



Arun District Council

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

19 May 2022



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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.psa.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.

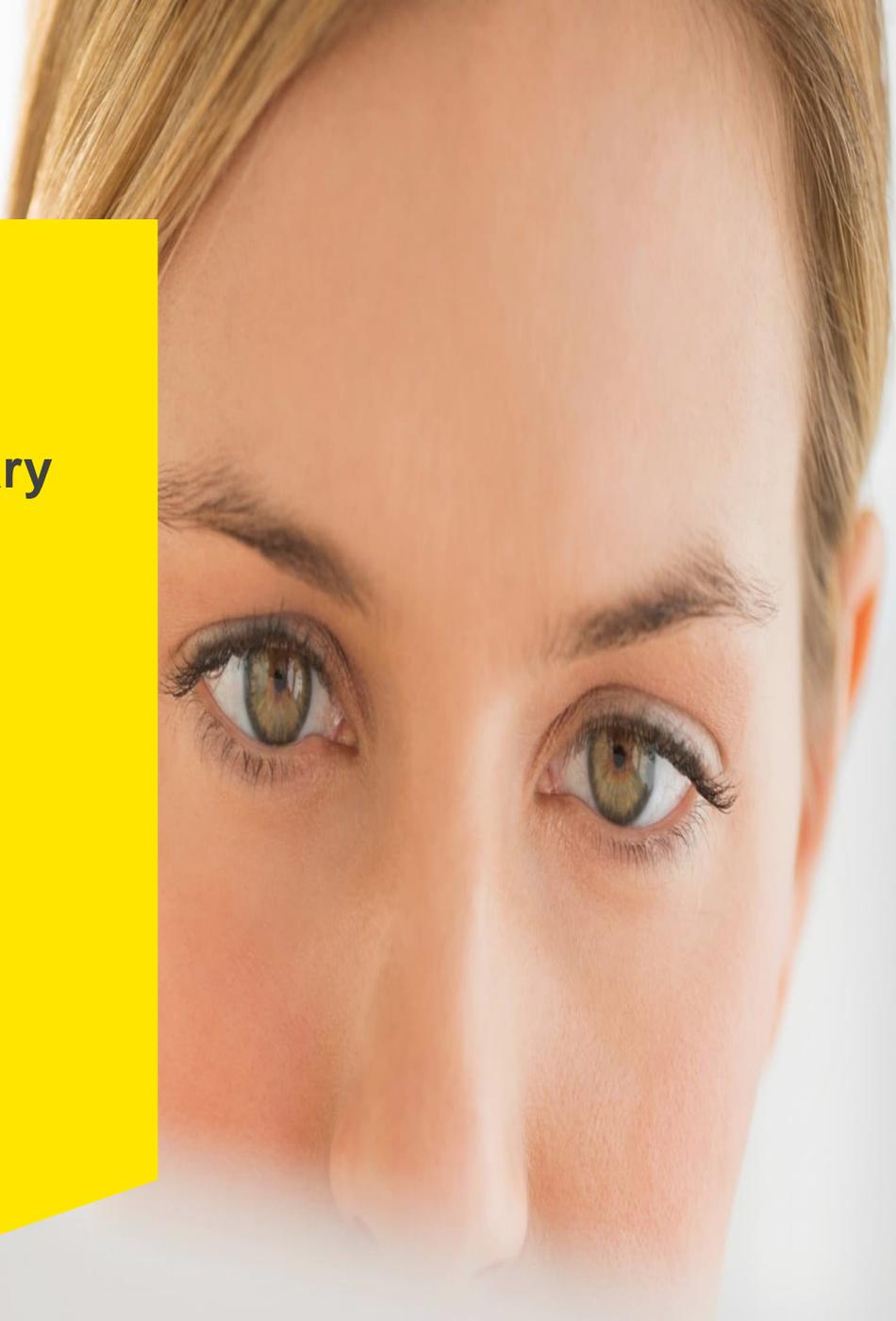
The "Terms of Appointment and further guidance (updated April 2018)" issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure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

This report is made solely to the Audit & Governance Committee and management of Arun District Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit & Governance Committee and management of Arun 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 Audit & Governance Committee and management of Arun 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
Opinion on the Authority's:	
Financial statements	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. We issued our auditor's report on 22 February 2022
Going concern	We concluded that management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.
Consistency of the other information published with the financial statements	We concluded that other information in the Annual Financial Report 2020/21 and published with the financial statements was consistent with the audited accounts.
Reports by exception:	
Value for money (VFM)	We had no matters to report by exception on the Council's VFM arrangements. We have included our VFM commentary in Section 04.
Consistency of the annual governance statement	We concluded that we are satisfied that the annual governance statement was consistent with our understanding of the Council.
Public interest report and other auditor powers	We have had no reason to use our auditor powers.

