



Joint Audit and Governance Committee  
29th November 2022

## ADUR & WORTHING COUNCILS

Key Decision [No]

Ward(s) Affected:

### **Audit enquiries to those charged with Governance**

### **Report by the Director for Digital, Sustainability & Resources**

### **Executive Summary**

#### **1. Purpose**

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

#### **2. Recommendations**

- 2.1 The Joint Audit and Governance Committee is asked to consider and agree the proposed response to the audit letter.

### **3. Context**

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

### **4. Issues for consideration**

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

### **5. Going Concern**

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

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

- The budgets reported to Councils and the Joint Strategic Committee were balanced in 2021/22 and 2022/23
- The budget monitoring and outturn reports show that both Councils continued to spend largely within the overall budget as adjusted by the additional government funding received in 2021/22 with a small overspend in Worthing.
- Both Councils have a reasonable level of reserves and have a strategy to build reserves over the forthcoming years.

- There is a significant financial impact on the Council finances in the current year due to pressures resulting from the economic downturn and inflation. Currently it is assessed that both Councils have sufficient reserves to fund the consequences of these financial pressures in 2022/23 although the reserves within Worthing will be significantly depleted by the year end.

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

## **6. Engagement and Communication**

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

## **7. Financial Implications**

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

## **8. Legal Implications**

- 8.1 This report concerns the audit of the Statements of Accounts which will be prepared in accordance with statutory instrument number 2015/234, the Accounts and Audit (England) Regulations 2015; and the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Local Authority Accounting in the United Kingdom 2021/22, based on International Financial Reporting Standards (IFRS).
- 8.2 Section 3(1) of the Local Government Act 1999 (LGA 1999) contains a general duty on a best value authority to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.
- 8.3 Each Council's external and internal auditors shall have the like powers set out in the Local Audit and Accountability Act 2014. Each Council shall at all reasonable times (including following the termination for whatever

reason of this Agreement) allow or procure for any auditor for the purposes of an external or internal or audit:

## **Background Papers**

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

### **Officer Contact Details:-**

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## **Sustainability & Risk Assessment**

- 1. Economic**  
Matter considered and no issues identified
  
- 2. Social**
  - 2.1 Social Value**  
Matter considered and no issues identified
  
  - 2.2 Equality Issues**  
Matter considered and no issues identified
  
  - 2.3 Community Safety Issues (Section 17)**  
Matter considered and no issues identified
  
  - 2.4 Human Rights Issues**  
Matter considered and no issues identified
  
- 3. Environmental**  
Matter considered and no issues identified
  
- 4. Governance**

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

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

## Appendix 1



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Adur District Council  
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7 April 2022

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Dear Cllr McGregor

### **Understanding how the Joint Governance Committee gains assurance from management – Adur District Council**

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

- 1) How does the Joint Governance Committee, as 'those charged with governance' at the Authority, exercise oversight of management's processes in relation to:
  - undertaking an assessment of the risk that the financial statements may be materially misstated due to fraud or error (including the nature, extent and frequency of these assessments);
  - communicating to employees its view on business practice and ethical behaviour (for example by updating, communicating and monitoring against the Authority code of conduct);
  - encouraging employees to report their concerns about fraud; and
  - communicating to you the processes for identifying and responding to fraud or error?

2) How does the Joint Governance Committee oversee management processes for identifying and responding to the risk of fraud and corruption, including the management's policies and procedures of

4) Is the Committee aware allegations regarding the Authority's financial reporting (including those received through a whistleblower program)? If so, what are the Committee's responses to such allegations

5) Is the Committee aware of any matters arising from the procedures implemented for the receipt, retention and treatment of allegations (including whistleblowers) regarding accounting, internal accounting controls or auditing matters? Such procedures include those for the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters, and the response to such allegations.

6) Is the Joint Governance Committee aware any organisational or management pressure to meet financial or operating targets?

7) How does the Joint Governance Committee gain assurance that all relevant laws and regulations have been complied with? Are you aware of any instances of non-compliance during 2021/22?

8) Is the Joint Governance Committee aware of any actual or potential litigation or claims that would affect the financial statements?

9) How does the Joint Governance Committee satisfy itself that it is appropriate to adopt the going concern basis in preparing the financial statements?

10) What does the Joint Governance Committee consider to be the related parties that are significant to the Authority and what is its understanding of the relationships and transactions with those related parties?

11) Does the Joint Governance Committee have concerns regarding relationships or transactions with related parties and, if so, what is the substance of those concerns?

12) Is the Joint Governance Committee aware if the Authority has entered into any significant unusual transaction? If so, please provide details.

Please would you provide a response, after 1 April 2022, covering the whole of 2021/22, by email or letter either on behalf of those charged with governance or from yourself in your capacity as Chair of the Joint Governance Committee. If possible, please could we have your response by 30 April 2022.

Thank you for your assistance. If you have any queries in respect of this letter please contact Stephan van der Merwe at [Stephan.van.der.Merwe@uk.ey.com](mailto:Stephan.van.der.Merwe@uk.ey.com).

