
18 July 2022

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Dear Councillor,

A meeting of **AUDIT COMMITTEE** will be held in the **COUNCIL CHAMBER** at these offices on **TUESDAY, 26TH JULY, 2022 at 5.00 pm** when your attendance is requested.

Yours sincerely,
KATHRYN HALL
Chief Executive

A G E N D A

	Pages
1. To receive apologies for absence.	
2. To receive Declarations of Interest from Members in respect of any matter on the Agenda.	
3. To confirm the Minutes of the previous meeting of the Audit Committee held on 01 March and 11 May 2022.	3 - 10
4. To consider any items that the Chairman agrees to take as urgent business.	
5. Internal Audit Annual Report 2021/22.	11 - 24
6. Review of Treasury Management Activity 2021/22.	25 - 38
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Working together for a better Mid Sussex

10. Questions pursuant to Council Procedure Rule 10.2 due notice of which has been given.

To: **Members of Audit Committee:** Councillors M Pulfer (Chair), J Llewellyn-Burke (Vice-Chair), A Boutrup, M Cornish, I Gibson, S Hicks and L Stockwell

**Minutes of a meeting of Audit Committee
held on Tuesday, 1st March, 2022
from 5.00 pm - 7.00 pm**

Present: M Pulfer (Chair)
R Cromie (Vice-Chair)

M Cornish S Hicks
I Gibson L Stockwell

Absent: Councillors A Boutrup

1. TO RECEIVE APOLOGIES FOR ABSENCE.

Apologies were received from Councillor Boutrup.

2. TO RECEIVE DECLARATIONS OF INTEREST FROM MEMBERS IN RESPECT OF ANY MATTER ON THE AGENDA.

Councillor Gibson declared an interest in Item 7: Financial Statements 2020-21 in relation to the Collection Fund, as he is a Member of West Sussex County Council.

3. TO CONFIRM THE MINUTES OF THE PREVIOUS MEETING HELD ON 16 NOVEMBER 2021.

The Minutes of the meeting of the Committee held on 16 November 2021 were agreed as a correct record and signed by the Chairman.

4. TO CONSIDER ANY ITEMS THAT THE CHAIRMAN AGREES TO TAKE AS URGENT BUSINESS.

None.

5. INTERNAL AUDIT PROGRESS REPORT.

Peter Stuart, Head of Corporate Resources introduced the report on behalf of Juan Fosco, Internal Audit Manager who was unable to attend the meeting. He highlighted that Covid has continued to present challenges with staff becoming unavailable at very short notice, which has delayed the audits until the beginning of 2022, but work is now progressing. He noted that Management had requested to defer the audit of the Covid-19 Grant Assurance until the 2022-23 Audit plan and the draft reports for the Council Tax audit have been issued with a medium priority recommendation. There was no formal handover of previously raised recommendations from the former Auditors at Crawley Borough Council nor a record listing these including timescales for implementation. However, Mazars have considered this as part of the 21-22 field work. They will continue to monitor recommendations raised as part of the

21-22 internal audits and create a centralised record capturing the recommendations, including agreed management actions and timescales for implementation. Mazars have discussed updates with the Head of Corporate Resources and the Committee will be kept informed, including details of any outstanding actions. Mazars have already established monthly meetings with the Head of Corporate Resources to discuss progress, issues arising from the internal audit and Council activities. A three-year plan was formally established by the previous internal auditor and approved by the Committee, Mazars proposed plan was detailed in the report.

Members expressed concern over the handover process from the previous internal auditor, the impact of Covid on staffing for the audit and access to the previous audit files.

The Head of Corporate Resources confirmed the previous audit files were up to date and they are accessible as they are held on the Council's server. There was no formal handover for the internal audit due to the sudden departure of the previous auditors.

In response to a Member's question the Head of Corporate Resources noted the contract had started slowly, however Mazars are extremely professional and are flagging up issues which may not have been detected previously.

The Chairman expressed concerns regarding the lack of succession planning and staff resilience. In the absence of Mazars, the Head of Corporate Resources would bring this to their attention and ask them to feedback on both and monitor the business continuity in reports regarding staff resilience.

RESOLVED

The Committee received the report.

6. EXTERNAL AUDIT - AUDIT RESULTS REPORT 2020-21.

Kevin Suter, EY introduced the report of the audit results up to 31st March 2021. He reminded the committee that an objection had been received to the Councils accounts and therefore all the information presented had to be caveated; the audit cannot be completed until the objection had been processed and a decision made. EY was able to provide an update on the work to date and drew Members' attention to the key findings of the audit of Investment Properties and a net amendment of £1.4million. EY updated the committee on the Assessment of Control Environment recommending better communication between the Property Valuers and the Council officers before accounts are produced.

The Chairman asked for clarification on what impact the outstanding objection would have on the decision to sign off the accounts for 2020-21 and the deadline for the completion of the External Audit. EY confirmed that due to the nature of the objection, it would affect the Audit process and therefore delay the completion of the Audit. They were unable to give an exact date for completion of the Audit.

