impact of increasing demand for such services as homelessness
- withdrawal of funding by partners, potentially losing funding for key priorities

The Council held a working balance and other earmarked reserves to help mitigate these risks. It further agreed a budget strategy in 2019-20 to meet these challenges through the following four major work streams:

- developing commercial income
- investing in property
- tackling homelessness
- delivery of a new customer and digital strategy.

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The Council has had the arrangements we would expect to see to enable it to plan and manage its resources to ensure that it can continue to deliver its services.

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The Council also continued to pursue savings through efficiency reviews, procurement, and base budget reviews. These initiatives resulted in an underspending of £599k as part of the 2020-21 budget round and ensured that service delivery was protected from any significant cuts.

The Council also prepared a five-year revenue budget as part of its medium-term financial planning. This budget strategy covered 2021-22 – 2025-26 and was prepared with the aim to continue delivering the Council's service delivery objectives as discussed above. These forecasts were further updated in-year giving the Council a clear view of forthcoming financial challenges and taking into account pressures such as the fall in government funding and the impact of the pandemic on the Council's financial outlook. The Council consequently identified significant budget reductions over 2021-22 to 2025-26 of £1.9m.

Achievement of revenue and capital budgets were further monitored in-year with quarterly finance reporting thereon to the Joint Strategic Committee. Areas of concern in these quarterly reports are subject to scrutiny that culminate into the revenue and capital outturn reports that are approved by the Joint Strategic Committee and subsequently adopted by the Joint Overview and Scrutiny Committee.

The 2020-21 Revenue Outturn Report reflects the efficiency of these in-year monitoring measures as the Council contained expenditure within the original budget levels despite facing a range of unforeseen additional costs not originally budgeted for. The Council reported an underspend of £599k against a budget of £8.612m for 2020-21.

### *How the body plans to bridge its funding gaps and identifies achievable savings*

Due to the increasing financial pressures the Council needs to identify significant savings or deliver income growth over the next 5 - 10 years to balance the

## Financial sustainability (continued)

budget and ensure delivery on its service delivery objectives.

The savings process followed for the development of the budget entails the following four stages:

- Directors are responsible for identifying proposals aimed at meeting a significant proportion of the savings targets;
- A “Budget Reference Group” consisting of joint executives consider these proposals and potential impact on delivery of the Council’s priorities;
- These savings proposals are then presented to the Joint Overview & Scrutiny Committee for consideration. The Joint Overview & Scrutiny Committee may also add to the list of proposed savings with additional proposals as considered appropriate; and
- Consideration by the Joint Strategic Committee of which savings proposals are to be implemented to fund the budget shortfall.

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The Council has had the arrangements we would expect to see to enable it to plan and manage its resources to ensure that it can continue to deliver its services.

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Once these budgets have been set and approved, they are monitored throughout the financial year by the Chief Financial Officer and reported on quarterly to the Joint Strategic Committee as discussed above.

The Council set a balanced budget for 2020-21 and identified an adjusted cumulative budget shortfall of £1.218m from 2021-22 to 2024-25. To address these pressures, the Council set-up the following strategic programmes to deliver new income and savings:

- The Major Projects programme that will lead on delivering regeneration projects to increase employment space and additional housing;
- The Service Redesign programme that will lead on the delivery of the Digital Strategy and ensure that the benefits are realised from this programme of work;
- The Strategic Asset Management programme that will lead on delivering the income growth associated with the Strategic Property Investment Fund;
- The Commercial programme that will develop initiatives to promote income growth from commercial services and seeks to improve the customer experience; and
- The Affordable Homes Working Group that will lead on initiatives to improve the supply of affordable homes and to reduce the cost of temporary and emergency accommodation.

The Council similarly set a balanced budget for 2021-22 budget which continued to identify an adjusted cumulative budget shortfalls of £1.558m from 2022-23 to 2025-26.

## Financial sustainability (continued)

*How the body plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities*

The Council has detailed its service delivery objectives detailed in its Corporate Plan “Platforms for our Places” which covers the 2020-22 period. This forms the basis for its strategic and statutory priorities on which its short-term and medium-term financial plans are developed.

Progress towards achieving these objectives are monitored by the Corporate Leadership Team throughout the year. Bi-annual reporting on this progress is presented to Joint Strategic Committee with remedial actions discussed and actioned where necessary.

Short-term and medium-term financial plans detail the likely costs associated with the Council’s strategic and statutory priorities; identifies any budget gaps that may arise from reduction in government funding; and planned savings strategies to bridge any gaps between available funding from taxation and the cost of services.

Any new service investment made must meet either objectives within the corporate plan or be a new statutory obligation.

*How the body ensures that its financial plan is consistent with other plans such as workforce, capital, investment, and other operational planning which may include working with other local public bodies as part of a wider system*

The Council develops an annual capital investment strategy as part of its short-term and medium-term financial planning process. This is approved by the Council alongside its revenue budget. This investment strategy is also aligned to the Council’s Corporate Plan “Platform for our Places” and identifies capital investments required to achieve its set service delivery objectives. This capital plan determines the cost of financing required capital along with any other financial impact. The revenue budget is also updated to reflect the impact to deliver this capital programme.

The 2020-21 Capital Investment Strategy identified capital expenditure planned over the medium term and their sources of financing which is also aligned to its 2020-21 revenue budget. Subsequent approvals and reprofiling of budgets to and from the 2021-22 budget resulted in a final capital budget of £23.4m for 2020-21. The 2020-21 Capital Outturn Report reflected actual capital expenditure of £17.7m. The 2021-22 Capital Investment Strategy similarly identified the capital expenditure planned over the medium term and their sources of financing which is also aligned to its 2021-22 Revenue Budget.

Government initiatives have placed emphasis on partnership working for service delivery to help meet the changing needs of customers and the cost savings authorities need to find. To achieve this goal Adur District Council and Worthing Borough Councils are part of an innovative partnership arrangement. A shared

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The Council has had the arrangements we would expect to see to enable it to plan and manage its resources to ensure that it can continue to deliver its services.

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## Financial sustainability (continued)

single officer structure was introduced in April 2008 and includes all of the services that were intended to operate as shared Adur & Worthing services. These shared services are managed via a Joint Committee which must meet all the accounting requirements of a public sector body. For accounting purposes, the following key processes apply:

- The Joint Strategic Committee has a separate budget;
- As each service moved across from Adur and Worthing to the Joint Strategic Committee their respective budgets and spend were pooled; and
- The net expenditure within the Joint Strategic Committee is recharged back to Adur and Worthing Councils.

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The Council has had the arrangements we would expect to see to enable it to plan and manage its resources to ensure that it can continue to deliver its services.

The Council's financial planning process also considers the impact of this partnership working when setting its short-term and medium-term financial plans. This is inherently part of the Councils' operations for which a separate partnership budget has been developed. Each constituent Council's budget also includes the costs from partnership budgets.

*How the body identifies and manages risks to financial resilience, e.g. unplanned changes in demand, including challenge of the assumptions underlying its plans.*

The Council manages its financial resilience risk through the following implemented measures:

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- It publishes detailed short-term and medium-term financial plans that are aligned to its Corporate Plan "Platforms for our Places" and includes actions to ensure financial sustainability;
  - In-year monitoring of these financial plans to identify and incorporate any unplanned changes in underlying assumptions of the Council's plans as explained above;
  - Reporting of financial performance against above set financial plans on a quarterly basis to the Joint Strategic Committee; and
  - Risk management processes to identify, monitor and address risks.

The Council has established a Risk and Opportunity Management Strategy for the 2021-23 period which leads on from the previous version which covered the 2018-20 period. This purpose of this strategy is to serve as framework for the delivery of the risk and opportunity management function and to provide guidance on developing risk and opportunity management as a routine process for all services.

Risk and management opportunities identified are monitored in-year with quarterly reporting to the Joint Governance Committee. A risk relating to continued pressures on the Council's finances has been identified and included

## **Financial sustainability (continued)**

in the Council's risk register as a very likely risk with a major impact for the 2020-21 financial year. The Council continued to implement remedial actions that lead to the setting of a balanced budget in 2021-22 and an overall underspending of £599k as part of the 2020-21 budget round and ensured that service delivery was protected from any significant cuts.

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The Council has had the arrangements we would expect to see to enable it to plan and manage its resources to ensure that it can continue to deliver its services.

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## **Governance**

*How the body monitors and assesses risk and how the body gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud*

The Council's Constitution directs how it operates, decisions are made and the relevant procedures to ensure that these decisions are efficient, transparent and accountable to local people.