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 an Audit Results Report dated 7 February 2022 and presented this to the Council at its Audit & Governance Committee meeting on 22 February 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 not yet issued our certificate for 2020/21 as we have not yet performed the procedures required by the National Audit Office on the Whole of Government Accounts submission. The guidance for 2020/21 is delayed and has not yet been issued.</p> <p>We expect that the Council will remain below the de-minimis for full procedures, which in the prior year was set at £500m. Therefore, we anticipate having no issues to report.</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)". As outlined in the Audit Results Report we were required to carry out additional audit procedures to address audit risks in a number of areas. As a result, we intend to agree an associated additional fee with the Group Head of Corporate Support. We include details of the audit fees in Appendix 1.

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

Kevin Suter

Associate Partner
For and on behalf of Ernst & Young LLP

Section 2

Purpose and responsibilities



Purpose and responsibilities

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

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 Planning Report that we issued on 7 July 2021 and presented to the Audit & Governance Committee. 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 – Arun District Council

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

Key issues

The Financial 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 22 February 2022, we issued an unqualified opinion on the financial statements. We reported our detailed findings to the Council at their Audit & Governance meeting on 22 February 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

Misstatements due to fraud or error - management override of controls

The financial statements as a whole are not free of material misstatements whether caused by fraud or error.

As identified in ISA (UK) 240, management is in a unique position to perpetrate 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 identify and respond to this fraud risk on every audit engagement.

Risk of fraud in revenue recognition - inappropriate capitalisation of revenue expenditure

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.

From our risk assessment, we have assessed that the risk manifests itself through the potential to inappropriately capitalise revenue expenditure to improve the financial position of the general fund.

Conclusion

We have not identified any material weaknesses in controls or evidence of material management override.

We have not identified any instances of inappropriate judgements being applied.

We did not identify any other transactions during our audit which appeared unusual or outside the Council's normal course of business.

We have not identified any unusual or unsupported journals, or other adjustments made in preparing the financial statements.

We have not identified any material weaknesses in controls or evidence of material management override.

We tested a sample of PPE additions and confirmed they met the capitalisation requirements under IAS16

We tested a sample of REFCUS items and confirmed they were appropriately classified

We have not identified any instances of inappropriate judgements being applied.

We did not identify any other transactions through our test of journals or our other audit procedures, impacting these balances.

Financial Statement Audit – Arun District Council (continued)

Other area of audit focus	Conclusion
<p>Valuation of Property, including Investment Property</p> <p>Land and buildings represent significant balances in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges.</p> <p>Material judgemental inputs and estimation techniques are required to calculate the year-end balances held in the balance sheet.</p> <p>As the Council's asset base is significant, and the outputs from the valuers are subject to estimation, there is a higher risk that land and buildings may be under or overstated or the associated accounting entries incorrectly posted. We are required to undertake procedures on the use of experts and assumptions underlying fair value estimates.</p> <p>The risk is heightened for assets that may have been impacted by the Covid-19 pandemic, such as traditional retail assets, commercial property or other sectors impacted by the lockdown restrictions and their impact on the economy.</p>	<p>We have identified 1 misstatement in relation to the valuation of the Arcade, Bognor Regis. Our assessment of the value of the asset is lower than that recorded by management's PPE value, due to a differing assessment of the yield. We conclude this has resulted an in overstatement of value for this asset. However, we consider the valuation of PPE as a whole to be materially correct.</p> <p>The cycle of valuations was appropriate and we did not identify any material misstatements for assets not revalued.</p> <p>We consider the useful economic lives of the assets to be reasonable and all accounting entries have been correctly processed in the financial statements.</p>

Financial Statement Audit – Arun District Council (continued)

