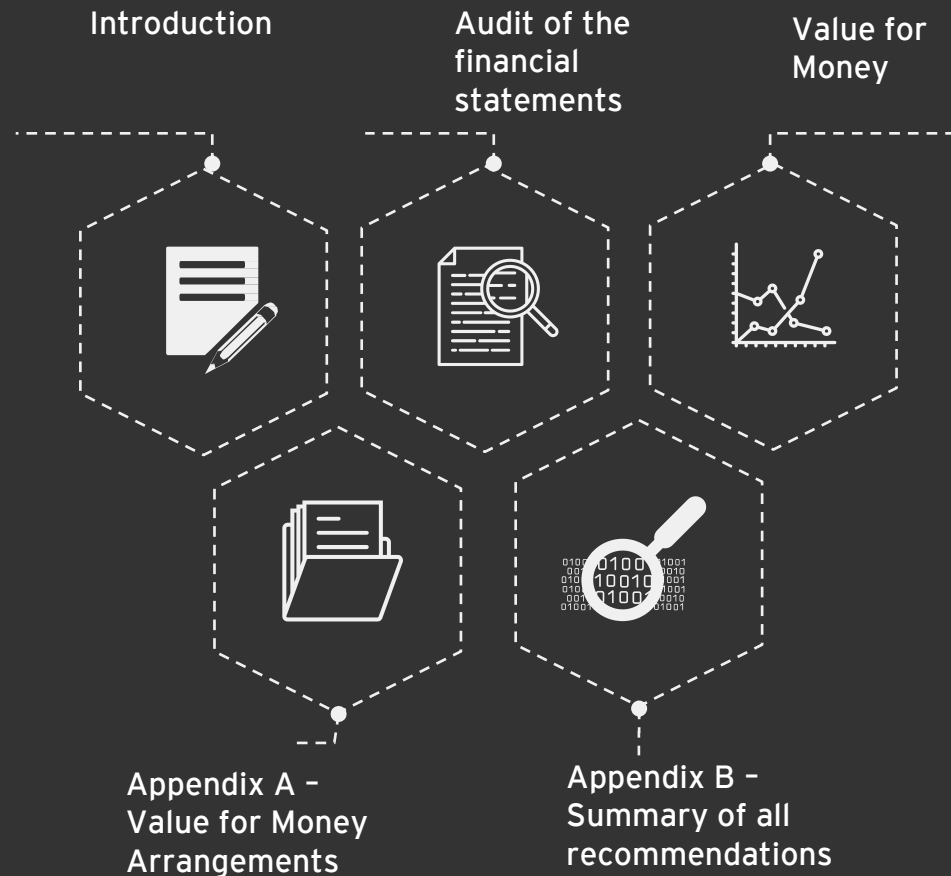




Arun District Council Auditor's Annual Report

Year ended 31 March 2022

Contents



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 July 2021)" 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.



Introduction

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 value for money (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 2021/22 audit work in accordance with the Audit Plan that we issued on 4 July 2022. We have complied with the National Audit Office's (NAO) 2020 Code of Audit Practice, other guidance issued by the NAO and International Standards on Auditing (UK).

As auditors we are responsible for:

Expressing an opinion on:

- The 2021/22 financial statements;
- Conclusions relating to going concern; and
- The consistency of other information published with the financial statements, including the narrative statement.

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, narrative statement and annual governance statement. It is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.



Introduction (continued)

2021/22 Conclusions

Financial statements	Unqualified - the financial statements give a true and fair view of the financial position of the Council as at 31 March 2022 and of its expenditure and income for the year then ended. We issued our auditor's report on 25 March 2024.
Going concern	We have concluded that the Group Head of Finance'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 statement	Financial information in the narrative statement and published with the financial statements was consistent with the audited accounts.
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 03.
Consistency of the annual governance statement	We were satisfied that the annual governance statement was consistent with our understanding of the Council.
Public interest report and other auditor powers	We had no reason to use our auditor powers.
Whole of government accounts	We have performed the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission.
Certificate	We will be able to issue our certificate once the NAO have confirmed whether there are any additional group audit procedures required as part of the Whole of Government Accounts submission.



Audit of the financial statements

Key findings

The Statement of 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 25 March 2024, we issued an unqualified opinion on the financial statements. We reported detailed findings to the 28 February 2023 Audit & Governance Committee meeting, we further provided a verbal update at the 29 November 2023 Committee meeting following additional work requirements were required. The final Audit Results Report was shared with Management and Those Charged with Governance in March 2024. 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

Risk of fraud in revenue and expenditure 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.