The Council has a risk management framework which guides the development of risk and opportunity management at a strategic and operational level and to ensure that they are appropriately managed and controlled. This aids the achievement of the Council's strategic priorities, supports its decision-making processes, protect its reputation and assets, and ensures compliance with relevant statutory and regulatory obligations. These risks are identified as a routine process of all services and are regularly reviewed and updated. All significant risks (defined as something that may result in failure in service delivery, significant financial loss, non-achievement of key objectives, damage to health, legal action or reputational damage) must be logged on a Corporate Risk Register, profiled (as high/medium/low), and mitigating measures/assurances must be put in place. These risks are regularly monitored and reported in-year to the Council Leadership Team, Joint Governance Committee, and Joint Strategic Committee to ensure that progress in addressing these risks is monitored throughout.

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The Council has had the arrangements we would expect to see to enable to make informed decisions and properly manage its risks.

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The Council also has an internal audit service in place which provides information regarding the effectiveness of the internal control environment and its arrangements to prevent and detect fraud. In-year quarterly reporting by internal audit to the Joint Governance Committee ensures that efficient and effective assurance arrangements are in place to assist the management of risk and performance.

The Council furthermore has a fraud team in place to investigate fraud and carry out verification work on issues such as Council Tax discount and investigations into NFI matches.

*How the body approaches and carries out its annual budget setting process*

The annual budget process including the related responsibilities and procedures are set out in the Council's Constitution. The annual service planning and budgeting process seeks to reconcile corporate and business plans, and strategies with the relevant resources which includes the finance department. This process commences with a series of strategic initiatives with inputs from various stakeholders. Similar to the establishment of its Medium-Term Financial Plan and Medium-Term Capital Strategy, the Council has an implemented budgeting system which allows for the alignment of its annual budget to the priorities and commitments in its Corporate Plan "Platforms for our Places".

The Council refreshes the MTFP and agrees the budget strategy for the forthcoming year in July. Managers are then tasked to review their budgets for its

## **Governance (continued)**

appropriateness and to confirm details for additional income or savings plans through a detailed financial planning exercise. Subsequently, the overall savings plan is checked and consulted on prior to initial consideration by the Joint Overview and Scrutiny Committee in December and then subsequent approval by the Joint Strategic Committee in the following January, which also includes an updated MTFP. The Council will then consider the overall budget and options for Council Tax setting which is then subject to approval by the respective Councils in February.

*How the body ensures effective processes and systems are in place to ensure budgetary control; to communicate relevant, accurate and timely management information (including non-financial information where appropriate); supports its statutory financial reporting requirements; and ensures corrective action is taken where needed.*

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The Council has had the arrangements we would expect to see to enable to make informed decisions and properly manage its risks.

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The Council's processes and systems in place to ensure budgetary control have been set out in its Constitution. Each budget line has been assigned a budget manager who is responsible for managing the related budget. Monthly budget monitoring packs are produced and shared with managers to assess current financial performance shortly after each month end. Financial officials further meet with budget managers to review related budgets and identify both areas of financial pressure and underspending. The Council may also hold a series of contingency budgets which are available to meet pressures identified if needed.

The Corporate Leadership Team further produces and evaluates monthly reports on the financial performance of the Council to identify emerging issues. This feeds into the quarterly reporting of the revenue and capital budgets to the Joint Strategic Committee. This budget management process is also subject to regular internal audit review to ensure that the system is fit for purpose.

The efficiency of these controls is evidenced by the overall outturn position of £599k underspend for 2020-21.

*How the body ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency. This includes arrangements for effective challenge from those charged with governance/audit committee.*

Primary oversight is the responsibility of the Council with some aspects delegated to the Joint Governance Committee and Joint Strategic Committee. These committees meet on a regular basis during which key issues are raised and addressed with effective challenge from members. All Council and Committee decisions are accompanied by a detailed report which details its rationale, the options considered, legal advice and financial advice. A set corporate template is also used to ensure that all of advice needed to make a decision is provided.

## **Governance (continued)**

Under the constitution, all decisions may be called in by members for review prior to implementation on specific grounds. These reviews are the purview of the Overview and Scrutiny Committee.

To allow for transparency, the Council also ensures that it:

- Publishes relevant information relating to salaries, business interests and performance data on its website;
- Has a Procurement team who provide advice and issue clear guidelines for procuring goods and services;
- Publishes information to the Council and its Committees as part of established accountability mechanisms;
- Prepares an Annual Governance Statement; and
- Prepares a Corporate Plan as discussed above.

The Council is furthermore committed to the publication of transparent performance information on its website, which includes:

- Budget reports;
- Operational performance reports;
- a Medium-Term Financial Plan;
- A Corporate Plan;
- Statement of Accounts;
- Annual Governance Statement; and
- Information as required under the Local Government Transparency Code.

There is also evidence of good arrangements in place to monitor the implementation of internal audit recommendations by the Joint Governance Committee. Internal audit progress reports are presented on a quarterly basis throughout the year to monitor implementation of recommendations by internal audit and to implement corrective actions where necessary.

*How the body monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of officer or member behaviour (such as gifts and hospitality or declarations/conflicts of interests).*

The roles of both members and officers of the Council are outlined in the Code of Conduct included within its Constitution and is approved by the Joint Governance Committee.

If any member breaches the Code of Conduct, there is a resolution and complaints process administered by the Council's Monitoring Officer and potentially involving a hearing of the sub-Committee of the Joint Governance Committee.

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The Council has had the arrangements we would expect to see to enable to make informed decisions and properly manage its risks.

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## **Governance (continued)**

The Council is transparent about how decisions are taken and recorded by:

- Ensuring that decisions are made in public and recorded. Those decisions and relevant information are publicly available (except where that information is exempt under the provisions of the Local Government Act or determined as being confidential by Government) and
- Having rules and procedures which govern how decisions are made.

The Council has implemented systems to ensure conflicts of interest are identified, recorded and acted upon accordingly, excluding anyone from decision-making where a conflict arises, and making public declaration of interests through its Register of Interests which is published on the Council's website and covers employees, governing body members and members of panels/committees and sub-committee.

The Council maintains a register of member interests which is available to the public and published on its website at:

[Conduct of Councillors \(Members\), making a complaint; Register of Members' Interests - Adur & Worthing Councils \(adur-worthing.gov.uk\)](#)

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The Council has had the arrangements we would expect to see to enable to make informed decisions and properly manage its risks.

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Regular training is furthermore provided to members on standards issues ensuring that all members are aware of the requirements. Each member and officer are also expected to complete a return on any gifts of hospitality.

The Council has a published Whistleblowing Policy and provides protection to individuals raising concerns. This policy is periodically reviewed in line with guidance.

The Council also ensures that effective, transparent and accessible arrangements are in place for dealing with complaints. The website contains guidance for submitting complaints against the Council by the public and processes are in place to progress any complaints that are made.

## **Improving economy, efficiency and effectiveness**

*How financial and performance information has been used to assess performance to identify areas for improvement.*

Organisational performance management is undertaken through a six-monthly review of the targets, outputs and outcomes described in the Council's "Platforms for Our Places: Going Further". Information is gathered through various performance management arrangements to produce the "6 monthly Platforms Performance Report" and is presented to the Joint Strategic Committee and Joint Overview & Scrutiny Committee bi-annually.

Platform performances are reviewed, and areas of improvement implemented through multidisciplinary and directorate teams that oversee the delivery of council activities under each Platform Priority. The Council's Leadership Team takes overall accountability at an officer level for delivery of Platforms through quarterly Council Leadership Team Platform performance meetings.

Each head of service works within the above arrangements and is responsible for assisting in the process of both identifying and addressing areas of improvement within their service areas. Where services are linked and have shared Platform outcomes, officers deliver performance improvements through multidisciplinary arrangements. These performance arrangements described above are integrated with financial management and budget forward planning arrangements.

Any issues identified by internal audit are furthermore monitored via the internal audit app and reported to the Joint Governance Committee four times a year. Officers not taking sufficient action on these service improvements may be requested to report to the Committee.

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The Council has had the arrangements we would expect to see to enable it to use information about its costs and performance to improve the way it manages and delivers services.

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*How the body evaluates the services it provides to assess performance and identify areas for improvement*

The Council's service delivery objectives are detailed in "Platforms for our Places". Most services have performance information and standards used to compare and assess performance with other Councils or with national recognised performance frameworks (e.g Housemark, DWP, national planning indicators).

Internal audit and customer feedback are also used to inform which services require improvement. Where a service is identified in need of improvement a transformation team is set up to support service improvement.