Other area of audit focus	Conclusion
<p>Pension liability valuation</p> <p>The Code of Practice on Local Authority Accounting and IAS19 require the Authority to make extensive disclosures within its financial statements regarding the Local Government Pension Scheme (LGPS) in which it is a scheduled body.</p> <p>The Council's current pension fund deficit is a material and sensitive item and the Code requires that this liability be disclosed on the Council's balance sheet. The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the administering body. Accounting for this scheme involves significant estimation and judgement.</p> <p>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>Our testing has identified no material misstatements.</p> <p>We have identified a non-material difference on the gross pension asset, arising from differences between the actuaries values and amount estimated from the Council's share of the final audited pension fund assets. The difference is £662k, which management did not adjust.</p> <p>We have concluded that we could rely on the work of the Pension Fund actuary, and assess their assumptions as reasonable. The values and entries from the actuarial report were correctly reflected in the Council's financial statements.</p> <p>We have assessed the work of the Pension Fund Actuary, relying on the work of PWC and the EY Actuarial team which confirmed there were no findings in respect to the actuarial assumptions.</p> <p>We have confirmed the values and entries from the actuarial report have been correctly reflected in the Council's financial statements.</p> <p>The results of the EY pensions specialist has confirmed the actuarial estimate to be accurate within a reasonable range.</p>
<p>Accounting for Covid-19 related government grants</p> <p>Central Government have provided a number of new and different Covid-19 related grants to local authorities during the year. There are also funds that have been provided for the Council to disseminate to other bodies.</p> <p>The Council needs to review each of these to establish how they need to be accounted for. It needs to assess whether it is acting as a principal or agent, with the accounting to follow that decision. For those where the decision is a principal, it also needs to assess whether there are any initial conditions that may also affect the recognition of the grants as revenue during 2020/21.</p>	<p>We requested the Council amend 2 grants to be classed as principal rather than agent. This amendment was made in the accounts which added £2.3m to both income and expenditure in the cost of services. For all other grants classed as agency we agree with the assessment made and the subsequent disclosure in the accounts</p> <p>For Covid-19 grant income recognised in the Council's accounts where they have assessed to be acting as principal, we agree with the assessment made and the subsequent disclosure in the accounts.</p>

Financial Statement Audit – Arun District Council (continued)

Audit differences

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

We report any corrected misstatements greater than our performance materiality of £1.48m. There was one corrected misstatement in this regard:

Covid-19 grant income and expenditure to be classed as principal rather than agent, adjusted as follows:

- Expenditure £2.3m
- Grants credited to cost of services (£2.3m)

We report any uncorrected misstatements greater than our nominal value of £98k. There were two uncorrected misstatements to bring to your attention:

- Gross pension asset (understatement) of £0.662m.
- PPE Valuation (Bognor Arcade) judgemental misstatement (overstatement) of £0.316m

As these differences are not above our materiality level, we conclude that the balance is materially fairly stated and do not anticipate modifying our audit opinion in respect of these matters.

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
Planning materiality	We determined planning materiality to be £1.97m 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.
Reporting threshold	We agreed with the Audit & Governance Committee that we would report to the Council all audit differences in excess of £98,000.

We also identified the following areas where misstatement at a level lower than our overall materiality level might influence the reader. For these areas we developed an audit strategy specific to these areas. The areas identified and audit strategy applied include:

- ▶ Remuneration disclosures: We audited all disclosures and undertook procedures to confirm material completeness
- ▶ Related party transactions. We audited all disclosures and undertook procedures to confirm material completeness

Section 4

Value for Money



Value for Money (VFM)

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 of Audit Practice and the NAO's Auditor Guidance Note in respect of VFM. We presented our VFM risk assessment to the 22 February 2022 Audit & Governance Committee meeting which was based on a combination of our cumulative audit knowledge and experience, our review of the Council and committee reports, meetings with 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.

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

Reporting

We completed our planned VFM arrangements work in February 2022 and did not identify any significant weaknesses in the Council's VFM arrangements. As a result, we have no matters to report by exception in our audit report on the financial statements.

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.
- **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.

Financial sustainability

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

The Council has 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.

ADC has various methods in place to ensure it can identify financial pressures, including keeping updated budget reports, to ensure the Council is on plan to meet budget requirements. The Council has a Narrative Statement which shows the annual comparison between budgeted and actual I&E, which assists in showing whether there are financial pressures.

A going concern note is also prepared within the accounts, which details levels of cash, investments and reserves which are currently strong in spite of Covid-19 pressures.

Regular meetings are held, and minutes are available on the Council's website showing this, and any financial issues would be discussed here. A risk register is kept and updated, and one example from the risk register is Brexit, and the potential impact this could have on the funding for the Council. This register is reviewed further below.

There are ongoing financial pressures in the local government sector, which has resulted in several councils making significant commercial investments using cheap borrowing through the 'Public Works Loan Board' (PWLB). PWLB is part of the UK treasury and makes loans to local authority at 80BPS above the equivalent UK government Gilt rate. PWLB is also a non-discretionary lender.