Yours sincerely



Helen Thompson  
Associate Partner  
For and on behalf of Ernst & Young LLP

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

QUESTION	PROPOSED RESPONSE
<p>1. How does the Joint Governance Committee, as ‘those charged with governance’ exercise oversight of management's processes in relation to: (continued)</p> <ul style="list-style-type: none"> <li>● communicating to you the processes for identifying and responding to fraud or error?</li> </ul>	<p>The Joint Governance Committee has oversight of this and receives regular reports from internal audit. These include regular updates from the Corporate Fraud manager.</p>
<p>2. How does the Joint Governance Committee oversee management processes for identifying and responding to the risk of fraud and the controls established by management to address specific risks of fraud that the Authority has identified, or that otherside helps prevent, deter and detect fraud.</p>	<p>The Joint Audit and Governance Committee has oversight of this and monitors this through the reports provided by internal audit.</p> <p>The committee receives details of any limited and nil assurance audit reports and any special audit reviews commissioned.</p> <p>Audit reports also include a summary of the work of the fraud team.</p>
<p>3. Is the Joint Governance Committee aware of any:</p> <ul style="list-style-type: none"> <li>● breaches of or deficiencies in internal control?</li> <li>● Any instances of management override of controls and the nature and circumstances of such overrides; and</li> <li>● actual, suspected or alleged frauds during 2021/22?</li> </ul>	<p>We are not aware of any breaches of internal control other than those brought to our attention through the work of internal audit.</p> <p>We are not aware of any instances of management override of controls.</p> <p>We are not aware of any actual, suspected or alleged frauds other than those brought to our attention through the work of internal audit, the monitoring officer, and the S151 Officer.</p>
<p>4. Is the Committee aware of allegations regarding the Authority's financial reporting (including those received through a whistleblower program)? If so, what are the Committee's responses to such allegations.</p>	<p>The Committee is not aware of any allegations regarding the Authorities financial reporting.</p>



QUESTION	PROPOSED RESPONSE
<p>5. Is the Committee aware of any matters arising from the procedures implemented for the receipt, retention and treatment of allegations (including whistleblowers) regarding accounting, internal accounting controls or auditing matters? Such procedures include those for the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters, and the response to such allegations.</p>	<p>The Committee is not aware of any matters arising from procedures implemented for the receipts, retention and treatment of allegations other than those brought to our attention through the work of internal audit, the monitoring officer, and the S151 Officer.</p>
<p>6. Is the Committee aware of any organisational or management pressure to meet financial or operating targets?</p>	<p>Officers are asked to monitor budgets and report to members over or under spends in a transparent manner, they will be questioned on any over or under performance against budget.</p> <p>However, there is no undue organisational or management pressure to meet financial or operating targets. There are no staff incentives for meeting financial or operating targets.</p>
<p>7. How does the Joint Governance Committee gain assurance that all relevant laws and regulations have been complied with? Are you aware of any instances of non-compliance in 2021/22?</p>	<p>The Councils Legal Service Team lead by the Monitoring Office has a general advisory role to all Council Services as supplemented by specialist legal advice when necessary;</p> <p>All reports must be reviewed by the legal officers and include a legal implications paragraph before any decision is made;</p> <p>A legal officer is available for all meetings of the Council to ensure that Council operates within the law;</p> <p>Legal issues are considered as part of audit work and recorded in the relevant Report presented to the Committee;</p> <p>Committee approves the constitution, delegations, financial regulations and contract standing orders which provide guidance on procedural matters to ensure Council operates within the law.</p> <p>Training is arranged by the legal team on new legislation and matters of particular significance.</p>

QUESTION	PROPOSED RESPONSE
<p>7. How does the Joint Governance Committee gain assurance that all relevant laws and regulations have been complied with? Are you aware of any instances of non-compliance in 2021/22? (continued)</p>	<p>The Committee is not aware of any instances of non-compliance other than those brought to our attention through the work of internal audit or by the monitoring officer.</p>
<p>8. Is the Joint Governance Committee aware of any actual or potential litigation or claims that would affect the financial statements?</p>	<p>Any potential litigation claims are disclosed within the statement of accounts.</p> <p>The Committee is not aware of any instances of any other potential claims other than those brought to our attention by the Chief Financial Officer or by the monitoring officer.</p>
<p>9. How does the Joint Governance Committee satisfy itself that it is appropriate to adopt the 'going concern' basis in preparing the financial statements?</p>	<p>The Committee considers the overall financial information available to it. These include:</p> <ul style="list-style-type: none"> <li>• The annual revenue budget;</li> <li>• The Councils track record in spending within the budgets set;</li> <li>• The Councils' levels of reserves.</li> <li>• The level of any contingency budgets</li> </ul> <p>The Committee has carried out this assessment and we are of the opinion that the Councils' and the Joint Committee have the ability to continue as a going concern.</p>
<p>10. What does the Joint Governance Committee consider to be the related parties that are significant to the Authority and what is its understanding of the relationships and transactions with those related parties?</p>	<p>The members of the Committee have received guidance on related party transactions from the S151 officer. The Committee understands that significant related parties include members and officers of the Council or their close family members.</p> <p>The Committee is not aware of any significant related parties or transactions other than those disclosed within the Statement of Accounts</p>
<p>11. Does the Joint Governance Committee have concerns regarding relationships with related parties and, if so, what is the substance of those concerns?</p>	<p>The Committee does not have any concerns regarding relationships with related parties.</p>

<b>QUESTION</b>	<b>PROPOSED RESPONSE</b>
12. Is the Joint Governance Committee aware if the Authority has entered into any significant unusual transaction? If so, please provide details.	The Committee is not aware of any unusual transactions