## **Improving economy, efficiency and effectiveness (continued)**

*How the body ensures it delivers its role within significant partnerships, engages with stakeholders it has identified, monitors performance against expectations, and ensures action is taken where necessary to improve*

### Engagements and communications:

The Council has developed a consultation policy which reflects its ambition to enable and empower communities to shape the places within which they live and work, influence formal decision making and make informed choices around the services they receive. This policy can be found at:

[About consultation in Adur & Worthing - Adur & Worthing Councils \(adur-worthing.gov.uk\)](http://adur-worthing.gov.uk)

To be effective this policy aims to inspire and support a genuine two-way dialogue with all sections of the community and other stakeholders. There are several ways people can get involved and connect with the council. Current consultations can be found on the Council's website at:

[Home - Adur & Worthing Councils \(adur-worthing.gov.uk\)](http://adur-worthing.gov.uk)

Residents have the option to engage in a dialogue through social media sites (including Facebook and twitter), petition schemes, stakeholder forums, tenant associations, council meetings (open to the public), and their local Councillor.

### Consultation:

Internally, a consultation toolkit has also been developed to guide council staff through the consultation process. The agreed process ensures that engagement activity is relevant, accessible, transparent and responsive. To increase awareness, consultations are proactively promoted. A list of current district-wide consultations is available on the council website.

### Complaints:

There is also a clear and transparent complaints procedure for dealing with complaints. The Council operates a three-stage complaints procedure and promises to acknowledge complaints within 5 working days and respond fully within 10 working days for first-stage complaints, and 15 working days for second-stage complaints. If complainants remain dissatisfied, they have the right to refer the matter to the Local Government Ombudsman.

### Partnership working:

The Council operates one significant partnership (Adur Worthing Joint Committee) although it participates in other partnerships across the Council. There is a governance framework for the Adur / Worthing partnership whereby decisions are made through a series of joint committees. This is set out in the Council's Constitution. There are also separate budget and management accounts for the Joint Committee which is reported as part of the overall budget monitoring and outturn processes.

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The Council has had the arrangements we would expect to see to enable it to use information about its costs and performance to improve the way it manages and delivers services.

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## **Improving economy, efficiency and effectiveness (continued)**

*How the body ensures that commissioning and procuring services is done in accordance with relevant legislation, professional standards and internal policies, and how the body assesses whether it is realising the expected benefits.*

The Councils have published Contract Standing Orders as part of its Constitution which detail how it procures services. The Council also has a team of qualified procurement officers supplemented by support from the larger procurement team at Orbis.

In line with the above-mentioned standing procedures, any procurement over £25,000 must be referred to the Council's procurement team to ensure that the proposed procurement will deliver the expected outcome, and to ensure that the Council is complying with relevant legislation. All contracts are referred to legal, who will ensure that the procurement process has been complied with prior to approving the form of contract. The Council will also commission external expert advice where a proposed procurement is particularly complex or difficult.

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The Council has had the arrangements we would expect to see to enable it to use information about its costs and performance to improve the way it manages and delivers services.

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Section 5

## Other Reporting Issues

# Other Reporting Issues

## **Governance Statement**

We are required to consider the completeness of disclosures in the Council's governance statement, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it complies with relevant guidance.

We completed this work and did not identify any areas of concern.

## **Whole of Government Accounts**

We have performed the procedures required by the National Audit Office on the Whole of Government Accounts submission. However, the NAO WGA team will consider the revised HM Treasury thresholds alongside HM Treasury's developing analytical review controls and may determine assurances from auditors of components who are below these revised HM Treasury thresholds.

## **Report in the Public Interest**

We have a duty under the Local Audit and Accountability Act 2014 to consider whether, in the public interest, to report on any matter that comes to our attention in the course of the audit in order for it to be considered by the Council or brought to the attention of the public.

We did not identify any issues which required us to issue a report in the public interest.

## **Other powers and duties**

We identified no issues during our audit that required us to use our additional powers under the Local Audit and Accountability Act 2014.

## **Control Themes and Observations**

As part of our work, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of internal control, we are required to communicate to you significant deficiencies in internal control identified during our audit.

We have adopted a fully substantive approach and have therefore not tested the operation of controls.

The matters reported are shown below and are limited to those deficiencies that we identified during the audit and that we concluded are of sufficient importance to merit being reported.

## **Valuation of land and buildings in PPE and IP:**

As outlined in section 2 and 4 of this report, material differences were identified in the valuation of land and buildings including in PPE and IP. These arose from specific factors that drove a difference in professional judgement between EYRE, our valuation specialist, and management's valuer, Wilks Head & Eve. We set these out in more detail here to provide management, and those charged with governance, an opportunity to consider these in future valuations.

## Other Reporting Issues

### Control Themes and Observations (continued)

- ▶ **Valuation date:** the Council's current policy is for valuations to be prepared as at 1 April of the financial year, i.e. for the year ending 31 March 2021, the valuation was undertaken as at 1 April 2020. For market based valuations, this will inevitably lead to differences in judgement, as we are required to consider the valuation as at the reporting date, and we ask our specialist to undertake their review as at 31 March. Events including, but not restricted to, lease break points, rent reviews and comparable market evidence will influence the valuation in any year; but for 2020/21, the impact of the pandemic continued to have a significant impact on market based valuations. We recommend the Council amends its policy to revalue closer to the end of the financial year, e.g. 31 December, which would reduce the impact of market changes.
- ▶ **Purchase costs:** the management specialist uses a gross yield rather than a net yield in determining property valuations on behalf of the Council. We do not consider this is in line with open market practice. A gross yield does not consider relevant purchase costs attributable to the property. If the Council were to sell the asset, any purchaser would reflect their purchase cost within the price offered.
- ▶ **Comparative market evidence:** in completing our review of the management specialist assumptions, our specialist tends to use comparable market evidence to support valuation assumptions. In discussions on the differences identified between the management specialist and EYRE, it was clear the Council's property team had a good understanding of their properties and could provide information to support certain assumptions. We recommend the Council reviews the valuation report received from their specialist against their own detailed knowledge and challenge where there appear to be obvious discrepancies, and request evidence from the specialist if required, before the valuation report is finalised and in advance of the detailed audit work.

Appendix A

## Audit Fees



## Audit Fees

Our final proposed fees for 2020/21 are set out in the table below:

Description	Final Proposed Fee 2020/21 £	Planned Fee 2020/21 £	Final Fee 2019/20 £
PSAA scale fee	37,054	37,054	37,054
Scale fee rebasing (Note 1)	52,262	Nil	
<b>Revised proposed scale fee</b>	<b>89,316</b>	<b>37,054</b>	23,662
In-year scale fee variation:			(Determined by PSAA – Note 3)
▶ Scale fee variation – Additional audit work (Note 2)	28,389	Nil	
▶ Scale fee variation - PSAA pre-approved additional fee for VFM and ISA540 (Note 4):	8,521	8,500	Nil
<b>Total audit related fees</b>	<b>126,226</b>	<b>45,554</b>	<b>60,716</b>
Non-audit work – Housing benefit subsidy claim	40,030	22,530	43,556
<b>Total fees</b>	<b>* 166,256</b>	<b>68,084</b>	<b>104,272</b>

\* this is our proposed figure that is to be submitted to the PSAA

Note 1 – This relates to our scale fee rebasing for the audit, to take into account changes in professional and regulatory requirements to that date. This was previously raised in the 2019/20 audit year and as these are related to ongoing requirements, we have included the impact again in our 2020/21 requested fees. This is the same request that has been submitted in the prior year and has been adjusted for the increase in PSAA rates.

Note 2 – This figure includes a variation to the scale fee for items specific to the 2020/21 audit year where additional audit work was undertaken by the audit team. We will be submitting a request for this additional work undertaken on:

- Accounting for Covid-19 grants;
- Work of EY expert to calculate an auditors estimate of the pension liability;
- Going concern
- Valuation of properties included in PPE and IP
- Pension Fund valuations
- Accounting treatment for infrastructure assets

Note 3 – For 2019/20, PSAA determined the total of the categories in notes 1 and 2 above at £23,662 and has accordingly been shown as a single comparative figure.

Note 4 – The fee impacts of the NAO's 2020 Code of Audit Practice, and the revised ISA540 on estimates were new during 2020/21. The PSAA communicated fee ranges for each type of auditee, and our assessed impact for the Council is that both ISA540 and VFM Commentary is at the bottom of the ranges.