Financial sustainability (continued)

There is therefore no limit the amount a local government body can borrow, risk premium attached to the level of borrowing, or covenants attached to the borrowing. As at 31/3/21 borrowing (all PWLB) stands at:

- Short term borrowing - £8.9m
- Long term borrowing - £35.5m

We note that this level of borrowing has not increased during the Covid-19 period and the Council have sufficient levels of cash to pay off the short term borrowing without the need to borrow further. Arun have not pursued investments in risky commercial ventures and have an immaterial level of investment properties. The Council did set up a housing company with the view to purchase and rent properties to private renters. However this company has remained dormant and as at the time of writing, is in the process of being closed. The Council have been able to set balanced budgets without the need to increase income from commercial sources.

The long term assets of the Council, which reflect its more commercial activity were as follows at 31/3/21:

Significant account	Balance	Description of asset
Investment property	£0.8m	This value of assets is below our TE and therefore considered immaterial. The Council have no plans to increase the level of investment properties at this time.
Long term investment	£6.8m	£4.8m relates to investment in the CCLA pooled property fund and £2.0m relates to CCLA diversified fund
Short term investment	£37.2m	All ST investments held as bonds or short term fixed interest deposits with either banks or other Local Authorities

We do not consider the above investments to be unusual for a Local Government Body and not indicative of a higher risk profile.

The 2020/21 budget was updated and reviewed during the year as the impacts of Covid-19 and subsequent lockdowns unfolded. The budget for 2021/22 and the Medium Term Financial Plan for 2021/22 onwards have since incorporated these Covid-19 pressures and factored in Central Government's C-19 grants which have help to alleviate the pressures on the Council.

The Council have not flagged a material uncertainty in the going concern basis of preparation disclosure in its financial statements around its ability to continue providing the current level of services, this has been supported within the Going Concern note itself as well as their submitted cashflow forecast to March 2023, both of which we have reviewed and agreed as reasonable

Financial sustainability (continued)

For general assumptions underpinning the annual budget and MTFP:

- Discretionary fees and charge rates to increase by 2.5% per year. HRA charges increasing by 1.5%, garages by 5%
- Income levels, particularly from leisure are expected to return to normal levels from April 22 and therefore from 22/23 income reduction has not been factored into the MTFP.
- No allowance has been made in service budgets for any continuing impact of covid-19 on income in 2021/22 as there are expected to be sufficient Covid-19 support grants to cover any losses.
- There is an inflationary increase in salary costs in 2022/23. Thereafter an increase of 2% per annum is estimated. The effect of the government's recent announcement increasing National Insurance contributions from 2022/23 is included.
- Council tax increases by £5 per annum which is max allowed for District Councils
- The Collection Fund had a deficit of £26m at 31 March 2021 – this is repaid by the precepting authorities over future financial years. Arun's share of the deficit of £9.3m is shown in the Collection Fund Adjustment Account and is due to be repaid over a period of three years commencing 2021/22 to 2023/24
- General fund to be maintained at a minimum of £4m
- Factoring in the expectation that New Homes Bonus will cease from 22/23. We subsequently know that NHB is continuing for Arun with £1.3m as per the Local Government finance settlement 22/23, therefore the MTFP is considered prudent
- Not significant levels of capital programme (£827k 21/22). Main capital expenditure expected to be for the HRA (£4.7m)
- No efficiency savings required in the short term but medium term current deficits are expected to be covered by comprehensive savings exercise led by new Chief Executive. This includes but not limited to not recruiting to all vacant posts.

For Interest Rates and Investments and Borrowing the Council has a Treasury Management strategy. Monitoring of Treasury performance is also performed. There have been changes to the PWLB lending criteria which precludes a local authority from borrowing from PWLB for any purpose if it plans to purchase assets primarily for yield, but the Borrowing Strategy (section 3.4) confirms the Council has no such plans.

Financial sustainability (continued)

The Council also has a risk management strategy which includes the need to produce a risk register. This register documents current financing pressures. This highlights the following financial higher risks (score 12 out of 16 or higher):

- Finance (16) - The council faces a great deal of financial uncertainty which could result in budget deficits, loss of HRA & General Fund balance etc. Deficit worsens and balances reach minimum level in a shorter period of time. Current controls (including 1 year funding settlement from central gov., quarterly finance monitoring and maintain the General Fund at a consistent level are noted to mitigate this risk.

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

The Council has a policy of setting a minimum General Fund Reserve at £4m as per the Medium Term Financial Strategy (MTFS). There are also a number of earmarked reserves with a total balance of £29.2m (at 31/3/21) to meet specific liabilities when they fall due.

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 set a balanced budget for 20/21 and more recently for 21/22. At year end 20/21 the Council performed better than expected against budget due to additional Central Govt. Covid-19 grants. However, this is not expected to be a continuing trend. Any savings have been allocated to the financial resilience reserve (£6.7m at 31/3/21) which will be drawn down over subsequent years.