We tested a sample of Property, Plant & Equipment additions confirming they were appropriate to capitalise.

We identified no issues in relation to Revenue expenditure financed from capital under statute.

Misstatements due to fraud or error - management override of controls

Our work did not identify any material weaknesses in the design of controls or evidence of material misstatements, whether due to fraud or error. Our work did not identify any instances of inappropriate judgements being applied.

Our work 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.



Audit of the financial statements

Other risks / areas of audit focus	Conclusion
Valuation of Land & buildings (property, plant & equipment)	<p>Valuations of land & buildings represent significant balances in the Council's accounts and are subject to valuation changes. Material judgemental inputs and estimation techniques are required to calculate the balances held in the balance sheet.</p> <p>Our testing identified 2 assets which have a judgemental difference between the valuers valuation and our assessment of a reasonable valuation range. However, we consider the overall valuation to be materially correct.</p> <ul style="list-style-type: none">• The Arcade Bognor Regis - we recorded a judgemental difference in the application of yields, concluding the asset is overstated by £151k. A similar difference was raised in the prior year.• Laburnum Centre, Bognor Regis - judgemental difference, again in the application of yields resulting our conclusion that the asset is overstated by £101k.
Pension Liability valuation	<p>The Code of Accounting Practice requires extensive disclosures regarding the Council's pension liability balances. The accounting requires significant estimation and judgement, with management engaging an actuary to undertake the calculations on their behalf.</p> <p>As the audit was not completed by 31 March 2023, management needed to take account of the completed 2022 triennial valuation.</p> <p>The updated valuation has meant that Authorities have had to consider re-running their IAS 19 reporting and update the figures in the balance sheet to reflect the new Valuation.</p> <p>Due to the material movements in these figures, we have had to perform additional procedures. This work includes additional membership testing of the Fund level data, obtaining updated assurances from PWC as the consulting actuaries and making comparisons to our own actuarial model.</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. The results of the EY pensions specialist has confirmed the actuarial estimate to be accurate within a reasonable range.</p> <p>We are satisfied the updated IAS 19 report has been correctly reflected in the Council's financial statements.</p>

We did not identify any risks of significant weaknesses in the Council's VFM arrangements for 2021/22.

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

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

Scope

We are required to report on whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. We have complied with the guidance issued to auditors in respect of their work on value for money arrangements (VFM) in the 2020 Code of Audit Practice (2020 Code) and Auditor Guidance Note 3 (AGN 03). We presented our VFM risk assessment to the 28 February 2023 Audit & Governance Committee meeting which was based on a combination of our cumulative audit knowledge and experience, our review of Council committee reports, meetings with the Group Head of Finance and evaluation of associated documentation through our regular engagement with Council management and the finance team.

Reporting

We completed our risk assessment procedures and did not identify any significant weaknesses in the Council's VFM arrangements. We have also not identified any significant risks during the course of our audit. As a result, we had no matters to report by exception in the audit report on the financial statements.

Our commentary for 2021/22 is set out over pages 8 to 10. The commentary on these pages summarises our conclusions over the arrangements at the Council in relation to our reporting criteria (see below) throughout 2021/22. Appendix A includes the detailed arrangements and processes underpinning the reporting criteria. These were reported in our 2020/21 Auditor's Annual Report and have been updated for 2021/22.

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

Reporting criteria	Risks of significant weaknesses in arrangements identified?	Actual significant weaknesses in arrangements identified?
Financial sustainability: How the Council plans and manages its resources to ensure it can continue to deliver its services	No significant risks identified	No significant weaknesses identified
Governance: How the Council ensures that it makes informed decisions and properly manages its risks	No significant risks identified	No significant weaknesses identified
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	No significant risks identified	No significant weaknesses identified



Value for Money (continued)

Financial Sustainability: How the Council plans and manages its resources to ensure it can continue to deliver its services

The Council managed its budget during 2021/22, with a small underspend which allowed it to transfer £0.34m to the financial resilience reserve and a further £2m from the general fund to that same reserve.

For 2021/22 the budget was set without the need to use reserves. When setting the budget, for future years the Medium Term Financial Plan (MTFP) indicated budget shortfalls which were expected to be cleared through the use of the financial resilience reserve and also efficiency savings proposals.