We will discuss the additional fee proposal with management and submit to the PSAA, providing an update to the Joint Governance Committee when the final fee is determined.

**EY** | Assurance | Tax | Transactions | Advisory

**Ernst & Young LLP**

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# Worthing Borough Council

Auditor's Annual Report  
Year ended 31 March 2021

September 2022



**EY**

Building a better  
working world

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Public Sector Audit Appointments Ltd (PSAA) issued the “Statement of responsibilities of auditors and audited bodies”. It is available from the PSAA website (<https://www.psaa.co.uk/audit-quality/statement-of-responsibilities/>). The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The “Terms of Appointment and further guidance (updated April 2018)” issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature.

This report is made solely to the Joint Governance Committee and management of Worthing Borough Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Joint Governance Committee and management of Worthing Borough Council those matters we are required to state to them in this 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 Joint Governance Committee and management of Worthing Borough Council for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.

Our Complaints Procedure – If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Hywel Ball, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

Section 1

# Executive Summary



## Executive Summary: Key conclusions from our 2020/21 audit

Area of work	Conclusion
<b>Opinion on the Council's:</b>	
Financial statements	<p>Unqualified – the financial statements give a true and fair view of the financial position of the Council as at 31 March 2021 and of its expenditure and income for the year then ended. The financial statements have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.</p> <p>We issued our auditor's report on 29 July 2022.</p>
Going concern	<p>We concluded that the Chief Financial Officer's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.</p>
Consistency of the Statement of Accounts 2020/21 and other information published with the financial statements	<p>Financial information in the Statement of Accounts 2020/21 and published with the financial statements was consistent with the audited accounts.</p>
<b>Area of work</b>	
<b>Conclusion</b>	
<b>Reports by exception:</b>	
Value for money (VFM)	<p>We had no matters to report by exception on the Council's VFM arrangements.</p> <p>We have included our VFM commentary in Section 04.</p>
Consistency of the annual governance statement	<p>We were satisfied that the annual governance statement was consistent with our understanding of the Council.</p>
Public interest report and other auditor powers	<p>We had no reason to use our auditor powers.</p>

# Executive Summary: Key conclusions from our 2020/21 audit

As a result of the work we carried out we have also:

Outcomes	Conclusion
Issued a report to those charged with governance of the Council communicating significant findings resulting from our audit.	We issued and presented our initial Audit Results Report to the Joint Governance Committee in January 2022. We updated the Chairman of the Joint Governance Committee on 28 July 2022 with our final conclusions; and provided a final version to the Committee on 27 September 2022.
Issued a certificate that we have completed the audit in accordance with the requirements of the Local Audit and Accountability Act 2014 and the National Audit Office's 2020 Code of Audit Practice.	<p>We have performed the procedures required by the National Audit Office on the Whole of Government Accounts (WGA) submission. However, the rights and requirements of the NAO can extend beyond the revised thresholds of £2bn set by HM Treasury, which do not prejudice the rights of the NAO. As group auditor, the NAO WGA team will consider the revised HM Treasury thresholds alongside HM Treasury's developing analytical review controls and may require assurances from auditors of components who are below the HM Treasury thresholds.</p> <p>The change for 2020-21 is that in previous periods the existence of the HM Treasury thresholds has meant that in many instances the work that the NAO WGA team would have otherwise directed non-significant components to undertake in line with ISA 600 had already been carried out. The increase in HM Treasury's local government threshold means that there is a risk the NAO WGA team require some assurances from auditors of bodies below the new limit. Consequently, we cannot issue our certificate for 2020/21 until confirmation on the above-mentioned has been received from the NAO.</p>

## Fees

We carried out our audit of the Council's financial statements in line with PSAA Ltd's "Statement of Responsibilities of auditors and audited bodies" and "Terms of Appointment and further guidance (updated April 2018)". In order to meet regulatory and compliance audit requirements not present in the market at the time of our most recent bid to PSAA, we previously assessed the recurrent cost of additional requirements to carry out our audit and communicated this rebasing fee to the Council in 2019-20. Furthermore, as outlined in the Audit Results Report we were required to carry out additional audit procedures to address audit risks in relation to the valuation of properties in property, plant & equipment and investment properties including addressing valuation differences identified, determining the appropriateness of the actuarial model design, reviewing the appropriateness of the Council's accounting of Covid-19 grants and infrastructure assets and appropriate disclosure of going concern.

Consequently, we intend to agree the associated rebasing fee and additional fee with the Chief Finance Officer, which will be presented to the Joint Governance Committee and to PSAA for determination. We include details of the proposed final audit fees in Appendix 1.

# Executive Summary: Key conclusions from our 2020/21 audit

We would like to take this opportunity to thank the Council staff for their assistance during the course of our work.

Helen Thompson

Partner

For and on behalf of Ernst & Young LLP

Section 2

## Purpose and responsibilities



# Purpose and responsibilities

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This report summarises our audit work on the 2020/21 financial statements.

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## **Purpose**

The purpose of the auditor's annual report is to bring together all of the auditor's work over the year. A core element of the report is the commentary on VFM arrangements, which aims to draw to the attention of the Council or the wider public relevant issues, recommendations arising from the audit and follow-up of recommendations issued previously, along with the auditor's view as to whether they have been implemented satisfactorily.

## **Responsibilities of the appointed auditor**

We have undertaken our 2020/21 audit work in accordance with the Audit Plan and update that we issued on 27 May 2021 and 28 September 2021 respectively. We have complied with the NAO's 2020 Code of Audit Practice, International Standards on Auditing (UK), and other guidance issued by the NAO.

As auditors we are responsible for:

Expressing an opinion on:

- The 2020/21 financial statements;
- Conclusions relating to going concern; and
- The consistency of other information published with the financial statements, including the annual report.

Reporting by exception:

- If the governance statement does not comply with relevant guidance or is not consistent with our understanding of the Council;
- If we identify a significant weakness in the Council's arrangements in place to secure economy, efficiency and effectiveness in its use of resources; and
- Any significant matters that are in the public interest.

## **Responsibilities of the Council**

The Council is responsible for preparing and publishing its financial statements and governance statement. It is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Section 3

# Financial Statement Audit



# Financial Statement Audit

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We have issued an unqualified audit opinion on the Council's 2020/21 financial statements.

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## Key issues

The Annual Report and Accounts is an important tool for the Council to show how it has used public money and how it can demonstrate its financial management and financial health.

On 29 July 2022, we issued an unqualified opinion on the financial statements. We issued and presented our initial Audit Results Report to the Joint Governance Committee in January 2022. We updated the Chairman of the Joint Governance Committee on 28 July 2022 with our final conclusions; and provided a final version to the Committee on 27 September 2022.

We outline below the key issues identified as part of our audit, reported against the significant risks and other areas of audit focus we included in our Audit Plan.

Significant risk	Conclusion
<p><b>Misstatements due to fraud or error - management override of controls</b></p> <p>An ever present risk that management is in a unique position to commit fraud because of its ability to manipulate accounting records directly or indirectly, and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.</p>	<p>We did not identify any material weaknesses in controls or evidence of material management override, instances of inappropriate judgements being applied; or any other transactions during our audit which appear unusual or outside the Council's normal course of business.</p>
<p><b>Inappropriate capitalisation of expenditure</b></p> <p>Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition. We have identified an opportunity and incentive to capitalise expenditure under the accounting framework, to remove it from the general fund.</p>	<p>Our sample testing of additions to PPE:</p> <ul style="list-style-type: none"><li>• Found costs were correctly classified as capital and included at the correct value.</li><li>• Did not identify any revenue items that were incorrectly classified as capital.</li></ul> <p>Our data analytical procedures also did not identify any journal entries that incorrectly moved expenditure into capital codes.</p> <p>We did identify a misstatement below our performance materiality which was subsequently corrected by management. We were consequently satisfied that the revenue expenditure funded from capital under statute was appropriately classified.</p>

Continued over.

## Financial Statement Audit (continued)

Significant Risk	Conclusion
<p><b>Valuation of land and buildings under Existing Use Value (EUV) and Investment Properties (IP) under Fair Value (FV)</b></p> <p>Land and buildings is the most significant balance in the Council's balance sheet. The valuation of land and buildings under EUV and IP under FV is complex and is subject to a number of assumptions and judgements. A small movement in these assumptions can have a material impact on the financial statements.</p>	<p>The audit team reviewed the revaluation of 27 properties selected from PPE under EUV and IP under FV. We also employed the use of our own expert to support the work in relation to the valuation of a further 7 properties in PPE under EUV and IP under FV.</p> <p>From our work performed, we identified material differences that required changes to the valuations. Two of these required adjustments to the financial statements whilst a further two immaterial differences of £184k remained uncorrected.</p> <p>Subsequently, we were satisfied that the valuation of land and buildings in PPE under EUV and IP under FV are fairly stated and appropriately disclosed.</p>

In addition to the significant risks above, we also concluded on the following areas of audit focus.