The original budget for 20/21 has been balanced originally through use of reserves but was actually balanced from additional government grants in year. For 21/22 a balanced budget has also been set without the need to use reserves. In future years, as per the MTFS, there are budget shortfalls which are expected to be cleared through the use of the financial resilience reserve (£4.5m in 23/24 and remainder of reserve in 24/25). As noted in question 1, the remainder of the shortfall is expected to be covered by efficiency savings proposals currently being devised by the Corporate Management Team, led by the new Chief Executive.

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

The annual budget and MTFS sit alongside and facilitate the Council's Corporate Plan indicators for 2018-22. Indicators of performance are reviewed by the Policy and Finance Committee every quarter. The Council Plan was developed collaboratively with elected members, staff, partners and other stakeholders to prioritise the most important areas the Council needs to focus on in the future. This is done for the Council's limited resources to be spent on the areas where it is needed most. It considered in parallel with the budget. As it is aligned to the budget and MTFP, it is intended to act as the framework in which investment decisions can be made based on agreed priorities and the outcomes the Council wants to achieve.

Financial sustainability (continued)

The Council's overriding objective is to provide services to residents in the area. The corporate plan details the overall vision of ADC, with its main priorities being:

- your future: strengthening our economy through regeneration and better infrastructure
- your council services: serving our communities well by delivering the best services we can afford
- if you and your family need help: supporting those people in our district who need our help

The process of preparing the budget begins with using approved MTFP and updating with more detailed information as this becomes known. The financial performance against budget is reviewed annually within the Revenue and Capital Outturn reports to the Policy and Finance Committee. This document also provides monitoring of the overall financial performance against budget, Capital spend and project management reports. Where this performance information suggests a financial impact this is reflected within the proposed budget.

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

Also see the commentary against sub-criteria 1 above for how the MTFP and budget is derived. An example of the other plans being incorporated into budgets is evidenced by the Housing Revenue Account Business Plan update 2020 considered at Cabinet on 11 January 2021, which is incorporated into the HRA budget. This budget includes details of the HRA capital programme, which includes a new build programme to 2032/33. This also fits in with Corporate plan of building/purchasing 35 properties annually. The Capital Strategy is published over a 2 year period in order to allow this to be factored into the MTFP. Projections on the planned level of capital spending, borrowing and interest rates are considered each time the MTFP is updated.

Financial sustainability (continued)

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

See commentary above and links to related evidence. The Council has regularly reviews and monitors potential risks to financial resilience. We consider there to be no specific risks to ADC that are outside the normal risks faced by all local government bodies. The main risks to the Council's financial resilience are driven by:

- Reduced Government funding
- Reliance on strategic partners to deliver services and projects
- Financial impact of a pandemic, including national and local budget pressures
- Macro economy, including Brexit, reduces locally generated Business Rates and parking income
- Failure to achieve income targets
- Inflation rises

Governance

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

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

The Council has sought to develop systems to identify, evaluate and mitigate risks which threaten its Council's ability to meet its objectives to deliver services to the public. To ensure that risks are appropriately mitigated, a Risk Register has been developed. These risks are regularly reviewed by ADC.

This details the risks facing the Council and the impact on critical services. The Strategic Risk Register is managed by the Council's Governance and Risk Group and updated for newly stated risks and ongoing matters on a regular basis. Risk owners for are generally a member of this group. The Risk Register is presented to the Audit and Governance committee for their review and approval.

The Council operates a "Three line of defence" model in order to identify and manage risks, as follows:

First line of defence:

As the first line of defence, Service Lead or service managers own and manage risks within their service area. They are also responsible for implementing appropriate corrective action to address, process and control weaknesses.

Governance (continued)

Service Leads are also responsible for maintaining effective internal controls and managing risk on a day to day basis. They identify, assess, control and manage risks ensuring that their services are delivered in accordance with the council's aims and objectives.

Second line of defence:

The second line of defence relates to the strategic direction, policies and procedures provided by the council's oversight functions (e.g. Finance, Legal Services, Procurement and HR). These teams are responsible for designing policies, setting direction, ensuring compliance and providing assurance. Included within the Anti-Fraud and Corruption Policy is the council's Whistleblowing Policy which encourages staff to report concerns which may expose the council to risk.

Third line of defence:

Internal Audit is an independent, objective assurance and consulting activity designed to add value and improve the organisations operations. It helps the council accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

The aim of internal audit's work programme is to provide assurance to management, in relation to the business activities, systems or processes under review that the framework of internal control, risk management and governance is appropriate and operating effectively; and risks to the achievement of the council's objectives are identified, assessed and managed to a defined acceptable level. Such risks are identified through senior management liaison and internal audits own assessment of risk. External audit, inspectors and regulators also provide assurance on the management of risk and delivery of objectives.