The budget for 2022/23 was set during the year. At the time of the budget setting we viewed the assumptions to be reasonable. This budget was balanced using £817k from the funding resilience reserve, which was lower than the previous MTFP forecast. The outturn for the 2022/23 year is another small underspend of approximately £280k.

Subsequent to the year we are reviewing, the Council's setting of its 2023/24 budget was a challenging process. The initial meeting held on 1 March 2023 did not agree the budget, and included amendment motions such as to freeze Council Tax that had not been part of the previous discussions and preparations, or involving the advice of the s151 officer.

The original budget proposal included a 2.99% increase in Council Tax, and this was the increase subsequently agreed in the second meeting. Amendments were made to the initial proposals to add £100k into each of the climate change and hardship budgets, to be funded from reserves. This was agreed at the second meeting of 9 March 2023. To achieve this, the budget included using £4,996m of revenue reserves; £3.811m from the funding resilience reserve and the balance from other earmarked reserves held for the specific purposes to which they are applied.

Looking forward, the updated MTFP shows a challenge to be addressed by the Council, including the funding resilience reserve to be exhausted during 2025/26. The 2023/24 budget included a Transformation Budget to be used during the year to enable changes to be made to address the future challenges using 'invest to save' principles. Following the May 2023 elections the Council needs to take this forward and put plans in place, most likely through the 2024/25 budget setting process, to address those future challenges.

Conclusion: Based on the work performed, the Council had proper arrangements in place in 2021/22 to enable it to plan and manage its resources to ensure that it can continue to deliver its services.



Value for Money (continued)

Governance: How the Council ensures that it makes informed decisions and properly manages its risks

The Council has appropriate arrangements in place to make informed decisions and manage its risks.

The key issue for the year was a change in governance arrangements moving from a 'Leader and Cabinet' form of governance to a 'Committee System' form of governance. This was implemented from May 2021, following agreement in January 2020, and cannot be amended again within 5 years of that date without a referendum.

The Constitution was reviewed and revised to take account of the new Governance Structure. There are now 6 service committees:

- Corporate Support
- Economy
- Environment
- Housing & Wellbeing
- Planning Policy
- Policy & Finance

In both old and new systems 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.

The Head of Internal Audit opinion for 2021/22 included a limitation of scope, resulting in a limited level of assurance, due to the fact there were staffing constraints within IA in year which limited the level of work they have been able to do, rather than any significant findings that have arisen. This was the second year that this limitation arose. During 20/21 we considered this to be exceptional in terms of Covid-19 pressures, however the continuing limitation initially raised cause for concern. We identified that the Council were already addressing this issue and have engaged Southern Internal Audit Partnership (SIAP) to be their internal audit provider from 2022/23, thereby increasing the resilience of the internal audit service.

During the audit we received a complaint in relation to a decision made by the Economy Committee in March 2022. The decision was to demolish 9 roofed garages noted to be in poor condition, owned by Arun DC, and to replace them with a 4 bedroom holiday let. We reviewed this in detail, as set out on pages 21-25. We did not identify a significant weakness but have included a recommendation for improvement should the Council identify further commercial improvement opportunities.

Conclusion: Based on the work performed, the Council had proper arrangements in place in 2021/22 to enable it to make informed decisions and properly manage its risks.



Value for Money (continued)

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

The Council has appropriate arrangements in place.

Monitoring arrangements exist to present a picture of both business and financial performance. 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. This enables the Council to identify services or capital programmes that are not performing as expected by reference to KPI outcomes.

Conclusion: Based on the work performed, the Council had proper arrangements in place in 2021/22 to enable it to use information about its costs and performance to improve the way it manages and delivers services.

Appendices



Appendix A – Summary of arrangements

Financial Sustainability

Reporting Sub-Criteria

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

Findings

Arun District Council 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 at 31 March 2022 were strong.

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 Finance. This risk includes various pressures, uncertainties, and wider impacts such as the wider economic performance from the pandemic, and then the 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. 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 31/3/22 borrowing (all PWLB) stands at £35.5m, all long-term (> 1 year)

Borrowing has reduced since the prior year by £8.9m.

Arun DC 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 was dissolved on 21 March 2023. The decision was made to close the company at the Economic Committee on 29 March 2022. The decision was made following an outline business case developed by independent property experts Savills. This further reflects the low risk approach taken by the council, and its use of independent experts to aid in the decision making process.