Other area of audit focus	Conclusion
<p><b>Valuation of Land &amp; Buildings in PPE under Depreciated Replacement Cost (DRC)</b></p> <p>Land and buildings is the most significant balance in the Council's balance sheet. The valuation of land and buildings under DRC requires a lesser degree of material judgemental inputs and apply estimation techniques to calculate these balances held in the balance sheet. Although there is still risk in the valuation of these assets, we believe it to be less than for the properties under EUV and FV as listed above.</p>	<p>The audit team reviewed the revaluation of 5 properties selected from PPE under DRC. We also employed the use of our own expert to support the work in relation to the valuation of a further 1 property in PPE under DRC.</p> <p>From our work performed, we identified a material difference that required changes to the valuation and an adjustment to the financial statements.</p> <p>Subsequently, we were satisfied that the valuation of land &amp; buildings in PPE under DRC are fairly stated and appropriately disclosed.</p>

Continued over.

## Financial Statement Audit (continued)

Other area of audit focus	Conclusion
<p><b>Pension Asset and Liability valuation</b> The Pension Fund asset and liability is a material balance in the Balance Sheet. Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.</p>	<p>We modified our planned approach to address the requirements of the revised auditing standard on accounting estimates by testing the method of measurement of accounting estimates to determine whether the model is appropriately designed, consistently applied and mathematically accurate, and that the integrity of the assumptions and the data has been maintained in applying the model.</p> <p>From our work, we identified a judgemental difference in the pension fund assets of £492,000 which was not corrected by management. We were however satisfied that the pension liability and asset valuation is fairly stated and appropriately disclosed.</p>
<p><b>Going concern disclosures</b> The Council is required to carry out an assessment of its ability to continue as a going concern for the foreseeable future, being at least 12 months after the date of the approval of the financial statements. There is a risk that the Council's financial statements do not adequately disclose the assessment made, the assumptions used and the relevant risks and challenges that have impacted the going concern period.</p>	<p>We reviewed management's going concern assessment and confirmed their conclusion that the Council remains a going concern was based on reasonable and supportable assumptions.</p> <p>We also reviewed management's going concern disclosure and confirmed it was sufficiently detailed, transparent and accurately reflects management's underlying going concern assessment</p>
<p><b>Accounting for Covid-19 related grant funding</b> The Council received government funding in relation to Covid-19. Whilst there is no change in the CIPFA Code or accounting standard (IFRS 15) in respect of accounting for grant funding, the emergency nature of some of the grants received and in some cases the lack of clarity on any associated restrictions and conditions, means that the Council will need to apply a greater degree of assessment and judgement to determine the appropriate accounting treatment in 2020/21.</p>	<p>We were satisfied that the accounting treatment adopted for Covid-19 related government grants accorded with the Council's assessment of whether it was acting as agent or principal, the underlying conditions of the grant and whether those conditions had been met.</p>

Continued over.

## Financial Statement Audit (continued)

Other area of audit focus	Conclusion
<p><b>Accounting treatment for infrastructure assets</b></p> <p>The value of infrastructure non-current assets is material in the financial statements. Once an item of PPE has been recognised and capitalized, the Council may incur further costs on that asset at a later date. The accounting treatment requires such subsequent expenditure to be capitalized to the value of the asset where these costs meet the recognition criteria. Where the subsequent expenditure represents the replacement of a component, the old component must be written out of the balance sheet. There is a need for the Council to ensure that it has recognised and accounted for such subsequent expenditure appropriately.</p>	<p>We were satisfied that the Council has sufficient information available and was compliant with the CIPFA Code.</p>

Continued over.

# Financial Statement Audit (continued)

## Audit differences

We identified a small number of misstatements in disclosures which management corrected.

We furthermore identified three misstatements greater than £1.1m which were corrected by management. These pertain to the valuation of land and buildings in PPE under DRC, PPE under EUV, and IP which were respectively understated by £4.15m, overstated by £2.38m and understated by £1.21m.

We also identified differences of £492,000 in the valuation of pension fund assets and a further two in the valuation of IP under FV of £184,000 cumulatively, resulting in the respective overstatement of the Pension Reserve Liability and IP at year end. These differences were not corrected by management as they are immaterial and result from differences in opinion between qualified valuers that are judgemental in nature.

## Our application of materiality

When establishing our overall audit strategy, we determined a magnitude of uncorrected misstatements that we judged would be material for the financial statements as a whole.

Item	Thresholds applied
<b>Planning materiality</b>	We determined planning materiality to be £1.5m as 2% of gross revenue expenditure reported in the accounts. We consider gross revenue expenditure to be one of the principal considerations for stakeholders in assessing the financial performance of the Council.
<b>Reporting threshold</b>	We agreed with the Joint Governance Committee that we would report to the Committee all audit differences in excess of £75,000.

Section 4

## Value for Money



# Value for Money (VFM)

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We did not identify any risks of significant weaknesses in the Council's VFM arrangements for 2020/21.

## Scope and risks

We have complied with the NAO's 2020 Code and the NAO's Auditor Guidance Note in respect of VFM. We presented our VFM risk assessment to the 28 September 2021 Joint Governance Committee meeting which was based on a combination of our cumulative audit knowledge and experience, our review of Council and committee reports, meetings with the senior officers and evaluation of associated documentation through our regular engagement with management and the finance team. We reported that we had not identified any risks of significant weaknesses in the Council's VFM arrangements for 2020/21.

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We had no matters to report by exception in the audit report.

## Reporting

We completed our planned VFM arrangements work on 28 September 2021 and did not identify any significant weaknesses in the Council's VFM arrangements. As a result, we had no matters to report by exception in the audit report on the financial statements.

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Our VFM commentary highlights relevant issues for the Council and the wider public.

## VFM Commentary

In accordance with the NAO's 2020 Code, we are required to report a commentary against three specified reporting criteria:

- Financial sustainability  
How the Council plans and manages its resources to ensure it can continue to deliver its services;
  - Governance  
How the Council ensures that it makes informed decisions and properly manages its risks; and
  - Improving economy, efficiency and effectiveness:  
How the Council uses information about its costs and performance to improve the way it manages and delivers its services.
-

## Introduction and context

The 2020 Code confirms that the focus of our work should be on the arrangements that the audited body is expected to have in place, based on the relevant governance framework for the type of public sector body being audited, together with any other relevant guidance or requirements. Audited bodies are required to maintain a system of internal control that secures value for money from the funds available to them whilst supporting the achievement of their policies, aims and objectives. They are required to comment on the operation of their governance framework during the reporting period, including arrangements for securing value for money from their use of resources, in a governance statement.

We have previously reported the VFM work we have undertaken during the year including our risk assessment. The commentary below aims to provide a clear narrative that explains our judgements in relation to our findings and any associated local context.

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The Council has had the arrangements we would expect to see to enable it to plan and manage its resources to ensure that it can continue to deliver its services.

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For 2020/21, the significant impact that the Covid-19 pandemic has had on the Council has shaped decisions made, how services have been delivered and financial plans have necessarily had to be reconsidered and revised.

We have reflected these national and local contexts in our VFM commentary.

## Financial sustainability

*How the body ensures that it identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds these into them*

The Council's service delivery objectives for 2020-2022 have been set out in their strategic plan "Platforms for Our Places" and forms the basis of the Council's strategic planning, including its short-term and medium-term financial plans, under the following five themes or platforms:

- Prosperous Places
- Thriving People and Communities
- Tackling Climate Change and Supporting our Natural Environment
- Good Services and New Solutions
- Leadership of Place.

The Council prepares an annual revenue budget as part of its short-term financial planning. The 2020-21 Revenue Budget was set as a balanced budget and compiled within the context of the Government's Comprehensive Spending Review, the Chancellor's Budget, and the local government settlement. There has been a significant decline in overall government income in recent years with increasing amounts of income being generated locally through Council Tax, Business Rates, fees and charges, and income from commercial property.