We have reviewed the 21/22 Risk Register. The key risks (red rated) identified in the risk register relate to the following:

- Finance
- Homelessness
- Cybersecurity
- Corporate Stock Compliance Issues
- Climate Change
- Coronavirus Pandemic

Of these significant risks, only Coronavirus Pandemic has reduced in severity, which is what we would expect based on the updated data available and response from central government to support District Councils.

Governance (continued)

Finance refers to risks such as business continuity based on uncertain future funding. However, we consider the mitigations, including the recent funding settlement from Central Government for 22/23, as well as the low risk nature of investments in the Council and its general strong track record of good financial management, sufficiently alleviates this risk. Other key risks that are included in the remit of our VfM work, include Cybersecurity and the Coronavirus pandemic.

For cybersecurity while the risk is considered high, the Council have put in measures to mitigate this risk, including maintaining up to date software, firewalls and additional security products which use AI and machine learning to detect unusual activity. The Council are progressing with Cybersecurity certification and currently maintain a separate Cyber risk register which is reviewed monthly with the Corporate Management Team. There are currently no red rated items in that register.

The Coronavirus Pandemic risk is reducing as expected and sufficient mitigations are in place to sufficiently reduce the risk to Council services. Mitigations include staff working from home, with provision of additional IT equipment to support this.

The Council has an established anti-fraud and corruption strategy, anti-money laundering policy and whistle-blowing arrangements that are accessible on its website.

There is an established internal audit function, performed by the Head of Internal Audit Stephen Pearse within the Council. He sets out a programme of work and an annual opinion on internal control, which is presented to the Audit and Governance Committee. There is also an Internal Audit Charter which describes the purpose, authority and responsibility of internal audit activity. The Head of Internal Audit opinion for includes a limitation of scope, resulting in a limited level of assurance, due to the fact there were staffing constraints within IA in year which has limited the level of work they have been able to do, rather than any significant findings that have arisen. We consider this in light of CIPFA guidance which has advised that consideration should be given to a scope limitation when providing this annual audit opinion where the amount of audit assurance work has been reduced with staff resources redirected to priority Covid-related work. In light of 20/21 being an exceptional year in terms of Covid-19 pressures, we do not consider the IA report to be a VfM risk. However, we will be mindful of ongoing limitations of scope in future years which are likely to have a greater impact on the Council's ability to identify weaknesses in their controls.

Governance (continued)

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

The budget is derived both bottom-up and top-down. The original budget for 2019/20 plus any in year permanent budget approvals was rolled forward as a starting budget for 2020/21. Changes based on external information such as grant income are then factored into the budget which is finalised by the finance team before scrutiny by the Policy and Finance Committee and finally being approved at Full Council. The budget is reviewed quarterly, and where significant changes are identified in year which results in the original budget being no longer reflective of the actual conditions in year, the budget is updated.

ADC have a policy/aim of maintaining the general balance at their minimum reserve level of £4m. In addition to the general fund balance, the Council also hold a number of earmarked reserves to cover unexpected liabilities/increases in costs. For example, they hold a financial resilience reserve to be used to support the Council's medium term expenditure prior to implementation of efficiency measures. The Council's aim, therefore, is to decrease the general fund balance to the minimum level whilst maintaining sufficient earmarked reserves to cover their risk exposure. During the year, they report internally on the performance of the general fund, and earmarked reserves. In the 19/20 accounts these reserves were as follows;

- General Fund: £7,076k
- Earmarked reserves: £15,768k

At 31/3/21 the Council's reserves position is as follows per the financial statements:

- General Fund: £7,076k
- Earmarked Reserves: £29,162k

A further £1,933k was also held in the Capital Receipts Reserve which is available for use to support the future capital spending of the Council.

Governance (continued)

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

The Group Head of Corporate Support is responsible for ensuring the revenue budgets and the capital programme are monitored effectively. There is a requirement to monitor expenditure against budget allocations and report to the Full Council on the overall position on a regular basis, as part of the Council's overall financial and performance management reporting process. It is the responsibility of Heads of Service to control income and expenditure within their area and to monitor performance, taking account of financial information provided by the Finance team. They should report on variances within their own areas. They should also take any action necessary to avoid exceeding their budget allocation and alert the Group Head of Corporate Support to any problems.