The Council have been able to set balanced budgets without the need to increase income from commercial sources.

The 21/22 budget was updated and reviewed during the year, for example, as the impacts of Covid-19 continued to be felt. The budget for 21/22 and the Medium Term Financial Plan for 21/22 onwards agreed in February 2021 have since incorporated pressures from the pandemic and factored in Central Government's Covid-19 grants which have helped to alleviate the pressures on the Council.

Appendix A – Summary of arrangements

Financial Sustainability (Continued)

Reporting Sub-Criteria

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 (continued)

Findings

The Council have not flagged 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 future cashflow forecast, both of which we have reviewed and agreed as reasonable.

General assumptions underpinning the annual budget and MTFP included:

- 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 MTFS.
- 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 MTFS is considered prudent
- Not significant levels of capital programme (£827k 21/22). Main capital expenditure expected to be for 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 exec. This includes but not limited to not recruiting to all vacant posts.

We considered, at the time the budget was set, that the assumptions were realistic. Subsequent events beyond the Council's control have created further pressures, such as the significant increase in inflation during 2022/23. But we considered the 21/22 to be soundly based, as was the medium term forecast at that time.

Appendix A – Summary of arrangements

Financial Sustainability (Continued)

Reporting Sub-Criteria

Findings

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 (continued)

For Interest Rates and Investments and Borrowing the Council has a Treasury Management strategy. Monitoring of Treasury performance is also performed quarterly. 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.

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 govt., 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

Part of the budget strategy during 2021/22 was the reduction of the General Fund reserve to a minimum of £5m, transferring the balance from the previous minimum (£7.076m) to the Funding Resilience Reserve. There are also a number of earmarked reserves with a total balance of £27.5m (at 31/3/22) to meet specific liabilities when they fall due.

The Council set a balanced budget for 21/22. At year end 21/22 the Council reported, after supplementary approved budgets and various favourable or adverse variations managed during the year, a small underspend of £0.34m. This was transferred to the funding resilience reserve which was approved at the September 2022 Policy and Finance Committee.

For 21/22 the budget was set without the need to use reserves. In future years the MTFP indicated budget shortfalls which were expected to be cleared through the use of the financial resilience reserve and also efficiency savings proposals.

The budget for 2022/23 was set during the year. Again, at the time of the budget setting we viewed the assumptions to be reasonable. This budget was balanced using £817k from the funding resilience reserve, which was lower than the MTFP forecast.

Appendix A - Summary of arrangements

Financial Sustainability (Continued)

Reporting Sub-Criteria	Findings
How the body plans to bridge its funding gaps and identifies achievable savings (continued)	<p>The 22/23 budget included contributions from earmarked reserves for the collection fund deficit created during the pandemic.</p> <ul style="list-style-type: none">• It assumed 1.75% pay award for 21/22, uplifted by 2.5%• HRA charges increased by 4.1%, and garages 5%• Generally, inflationary increases to fees and charges. <p>At the time of the 22/23 budget, these assumptions were all reasonable.</p>
How the body plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities	<p>The annual budget and MTFP 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.</p> <p>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:</p> <ul style="list-style-type: none">• 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 <p>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.</p>

Appendix A – Summary of arrangements

Financial Sustainability (Continued)

Reporting Sub-Criteria	Findings
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	<p>See also the commentary against sub-criteria 1 above for how the MTFP and budget is derived.</p> <p>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 was 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 the 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.</p>
How the body identifies and manages risks to financial resilience, e.g. unplanned changes in demand, including challenge of the assumptions underlying its plans	<p>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:</p> <ul style="list-style-type: none">• 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, interest rates and inflation• Failure to achieve income targets

Appendix A – Summary of arrangements (continued)

Governance

Reporting Sub-Criteria

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

Findings

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.

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 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:

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. 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.

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.

The Third line of defence includes Internal Audit as 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.

Appendix A – Summary of arrangements (continued)

Governance (Continued)

Reporting Sub-Criteria

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 (continued)

Findings

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 had reduced in severity, which is what we would expect based on the updated data available and response from central government to support District Councils.

Finance refers to risks such as business continuity based on uncertain future funding. However, we consider the Council's mitigations its level of reserves, and track record of good financial management sufficiently alleviates this risk.

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.

We have noted that the Council's Risk Management Policy Statement and Strategy has been reviewed and as a result a new Risk Management Framework was agreed during 2022/23.