In addition to the national context, the Council's budget strategy has also taken account of pressures and risks such as:

## Financial sustainability (continued)

- inflation
- income generated by the Council which may be affected by lack of demand
- impact of increasing demand for such services as homelessness
- withdrawal of funding by partners, potentially losing funding for key priorities

The Council held a working balance and other earmarked reserves to help mitigate these risks. It further agreed a budget strategy in 2019-20 to meet these challenges through the following four major work streams:

- developing commercial income
- investing in property
- tackling homelessness
- delivery of a new customer and digital strategy.

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The Council has had the arrangements we would expect to see to enable it to plan and manage its resources to ensure that it can continue to deliver its services.

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The Council also continued to pursue savings through efficiency reviews, procurement, and base budget reviews. These initiatives resulted in an underspending of £1.028m as part of the 2020-21 budget round and ensured that service delivery was protected from any significant cuts.

The Council also prepared a five-year revenue budget as part of its medium-term financial planning. This budget strategy covered 2021-22 – 2025-26 and was prepared with the aim to continue delivering the Council's service delivery objectives as discussed above. These forecasts were further updated in-year giving the Council a clear view of forthcoming financial challenges and taking into account pressures such as the fall in government funding and the impact of the pandemic on the Council's financial outlook. The Council consequently identified significant budget reductions over 2021-22 to 2025-26 of £5.6m.

Achievement of revenue and capital budgets were further monitored in-year with quarterly finance reporting thereon to the Joint Strategic Committee. Areas of concerns in these quarterly reports are subject to scrutiny that culminate into the revenue and capital outturn reports that are approved by the Joint Strategic Committee and subsequently adopted by the Joint Overview and Scrutiny Committee.

The 2020-21 Revenue Outturn Report reflects the efficiency of these in-year monitoring measures as the Council contained expenditure within the original budget levels despite facing a range of unforeseen additional costs not originally budgeted for. The Council reported an underspend of £1.028m against a budget of £13.272m for 2020-21.

### *How the body plans to bridge its funding gaps and identifies achievable savings*

Due to the increasing financial pressures the Council needs to identify significant savings or deliver income growth over the next 5 - 10 years to balance the

## Financial sustainability (continued)

budget and ensure delivery on its service delivery objectives.

The savings process followed for the development of the budget entails the following four stages:

- Directors are responsible for identifying proposals aimed at meeting a significant proportion of the savings targets;
- A “Budget Reference Group” consisting of joint executives consider these proposals and potential impact on delivery of the Council’s priorities;
- These savings proposals are then presented to the Joint Overview & Scrutiny Committee for consideration. The Joint Overview & Scrutiny Committee may also add to the list of proposed savings with additional proposals as considered appropriate; and
- Consideration by the Joint Strategic Committee of which savings proposals are to be implemented to fund the budget shortfall.

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The Council has had the arrangements we would expect to see to enable it to plan and manage its resources to ensure that it can continue to deliver its services.

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Once these budgets have been set and approved, they are monitored throughout the financial year by the Chief Financial Officer and reported on quarterly to the Joint Strategic Committee as discussed above.

The Council set a balanced budget for 2020-21 and identified an adjusted cumulative budget shortfall of £3.677m from 2021-22 to 2024-25. To address these pressures, the Council set-up the following strategic programmes to deliver new income and savings:

- The Major Projects programme that will lead on delivering regeneration projects to increase employment space and additional housing;
- The Service Redesign programme that will lead on the delivery of the Digital Strategy and ensure that the benefits are realised from this programme of work;
- The Strategic Asset Management programme that will lead on delivering the income growth associated with the Strategic Property Investment Fund;
- The Commercial programme that will develop initiatives to promote income growth from commercial services and seeks to improve the customer experience; and
- The Affordable Homes Working Group that will lead on initiatives to improve the supply of affordable homes and to reduce the cost of temporary and emergency accommodation.

The Council similarly set a balanced budget for 2021-22 budget which continued to identify an adjusted cumulative budget shortfalls of £4.199m from 2022-23 to 2025-26.

## Financial sustainability (continued)

*How the body plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities*

The Council has detailed its service delivery objectives detailed in its Corporate Plan “Platforms for our Places” which covers the 2020-22 period. This forms the basis for its strategic and statutory priorities on which its short-term and medium-term financial plans are developed.

Progress towards achieving these objectives are monitored by the Corporate Leadership Team throughout the year. Bi-annual reporting on this progress is presented to Joint Strategic Committee with remedial actions discussed and actioned where necessary.

Short-term and medium-term financial plans detail the likely costs associated with the Council’s strategic and statutory priorities; identifies any budget gaps that may arise from reduction in government funding; and planned savings strategies to bridge any gaps between available funding from taxation and the cost of services.

Any new service investment made must meet either objectives within the corporate plan or be a new statutory obligation.

*How the body ensures that its financial plan is consistent with other plans such as workforce, capital, investment, and other operational planning which may include working with other local public bodies as part of a wider system*

The Council develops an annual capital investment strategy as part of its short-term and medium-term financial planning process. This is approved by the Council alongside its revenue budget. This investment strategy is also aligned to the Council’s Corporate Plan “Platform for our Places” and identifies capital investments required to achieve its set service delivery objectives. This capital plan determines the cost of financing required capital along with any other financial impact. The revenue budget is also updated to reflect the impact to deliver this capital programme.

The 2020-21 Capital Investment Strategy identified capital expenditure planned over the medium term and their sources of financing which is also aligned to its 2020-21 revenue budget. Subsequent approvals and reprofiling of budgets to and from the 2021-22 budget resulted in a final capital budget of £16.4m for 2020-21. The 2020-21 Capital Outturn Report reflected actual capital expenditure of £17.7m. The 2021-22 Capital Investment Strategy similarly identified the capital expenditure planned over the medium term and their sources of financing which is also aligned to its 2021-22 Revenue Budget.

Government initiatives have placed emphasis on partnership working for service delivery to help meet the changing needs of customers and the cost savings authorities need to find. To achieve this goal Adur District Council and Worthing Borough Councils are part of an innovative partnership arrangement. A shared

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The Council has had the arrangements we would expect to see to enable it to plan and manage its resources to ensure that it can continue to deliver its services.

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## Financial sustainability (continued)

single officer structure was introduced in April 2008 and includes all of the services that were intended to operate as shared Adur & Worthing services. These shared services are managed via a Joint Committee which must meet all the accounting requirements of a public sector body. For accounting purposes, the following key processes apply:

- The Joint Strategic Committee has a separate budget;
- As each service moved across from Adur and Worthing to the Joint Strategic Committee their respective budgets and spend were pooled; and
- The net expenditure within the Joint Strategic Committee is recharged back to Adur and Worthing Councils.

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The Council has had the arrangements we would expect to see to enable it to plan and manage its resources to ensure that it can continue to deliver its services.

The Council's financial planning process also considers the impact of this partnership working when setting its short-term and medium-term financial plans. This is inherently part of the Councils' operations for which a separate partnership budget has been developed. Each constituent Council's budget also includes the costs from partnership budgets.

*How the body identifies and manages risks to financial resilience, e.g. unplanned changes in demand, including challenge of the assumptions underlying its plans.*

The Council manages its financial resilience risk through the following implemented measures:

- 
- It publishes detailed short-term and medium-term financial plans that are aligned to its Corporate Plan "Platforms for our Places" and includes actions to ensure financial sustainability;
  - In-year monitoring of these financial plans to identify and incorporate any unplanned changes in underlying assumptions of the Council's plans as explained above;
  - Reporting of financial performance against above set financial plans on a quarterly basis to the Joint Strategic Committee; and
  - Risk management processes to identify, monitor and address risks.

The Council has established a Risk and Opportunity Management Strategy for the 2021-23 period which leads on from the previous version which covered the 2018-20 period. This purpose of this strategy is to serve as framework for the delivery of the risk and opportunity management function and to provide guidance on developing risk and opportunity management as a routine process for all services.

Risk and management opportunities identified are monitored in-year with quarterly reporting to the Joint Governance Committee. A risk relating to continued pressures on the Council's finances has been identified and included

## **Financial sustainability (continued)**

in the Council's risk register as a very likely risk with a major impact for the 2020-21 financial year. The Council continued to implement remedial actions that lead to the setting of a balanced budget in 2021-22 and an overall underspending of £1.028m as part of the 2020-21 budget round and ensured that service delivery was protected from any significant cuts.

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The Council has had the arrangements we would expect to see to enable it to plan and manage its resources to ensure that it can continue to deliver its services.

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## **Governance**

*How the body monitors and assesses risk and how the body gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud*

The Council's Constitution directs how it operates, decisions are made and the relevant procedures to ensure that these decisions are efficient, transparent and accountable to local people.