The Council's financial performance (revenue and capital), savings delivery and business performance are formally reported quarterly through a Performance Monitor. The report combines both financial and service performance monitoring to provide a complete view of the Council's performance and includes:

- Financial update
- Capital Programme and Project Management
- COVID-19 financial data
- Treasury Management

Arun also produce non-financial monitoring reports in relation to performance against its corporate strategy KPIs. As part of the process current and proposed corrective actions to address financial and performance risks are reported. We have observed challenge from the committee relating to these reports, via the publicly available minutes on the Council website.

There is also an internal audit function which provides an interim report and a year-end report to confirm that control are in place properly. No matters were raised in relation to the budget setting process. However, we note the overall limitation of scope in Internal Audit's work. We made no observations in relation to management's budget setting process based on our own procedures performed in 20/21.

Statutory financial reporting is prepared at year-end based on the CIPFA requirements. The annual governance statement and the narrative statement confirm that the accounts are prepared in accordance with the relevant financial CIPFA code.

Governance (continued)

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

Decisions are taken by the committees of the Council, and are informed by detailed reports produced by officers, with key decisions on Council Policy taken by the Full Council or Regulatory Committees in accordance with the Council's constitution. We note that there has been a recent change in committee structure, moving from a 'Leader and Cabinet' form of governance to a 'Committee System' form of governance. In both systems however there has been an established Audit & Governance Committee which is the body formally charged with governance at the Council. The Audit & Governance Committee combines both audit functions, for example considering the work of both internal and external audit and the adequacy of risk management arrangements, and governance functions, for example promoting and maintaining high standards of conduct by Councillors and any co-opted members, and assisting the Councillors and co-opted members to observe the Members' Code of Conduct. Financial reports are separately scrutinised by the Policy and Finance Committee as noted above.

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 interest)

The responsibilities and statutory requirements of all officers and members is embedded in the Constitution. All significant actions by the Council which may have legal implications either require authorisation by the Monitoring Officer or individuals specifically delegated to act on behalf of the Monitoring Officer as set out in the Council's decision-making rules. Decision makers are also required to act within the Council's Standing Orders and scheme of delegation which makes provision for legal and constitutional advice to inform such decisions. The Council's Constitution contains a number of check points at which officers are able to identify whether decisions are being taken in compliance with the prescribed rules which ensure legal compliance. The Council has also adopted a Code of Corporate Governance (the Code) which is a framework based on guidance published in April 2016 by the Chartered Institute of Public Finance Accountancy (CIPFA) and the Society of Local Authority Chief Executives (SOLACE) around 'Delivering Good Governance in Local Government'. The Code is underpinned by the 7 core principles in the CIPFA/SOLACE framework, and is comprised of policies, procedures, behaviours and values by which the authority is controlled and governed. These Code provide the structures and guidance that members and employees require in order to ensure effective governance across the Council.

Governance (continued)

It also sets out the Council's expectations and arrangements in place to help ensure that the Council conducts its business in accordance with the law and proper standards. One of its objectives is to ensure and that public money is safeguarded, properly accounted for and used economically, efficiently and effectively.

There is an established Employee Code of Conduct, Member Code of Conduct and Protocol for Member/Officer Relations. The Members' code of conduct is also set out in Part 8 of the Constitution . Both members and officers are also required to declare related party interests which we consider as part of our work to gain assurance over related party transactions. Member interests are publicly available on the Council's website found at <https://www.arun.gov.uk/register-of-members-interests/>.

Improving economy, efficiency and effectiveness

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

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.

The Council produces a report of its Strategic Key Performance Indicators (KPIs) within their Quarterly Performance Reports using a scorecard. These KPIs are linked back to the key priorities within the Corporate Plan. The scorecard is used to flag areas of required improvement, devise actions to address any weakness identified and monitor progress. The Policy and Finance Committee are responsible for considering reported performance against the KPIs and ensuring effective and efficient mitigating actions are taken to ensure targets set are being met.

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

As set out previously in this assessment, service performance against Council priorities is considered regularly throughout the year through the Quarterly Performance Monitoring Reports. Monitoring arrangements therefore present a complete picture of both business and financial performance. This enables the Council to identify services or capital programmes that are not performing as expected by reference to KPI outcomes against targets which are based on the Council's strategic priorities as per the Corporate Plan. KPIs are given RAG ratings to clearly identify those items that are underperforming, or perhaps require closer monitoring. The Council continues to monitor and review its corporate priorities and MTFP to ensure that the plan and KPI's are aligned to the changing environment especially given the uncertainties caused by Covid-19 and the impact of the pandemic on the Council's operations and finances.