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

Appendix A – Summary of arrangements (continued)

Governance (Continued)

Reporting Sub-Criteria

Findings

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 (continued)

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 2021/22 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. This was the second year that this limitation arose. During 20/21 we considered this to be exceptional in terms of Covid-19 pressures, however the continuing limitation initially raised cause for concern. However, the Council were already addressing this issue and have engaged Southern Internal Audit Partnership (SIAP) to be their internal audit provided from 2022/23, thereby increasing the resilience of the internal audit service.

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

The budget is derived both bottom-up and top-down. The previous budget acts as a starting point. 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 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.

As noted above, the Council reviewed the minimum level of general fund reserve during the year and reduced this to £5m. 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.

At 31/3/22 the Council's reserves position is as follows per the financial statements:

- General Fund: £5m
- Earmarked Revenue Reserves: £27.5m

Further ringfenced reserves for the HRA and capital purposes are also held by the council, but these cannot be used to support the general revenue budget.

Appendix A – Summary of arrangements (continued)

Governance (Continued)

Reporting Sub-Criteria

Findings

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 Finance 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. The report includes:

- Financial update
- Capital Programme and Project Management
- 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.

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.

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.

During 2021/22, implemented from May 2021, there was a change in Governance moving from a 'Leader and Cabinet' form of governance to a 'Committee System' form of governance.

This was agreed in January 2020, and cannot be amended again within 5 years of that date without a referendum.

Appendix A – Summary of arrangements (continued)

Governance (Continued)

Reporting Sub-Criteria

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 (continued)

Findings

The Constitution was reviewed and revised to take account of the new Governance Structure.

There are now 6 service committees:

- ▶ Corporate Support
- ▶ Economy
- ▶ Environment
- ▶ Housing & Wellbeing
- ▶ Planning Policy
- ▶ Policy & Finance

In both old and new systems 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.

One committee that was removed following the restructure was the Overview and Select Committee, made up of 15 members from the Council whose role included holding the Executive (Cabinet and Chief Officers) to account for their decisions. Following this restructure, it is expected that Full Council scrutinise the decisions made by the committees, rather than setting up a separate Scrutiny Committee for this task. Individual committees are expected to scrutinise and challenge the reports from officers as part of their decision making process.

The decisions of committees will ultimately be based on underlying evidence and data provided by officers. If this underlying data is inaccurate, it increases the risk of committees making ill-informed decisions. As an example, as part of our audit we received a complaint in relation to a decision made by the Economy Committee in March 2022. The decision was to demolish 9 roofed garages noted to be in poor condition, owned by Arun DC, and to replace them with a 4 bedroom holiday let in River Road, Arundel, expected to cost £500k. The garages were let on a simple licence arrangement at £85 per garage per month and therefore generating a low level of income for the Council. The decision to proceed with this proposal was made in spite of concerns raised made from local stakeholders via Arundel Town Council.

Although the project was immaterial for our audit testing, for Value for Money purposes, we must satisfy ourselves that the council has in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, including through making informed decisions. The decision was made based on the projections of the economic benefits to the Council of the holiday let.

Appendix A – Summary of arrangements (continued)

Governance (Continued)

Reporting Sub-Criteria

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 (continued)

Findings

The key assumptions were the occupancy rate of a future holiday let and the daily rental value. The complainant's view was that these projections were inaccurate and more appropriate figures would result in the project not providing value for money for the Council.

Initially, we reviewed the minutes of the October '21 Economy Committee which included a report regarding the future use of the land at the site. Six options were presented to the committee:

- 1) Demolish existing garages and reconstruct new garages (8) - Lease out garages at current 2021 rental levels
- 2) Demolish existing garages and reconstruct new garages (8) - Lease out garages with increase on current 2021 rental levels
- 3) Demolish existing garages and tarmac site and line paint to provide 10 external parking spaces. Lease out car parking spaces on current 2021 rental levels
- 4) Demolish existing garages and tarmac site and line pain to provide 10 external parking spaces. Lease out car parking spaces at increased level
- 5) Demolish existing garages and rebuild 8 garages and retarmac and landscape the area and dispose of via leasehold (25 years for £35k or £50k)
- 6) Freehold disposal of site for development

As the site was surrounded by residential development on all sides, most options involved retention of the garages / conversion to parking as this was in demand in the area.

This report was highly debated between the Councillors, with many showing a preference to retain the asset rather than sell to a third party. The possibility of building an AirBnB on the site was also suggested by Councillors as an option that had not previously been considered - It was resolved that this option was to be explored and the decision put back through the Economy Committee at a later date.