The Council has a risk management framework which guides the development of risk and opportunity management at a strategic and operational level and to ensure that they are appropriately managed and controlled. This aids the achievement of the Council's strategic priorities, supports its decision-making processes, protect its reputation and assets, and ensures compliance with relevant statutory and regulatory obligations. These risks are identified as a routine process of all services and are regularly reviewed and updated. All significant risks (defined as something that may result in failure in service delivery, significant financial loss, non-achievement of key objectives, damage to health, legal action or reputational damage) must be logged on a Corporate Risk Register, profiled (as high/medium/low), and mitigating measures/assurances must be put in place. These risks are regularly monitored and reported in-year to the Council Leadership Team, Joint Governance Committee, and Joint Strategic Committee to ensure that progress in addressing these risks is monitored throughout.

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The Council has had the arrangements we would expect to see to enable to make informed decisions and properly manage its risks.

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The Council also has an internal audit service in place which provides information regarding the effectiveness of the internal control environment and its arrangements to prevent and detect fraud. In-year quarterly reporting by internal audit to the Joint Governance Committee ensures that efficient and effective assurance arrangements are in place to assist the management of risk and performance.

The Council furthermore has a fraud team in place to investigate fraud and carry out verification work on issues such as Council Tax discount and investigations into NFI matches.

*How the body approaches and carries out its annual budget setting process*

The annual budget process including the related responsibilities and procedures are set out in the Council's Constitution. The annual service planning and budgeting process seeks to reconcile corporate and business plans, and strategies with the relevant resources which includes the finance department. This process commences with a series of strategic initiatives with inputs from various stakeholders. Similar to the establishment of its Medium-Term Financial Plan and Medium-Term Capital Strategy, the Council has an implemented budgeting system which allows for the alignment of its annual budget to the priorities and commitments in its Corporate Plan "Platforms for our Places".

The Council refreshes the MTFP and agrees the budget strategy for the forthcoming year in July. Managers are then tasked to review their budgets for its

## **Governance (continued)**

appropriateness and to confirm details for additional income or savings plans through a detailed financial planning exercise. Subsequently, the overall savings plan is checked and consulted on prior to initial consideration by the Joint Overview and Scrutiny Committee in December and then subsequent approval by the Joint Strategic Committee in the following January, which also includes an updated MTFP. The Council will then consider the overall budget and options for Council Tax setting which is then subject to approval by the respective Councils in February.

*How the body ensures effective processes and systems are in place to ensure budgetary control; to communicate relevant, accurate and timely management information (including non-financial information where appropriate); supports its statutory financial reporting requirements; and ensures corrective action is taken where needed.*

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The Council has had the arrangements we would expect to see to enable to make informed decisions and properly manage its risks.

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The Council's processes and systems in place to ensure budgetary control have been set out in its Constitution. Each budget line has been assigned a budget manager who is responsible for managing the related budget. Monthly budget monitoring packs are produced and shared with managers to assess current financial performance shortly after each month end. Financial officials further meet with budget managers to review related budgets and identify both areas of financial pressure and underspending. The Council may also hold a series of contingency budgets which are available to meet pressures identified if needed.

The Corporate Leadership Team further produces and evaluates monthly reports on the financial performance of the Council to identify emerging issues. This feeds into the quarterly reporting of the revenue and capital budgets to the Joint Strategic Committee. This budget management process is also subject to regular internal audit review to ensure that the system is fit for purpose.

The efficiency of these controls is evidenced by the overall outturn position of £1.028m underspend for 2020-21.

*How the body ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency. This includes arrangements for effective challenge from those charged with governance/audit committee.*

Primary oversight is the responsibility of the Council with some delegated to Joint Governance Committee and Joint Strategic Committee. These committees meet on a regular basis during which key issues are raised and addressed with effective challenge from members. All Council and Committee decisions are accompanied by a detailed report which details its rationale, the options considered, legal advice and financial advice. A set corporate template is also used to ensure that all of advice needed to make a decision is provided. Under

## **Governance (continued)**

the constitution, all decisions may be called in by members for review prior to implementation on specific grounds. These reviews are the purview of the Overview and Scrutiny Committee.

To allow for transparency, the Council also ensures that it:

- Publishes relevant information relating to salaries, business interests and performance data on its website;
- Has a Procurement team who provide advice and issue clear guidelines for procuring goods and services;
- Publishes information to the Council and its Committees as part of established accountability mechanisms;
- Prepares an Annual Governance Statement; and
- Prepares a Corporate Plan as discussed above.

The Council is furthermore committed to the publication of transparent performance information on its website, which includes:

- Budget reports;
- Operational performance reports;
- a Medium-Term Financial Plan;
- A Corporate Plan;
- Statement of Accounts;
- Annual Governance Statement; and
- Information as required under the Local Government Transparency Code.

There is also evidence of good arrangements in place to monitor the implementation of internal audit recommendations by the Joint Governance Committee. Internal audit progress reports are presented on a quarterly basis throughout the year to monitor implementation of recommendations by internal audit and to implement corrective actions where necessary.

*How the body monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of officer or member behaviour (such as gifts and hospitality or declarations/conflicts of interests).*

The roles of both members and officers of the Council are outlined in the Code of Conduct included within its Constitution and is approved by the Joint Governance Committee.

If any member breaches the Code of Conduct, there is a resolution and complaints process administered by the Council's Monitoring Officer and potentially involving a hearing of the sub-Committee of the Joint Governance Committee.

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The Council has had the arrangements we would expect to see to enable to make informed decisions and properly manage its risks.

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## **Governance (continued)**

The Council is transparent about how decisions are taken and recorded by:

- Ensuring that decisions are made in public and recorded. Those decisions and relevant information are publicly available (except where that information is exempt under the provisions of the Local Government Act or determined as being confidential by Government) and
- Having rules and procedures which govern how decisions are made.

The Council has implemented systems to ensure conflicts of interest are identified, recorded and acted upon accordingly, excluding anyone from decision-making where a conflict arises, and making public declaration of interests through its Register of Interests which is published on the Council's website and covers employees, governing body members and members of panels/committees and sub-committee.

The Council maintains a register of member interests which is available to the public and published on its website at:

[Conduct of Councillors \(Members\), making a complaint; Register of Members' Interests - Adur & Worthing Councils \(adur-worthing.gov.uk\)](#)

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The Council has had the arrangements we would expect to see to enable to make informed decisions and properly manage its risks.

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Regular training is furthermore provided to members on standards issues ensuring that all members are aware of the requirements. Each member and officer are also expected to complete a return on any gifts of hospitality.

The Council has a published Whistleblowing Policy and provides protection to individuals raising concerns. This policy is periodically reviewed in line with guidance.

The Council also ensures that effective, transparent and accessible arrangements are in place for dealing with complaints. The website contains guidance for submitting complaints against the Council by the public and processes are in place to progress any complaints that are made.

## **Improving economy, efficiency and effectiveness**

*How financial and performance information has been used to assess performance to identify areas for improvement.*

Organisational performance management is undertaken through a six-monthly review of the targets, outputs and outcomes described in the Council's "Platforms for Our Places: Going Further". Information is gathered through various performance management arrangements to produce the "6 monthly Platforms Performance Report" and is presented to the Joint Strategic Committee and Joint Overview & Scrutiny Committee bi-annually.

Platform performances are reviewed, and areas of improvement implemented through multidisciplinary and directorate teams that oversee the delivery of council activities under each Platform Priority. The Councils' Leadership Team takes overall accountability at an officer level for delivery of Platforms through quarterly Council Leadership Team Platform performance meetings.

Each head of service works within the above arrangements and is responsible for assisting in the process of both identifying and addressing areas of improvement within their service areas. Where services are linked and have shared Platform outcomes, officers deliver performance improvements through multidisciplinary arrangements. These performance arrangements described above are integrated with financial management and budget forward planning arrangements.

Any issues identified by internal audit are furthermore monitored via the internal audit app and reported to the Joint Governance Committee four times a year. Officers not taking sufficient action on these service improvements may be requested to report to the Committee.

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The Council has had the arrangements we would expect to see to enable it to use information about its costs and performance to improve the way it manages and delivers services.

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*How the body evaluates the services it provides to assess performance and identify areas for improvement*

The Council's service delivery objectives are detailed in "Platforms for our Places". Most services have performance information and standards used to compare and assess performance with other Councils or with national recognised performance frameworks (e.g Housemark, DWP, national planning indicators).

Internal audit and customer feedback are also used to inform which services require improvement. Where a service is identified in need of improvement a transformation team is set up to support service improvement.