Improving economy, efficiency and effectiveness (continued)

We noted that for the latest performance report we have recorded, the Council were not achieving targets in 4 areas. However, none of the items have a direct impact on our VFM considerations.

At year end 20/21 the Council also produce both a General Fund and HRA financial outturn report. The GF outturn confirmed a favourable position to the budget, which allowed Arun not to use £0.6m of reserves that had been originally earmarked, and an additional £2.3m was able to be transferred to earmarked reserves following a better than expected level of grant income and an improved level of cost saving.

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

The Council participate in regular committee meetings which are available to the public to review, and therefore stakeholders can understand what is happening.

The Council produces certain documents throughout the year which give the stakeholders, i.e. the public, employees etc an understanding of how the Council is performing, i.e. budget reports.

The annual statements are also available once audited to the public, which include the narrative/governance statement, which provides transparency to the public.

There is also a 'Transparency' section on the Council website (www.arun.gov.uk/transparency), which gives the public the ability to review the Council expenditure, enabling the Council to be open to scrutiny.

There is also a governance structure in place to ensure performance expectations are met.

Improving economy, efficiency and effectiveness (continued)

Where the body commissions or procures services, how the body ensures that this is done in accordance with relevant legislation, professional standards and internal policies, and how the body assesses with it is releasing the expected benefits

Arun District Council has a publicly available procurement strategy. This document sets out the procurement aims which are:

1. To support the Council's priorities for 2016–2022
2. To strive to continually improve the Council's efficiency in delivering quality services whilst attempting to keep costs at manageable or reduced levels.
3. To encourage greater collaboration between other public, private, community and voluntary sector organisations and the Council.

Procurement details and opportunities are subsequently recorded on the Council's website at www.arun.gov.uk/the-procurement-process, which confirms procurements are governed by Contract Standing Orders as set out in part 6 section 4 of the Council's Constitution. This section also sets out the limited circumstances and processes that need to be followed for those procurement requirements to be waived and includes details on the terms and conditions and general procurement process.

The Council provide a public record of any payments relating to procurement over £500, seen at www.arun.gov.uk/over-500. We have also performed testing on new material contracts made by ADC in year.

There is an internal audit function that tests whether the controls in place are effective. There are regular committee meetings to discuss the Council performance, and any issues can be raised here.



Section 5

Other Reporting Issues

Other Reporting Issues

Governance Statement

We are required to consider the completeness of disclosures in the Council's annual 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 have reviewed the information presented in the Annual Governance Statement for consistency with our knowledge of the Council. We have no matters to report as a result of this work.

Whole of Government Accounts

We have not yet performed the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts consolidation pack submission. The guidance for 2020/21 is yet to be issued. We will liaise with the Authority to complete this work as required.

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 to date during our audit that required us to use our additional powers under the Local Audit and Accountability Act 2014.

Other Reporting Issues (cont'd)

Control Themes and Observations

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. As we have adopted a fully substantive approach, we have therefore not tested the operation of controls.

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.

We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements of which you are not aware.

We considered whether circumstances arising from COVID-19 resulted in a change to the overall control environment of effectiveness of internal controls, for example due to significant staff absence or limitations as a result of working remotely. We identified no issues which we wish to bring to your attention

Appendix A

Audit Fees



Audit Fees – Arun District Council

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 £
Scale Fee – Code work	43,969	43,969	43,969
Scale Fee Rebasing: Fee for further changes in work required to address professional and regulatory requirements and scope associated with risk (see Note 1)	30,158	25,226	14,456
Scale Fee Variation (see Note 2)	10,306		
Total Audit Fees	84,433	69,195	58,425
Non-Audit Fees – HBAP	22,379		24,829

Note 1 – In our Audit Results Report, we confirmed the final 2019/20 Scale Fee Variation (SFV) had been approved by the PSAA, which was a combination of our scale fee rebasing and scale fee variation submission and represented 69% of our original submission. PSAA did not specifically confirm the value of the SFV which relates to the scale fee rebasing. Therefore, we continue to record this with using the same number of hours as prior years. However, for 2020/21, the PSAA increased their hourly charge rates by 25%, and this therefore accounts for the increase in the fee submission.

Note 2 – Our SFV for matters specific to 2020/21 is broken down as follows:

- £6001 for additional works required in relation to VfM as per the updated NAO Code of Audit Practice 2020, which is the lower end of PSAAs published expected range,
- £2524 for additional works required as per the updated ISA 540 (estimates) standard, again at the lower end of PSAA's published expected range.
- £635 for work performed by our Pensions Specialists, EY Pensions Consulting
- £1,146 for additional works relating to Accounting for Covid-19 related government grants, a new inherent risk for 20/21

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