In March 2022, this item was brought back to the Agenda of the Economy Committee.

Based on feedback from the last session, the Options put forward to the committee by the estates team had been revised:

- 1) Demolish existing garages and reconstruct new garages (8) - Lease out garages at current 2021 rental levels
- 2) Demolish existing garages and tarmac site and line pain to provide 10 external parking spaces. Lease out car parking spaces at increased level
- 3) Demolish existing garages and rebuild 8 garages and retarmac and landscape the area and dispose of via leasehold (25 years for £35k or £50k)
- 4) Freehold disposal of site for development (unconditional terms)
- 5) Construct and manage a Holiday Let - 1 No 4 bed dwelling

Appendix A – Summary of arrangements (continued)

Governance (Continued)

Reporting Sub-Criteria

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 (continued)

Findings

Additionally, as recommended in the previous committee meeting, the Council consulted with Arundel Town Council regarding the options. Following responses and concerns from local residents submitted to Arundel Town Council, they recommended the sites either be retained as garages or turned into parking spaces. Specifically, it was stated that the least favourable option was to use the space for residential or holiday accommodation.

Nonetheless, the Committee Paper presented by the Property, Estates & Facilities Manager recommended Option 5 to the Committee, in particular due to the fact the total projected income and % yield on investment were high compared to the other options.

Further, it was noted that the proposal directly supported the Council's emerging vision in respect of fulfilling Arun's economic potential through promotion of tourism if used as a holiday let.

Residential options had been considered in-line with the instructions from the October 2021 committee. Ultimately, the Council decided that a these options would not be viable to the Council as this would require the Council to privately rent the property from a separate housing company, which was agreed to be closed in the same meeting.

From the meeting, the committee decided:

- ▶ To proceed with Option 5 - Demolish the existing garages and construct a single 4 bedroom dwelling to use as a holiday let, managed via a hosting company
- ▶ To delegate authority to enter a hosting agreement with a suitable identified company following procurement in accordance with contract standing orders to the Group Head of Technical Services, in consultation with the Chair of the Economy Committee
- ▶ To delegate authority to commence procurement of construction management, planning services and construction main contractor to deliver the recommended development site to the Group Head of Technical Services, in consultation with the Chair of the Economy Committee
- ▶ To approve the Council to serve notice on the remaining licensees of the existing garages to gain vacant possession of the site
- ▶ To delegate authority to submit any necessary planning applicable for the purpose of achieving the recommendations above to the Group Head of Technical Services, in consultation with the Chair of the Economy Committee

It was noted that due to the timing of this decision, the capital costs (estimated at £486k) had not been included in the Council's Capital Programme for 2022/23 which was approved by the Full Council in February 2022. Additionally it was noted by the S151 Officer that the Council would be unable to fund the scheme from PWLB borrowing due to the nature of the investment. Instead the Council would seek to use existing reserves to fund the project.

Appendix A – Summary of arrangements (continued)

Governance (Continued)

Reporting Sub-Criteria

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 (continued)

Findings

As part of the decision making process, we are satisfied that the Committee's request from the October '21 meeting for a consultation with local residents on the proposals was appropriately completed. The responses are included in the March '22 report appendix for Committee members to note and debate. The presenting officer only referenced that responses had been received from Arundel Town Council. It was not highlighted that the responses were all negative towards the building of a holiday let. However, presenting only high level detail during committee meetings is not unusual. It is common for appendix items to be taken "as read" in committee meetings, with the opportunity for members to debate information in the report, including appendices, after the report had been presented. We therefore are satisfied with the way the information was presented to the committee for them to come to a decision on the matter.

Our subsequent focus was on whether the underlying estimated figures for the holiday let income could be considered as reasonable. The underlying assumptions which were primarily driving the resulting estimated surplus of the project was the rate per night of £500, and a 60% annual occupancy rate. We challenged the Council to provide us with supporting evidence for these figures. Their responses were as follows:

- ▶ Occupancy Rate (60%) - Three local Airbnb owners were approached (in Chichester, Slindon and Arundel). Their information averaged at a 75% occupancy rate, which was then adjusted to 60% to be conservative.
- ▶ Daily Rental Value (£500) - The Council used quotations from the Airbnb website (www.airbnb.co.uk) at different points during the year for two 2-bed properties or a 4-bed property in Arundel. They averaged the data which was determined as £503 per day.