## **Improving economy, efficiency and effectiveness (continued)**

*How the body ensures it delivers its role within significant partnerships, engages with stakeholders it has identified, monitors performance against expectations, and ensures action is taken where necessary to improve*

### Engagements and communications:

The Council has developed a consultation policy which reflects its ambition to enable and empower communities to shape the places within which they live and work, influence formal decision making and make informed choices around the services they receive. This policy can be found at:

[About consultation in Adur & Worthing - Adur & Worthing Councils \(adur-worthing.gov.uk\)](http://adur-worthing.gov.uk)

To be effective this policy aims to inspire and support a genuine two-way dialogue with all sections of the community and other stakeholders. There are several ways people can get involved and connect with the council. Current consultations can be found on the Council's website at:

[Home - Adur & Worthing Councils \(adur-worthing.gov.uk\)](http://adur-worthing.gov.uk)

Residents have the option to engage in a dialogue through social media sites (including Facebook and twitter), petition schemes, stakeholder forums, tenant associations, council meetings (open to the public), and their local Councillor.

### Consultation:

Internally, a consultation toolkit has also been developed to guide council staff through the consultation process. The agreed process ensures that engagement activity is relevant, accessible, transparent and responsive. To increase awareness, consultations are proactively promoted. A list of current district-wide consultations is available on the council website.

### Complaints:

There is also a clear and transparent complaints procedure for dealing with complaints. The Council operates a three-stage complaints procedure and promises to acknowledge complaints within 5 working days and respond fully within 10 working days for first-stage complaints, and 15 working days for second-stage complaints. If complainants remain dissatisfied, they have the right to refer the matter to the Local Government Ombudsman.

### Partnership working:

The Council operates one significant partnership (Adur Worthing Joint Committee) although it participates in other partnerships across the Council. There is a governance framework for the Adur / Worthing partnership whereby decisions are made through a series of joint committees. This is set out in the Council's Constitution. There are also separate budget and management accounts for the Joint Committee which is reported as part of the overall budget monitoring and outturn processes.

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The Council has had the arrangements we would expect to see to enable it to use information about its costs and performance to improve the way it manages and delivers services.

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## **Improving economy, efficiency and effectiveness (continued)**

*How the body ensures that commissioning and procuring services is done in accordance with relevant legislation, professional standards and internal policies, and how the body assesses whether it is realising the expected benefits.*

The Councils have published Contract Standing Orders as part of its Constitution which detail how it procures services. The Council also has a team of qualified procurement officers supplemented by support from the larger procurement team at Orbis.

In line with the above-mentioned standing procedures, any procurement over £25,000 must be referred to the Council's procurement team to ensure that the proposed procurement will deliver the expected outcome, and to ensure that the Council is complying with relevant legislation. All contracts are referred to legal, who will ensure that the procurement process has been complied with prior to approving the form of contract. The Council will also commission external expert advice where a proposed procurement is particularly complex or difficult.

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The Council has had the arrangements we would expect to see to enable it to use information about its costs and performance to improve the way it manages and delivers services.

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Section 5

## Other Reporting Issues

## Other Reporting Issues

### **Governance Statement**

We are required to consider the completeness of disclosures in the Council's governance statement, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it complies with relevant guidance.

We completed this work and did not identify any areas of concern.

### **Whole of Government Accounts**

We have performed the procedures required by the National Audit Office on the Whole of Government Accounts submission. However, the NAO WGA team will consider the revised HM Treasury thresholds alongside HM Treasury's developing analytical review controls and may determine assurances from auditors of components who are below these revised HM Treasury thresholds.

### **Report in the Public Interest**

We have a duty under the Local Audit and Accountability Act 2014 to consider whether, in the public interest, to report on any matter that comes to our attention in the course of the audit in order for it to be considered by the Council or brought to the attention of the public.

We did not identify any issues which required us to issue a report in the public interest.

### **Other powers and duties**

We identified no issues during our audit that required us to use our additional powers under the Local Audit and Accountability Act 2014.

### **Control Themes and Observations**

As part of our work, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of internal control, we are required to communicate to you significant deficiencies in internal control identified during our audit.

We have adopted a fully substantive approach and have therefore not tested the operation of controls.

The matters reported are shown below and are limited to those deficiencies that we identified during the audit and that we concluded are of sufficient importance to merit being reported.

### **Valuation of land and buildings in PPE and IP:**

As outlined in section 2 and 4 of this report, material differences were identified in the valuation of land and buildings including in PPE and IP. These arose from specific factors that drove a difference in professional judgement between EYRE, our valuation specialist, and management's valuer, Wilks Head & Eve. We set these out in more detail here to provide management, and those charged with governance, an opportunity to consider these in future valuations.

## Other Reporting Issues

### Control Themes and Observations (continued)

- ▶ **Valuation date:** the Council's current policy is for valuations to be prepared as at 1 April of the financial year, i.e. for the year ending 31 March 2021, the valuation was undertaken as at 1 April 2020. For market based valuations, this will inevitably lead to differences in judgement, as we are required to consider the valuation as at the reporting date, and we ask our specialist to undertake their review as at 31 March. Events including, but not restricted to, lease break points, rent reviews and comparable market evidence will influence the valuation in any year; but for 2020/21, the impact of the pandemic continued to have a significant impact on market based valuations. We recommend the Council amends its policy to revalue closer to the end of the financial year, eg 31 December, which would reduce the impact of market changes.
- ▶ **Purchase costs:** the management specialist uses a gross yield rather than a net yield in determining property valuations on behalf of the Council. We do not consider this is in line with open market practice. A gross yield does not consider relevant purchase costs attributable to the property. If the Council were to sell the asset, any purchaser would reflect their purchase cost within the price offered.
- ▶ **Comparative market evidence:** in completing our review of the management specialist assumptions, our specialist tends to use comparable market evidence to support valuation assumptions. In discussions on the differences identified between the management specialist and EYRE, it was clear the Council's property team had a good understanding of their properties and could provide information to support certain assumptions. We recommend the Council reviews the valuation report received from their specialist against their own detailed knowledge and challenge where there appear to be obvious discrepancies, and request evidence from the specialist if required, before the valuation report is finalised and in advance of the detailed audit work.

Appendix A

## Audit Fees



## Audit Fees

Our final proposed fees for 2020/21 are set out in the table below:

Description	Final Fee 2020/21 £	Planned Fee 2020/21 £	Final Fee 2019/20 £
PSAA scale fee	36,311	36,311	36,311
Scale fee rebasing (Note 1)	39,684	Nil	
<b>Revised proposed scale fee</b>	<b>75,995</b>	<b>36,311</b>	24,712
In-year scale fee variation:			(Determined by PSAA – Note 3)
▶ Scale fee variation – Additional audit work (Note 2)	28,034	Nil	
▶ Scale fee variation - PSAA pre-approved additional fee for VFM and ISA540 (Note 4)	8,612	8,500	Nil
<b>Total audit related fees</b>	<b>112,641</b>	<b>44,811</b>	<b>61,023</b>
Non-audit work – Housing benefit subsidy claim	27,510	17,510	16,010
<b>Total fees</b>	<b>* 140,151</b>	<b>62,321</b>	<b>77,033</b>

\* this is our proposed figure that is to be submitted to the PSAA

Note 1 – This relates to our scale fee rebasing for the audit, to take into account changes in professional and regulatory requirements to that date. This was previously raised in the 2019/20 audit year and as these are related to ongoing requirements, we have included the impact again in our 2020/21 requested fees. This is the same request that has been submitted in the prior year and has been adjusted for the increase in PSAA rates.

Note 2 – This figure includes a variation to the scale fee for items specific to the 2020/21 audit year where additional audit work was undertaken by the audit team. We will be submitting a request for this additional work undertaken on:

- Accounting for Covid-19 grants;
- Work of EY expert to calculate an auditors estimate of the pension liability;
- Going concern
- Valuation of properties included in PPE and IP
- Pension Fund valuations
- Accounting treatment for infrastructure assets

Note 3 – For 2019/20, PSAA determined the total of the categories in notes 1 and 2 above at £24,712 and has accordingly been shown as a single comparative figure.

Note 4 – The fee impacts of the NAO's 2020 Code of Audit Practice, and the revised ISA540 on estimates were new during 2020/21. The PSAA communicated fee ranges for each type of auditee, and our assessed impact for the Council is that both ISA540 and VFM Commentary is at the bottom of the ranges.

We will discuss the additional fee proposal with management and submit to the PSAA, providing an update to the Joint Governance Committee when the final fee is determined.

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