Initially we reperformed the searches to obtain the daily rate. While £500 per day appeared to be potentially possible during the peak season (summer months), off-peak rates were considerably lower than this, at around £250 and under. This is based on our searches for 4 bedroom properties in Arundel, which were limited due to the size of property.

Therefore, the average daily rate across the year would be significantly below the value used in the calculation. Additionally, such a high rental value would also likely have a significant knock-on effect on the occupancy rate. We were not provided with the evidence to support the 75% figure noted above, but this is expected as it is personal data belonging to a 3rd party. We therefore could not confirm its accuracy. Our search of a similar size property during off peak season showed a future bookings rate of 20%, although we accept this is a snapshot in time and further bookings could be made.

Appendix A – Summary of arrangements (continued)

Governance (Continued)

Reporting Sub-Criteria

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 (continued)

Findings

Based on this information, we concluded that the underlying assumptions of the holiday let proposal did not provide Committee members with sufficient information to allow them to make a well-informed decision. Presenting a range of possible rental values and occupancy rates for this particular scenario may have helped to provide more detailed information on the level of risk vs reward for the project.

More widely, we did not identify any discussion during the decision making process on whether a holiday let aligned with Arun DC's expertise or risk appetite, particularly when noting the closure of the housing company (agreed at the same meeting) and the fact the Council had no other commercial ventures.

No further decisions were made by the Council in relation to the holiday let for the remainder of 2021/22 or 2022/23 and construction on the project had not commenced. In November 2023 the Economy Committee received an update which concluded that the project should not proceed in its current form.

This was based in part on updated calculations of the income and occupancy rates to reduce the income by approximately 50%, which would have resulted in the project making an annual loss after fees. Following this additional information provided to the Committee, it was agreed that officers would relook at viable options for the site, taking into account the views of local residents. We therefore concluded that the Committee were provided with sufficient information to make an informed decision.

Based on the updated Committee meeting minutes we have concluded there is not a value for money weakness in this area. This has been a one-off issue, that we noted previously was not material. It does not indicate from our wider audit work a systemic weakness in governance and decision-making arrangements. However, improvements could have been made. Therefore, we recommend that if the Council wish to progress with more commercial ventures in the future, underlying evidence provided to Committees to support the decision making process is supported by a clear audit trail, either directly back to 3rd party evidence or to the advice of independent experts.

Appendix A – Summary of arrangements (continued)

Governance (Continued)

Reporting Sub-Criteria

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)

Findings

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. 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/>.

Appendix A – Summary of arrangements (continued)

Improving economy, efficiency and effectiveness

Reporting Sub-Criteria	Findings
<p>How financial and performance information has been used to assess performance to identify areas for improvement</p>	<p>The Council produces a report of its Strategic Key Performance Indicators 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.</p>
<p>How the body evaluates the services it provides to assess performance and identify areas for improvement</p>	<p>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.</p> <p>At year end 21/22 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 transfer £0.34m to the financial resilience reserve, with a further £2m from the general fund to that same reserve.</p>
<p>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</p>	<p>The Council participate in regular committee meetings which are available to the public to review, and therefore stakeholders can understand what is happening.</p> <p>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, for example its budget reports.</p> <p>The annual statement of accounts is also available to the public, which includes the narrative/governance statement, which provides transparency to the public.</p> <p>There is 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.</p> <p>There is also a governance structure in place to ensure performance expectations are met.</p>

Appendix A – Summary of arrangements (continued)

Improving economy, efficiency and effectiveness (Continued)

Reporting Sub-Criteria

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

Findings

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.

The 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.

Appendix B - Summary of all recommendations

Recommendations

The table below sets out all the recommendations arising from the financial statements and value for money audits in 2021/22. All recommendations have been agreed by management.

Issue	Recommendation	Management Response
Value for Money: Making informed decisions for commercial ventures	If the Council wish to progress with more commercial ventures in the future, underlying evidence provided to Committees to support the decision making process should be supported by a clear audit trail, either directly back to 3rd party evidence or to the advice of independent experts.	This recommendation is accepted. The Council commissions external expertise to undertake several high value projects and their output is reported to the relevant service committees at regular intervals. Furthermore, summarized costed business cases are routinely presented to Members when undertaking high value capital schemes, including those which are not commercial in nature, e.g. HRA property purchases. All business cases must demonstrate financial viability

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