A Member thanked EY for a comprehensive report. Members discussed the audit of the investment properties, if EY had confidence with the future information provided by the Council, the cost and consequences of the delay in completing the external audit and asked for clarification on the net pension liability.

EY advised they were confident in their communications with MSDC to work on the issues. A delay in completing the audit was not an ideal position to be in, but there would not be any direct consequences to the Council.

They advised the pension liability falls within the materiality amount, there would be a delay to future audits which would be monitored along with the LA backlog due to Covid. The cost of the objection would fall to the Council.

The Chairman asked if the valuation issues around investment properties was as a result of errors of judgement or accuracy. EY advised that it was due to both, these have now been resolved and the recommendations in place by EY will mitigate the issue occurring in the future.

A Member asked for clarification on the procedure for the Committee being updated on the progress of the objection. EY advised general updates would be provided to Committee Members and officers going forward.

RESOLVED

The Committee received the report.

7. FINANCIAL STATEMENTS 2020-21.

Peter Stuart, Head of Corporate Resources introduced the report noting that the audit had not been concluded by EY. He highlighted the recommendations to the Committee subject to any changes following the outcome of the objection.

Members discussed the revenue expenditure in relation to the Leisure Centre closures during the pandemic, asked if Places Leisure had a contingency plan and requested clarity on the debtors and general allowance for bad debt, and the Collection Fund.

In response to the Chairman's question whether the Leisure Centres were insured against the closures, the Head of Corporate Resources confirmed Places Leisure were not insured and due to the nature of the event it is difficult to predict and obtain insurance. The Chairman requested the Leisure Centres put this in writing and that a Risk Assessment be carried out on Leisure Centre Funds.

The Head of Corporate Resources advised he supply in writing a breakdown of the actual debts for Members and any surplus in the Collection Fund is carried forward to the next financial year to reduce the need to increase Council Tax.

The Chairman sought clarification on the Temporary Accommodation Reserve and the actual types of accommodation it was allocated to.

RESOLVED

The Committee:

- a) Approved the Financial Statements for the year ending 31st March 2021, and
- b) Authorised the Chair and Vice Chair of the Committee to sign the accounts when the audit has concluded, subject to any changes being immaterial to the accounts.

8. CAPITAL STRATEGY 2022-23 TO 2025-26.

The Head of Corporate Resources advised there were no changes to the Capital Strategy from 2021-22. He noted a correction to the background papers on p.163, the meetings were correct, however the dates were different.

Members discussed how the Capital Strategy would impact on the funding of Affordable Housing, Temporary Accommodation and assessing projects with regard to sustainability issues

The Head of Corporate Resources confirmed when developers are unable to provide affordable housing within their developments, they provide Section 106 monies so the housing can be provided at other locations, and he referenced the Sustainability Economic Strategy which will be brought to Council for adoption shortly.

As there were no further questions the Chairman took Members to the recommendations in the report which were agreed unanimously.

RESOLVED

The Committee agreed to forward the draft Strategy for approval by Council at the meeting on 2nd March 2022.

9. TREASURY MANAGEMENT STRATEGY STATEMENT AND ANNUAL INVESTMENT STRATEGY 2022-23 TO 2024-25.

Peter Stuart Head of Corporate Resources to introduce the report in the absence of Pamela Coppelman, Group Accountant for Adur & Worthing Council. He advised the Strategy was still current and drew Members' attention to the recommendation to increase the Council's counterparty investment limits.

A Member asked for clarification of the Debt Management Office. The Head of Corporate Resources confirmed this was Central Government.

RESOLVED

The Committee recommended the following:

- (i) the proposed Treasury Management Strategy Statement (TMSS) for 2022/23 and the following two years,
- (ii) the Annual Investment Strategy (AIS) and the Minimum Revenue Provision Statement (MRP) as contained in Sections 4 and 2.3 respectively of the report,
- (iii) the proposed amendments to the specified and non-specified investment appendices, and
- (iv) the Prudential Indicators contained within this report.

10. PROCUREMENT OF AN EXTERNAL AUDITOR.

Peter Stuart, Head of Corporate Resources, introduced the report and noted that although some Local Authorities were conducting their own procurements, the recommendation is for Mid Sussex District Council is to join the nationwide PSAA. He advised that subject to the recommendation at this Committee the Item would be presented as an urgent Item at the Council meeting on Wednesday 2nd March 2022.

RESOLVED

The Committee recommended the following to Council:

i) that MSDC joins in the nationwide PSAA procurement for an external auditor with the contract starting 1st April 2023 and running to 2028.

11. TO CONSIDER WHETHER TO EXCLUDE THE PRESS AND PUBLIC FROM THE MEETING DURING CONSIDERATION OF THE FOLLOWING ITEMS IN ACCORDANCE WITH SECTION 100A OF THE LOCAL GOVERNMENT ACT 1972 ON THE GROUNDS THAT IT INVOLVES THE LIKELY DISCLOSURE OF EXEMPT INFORMATION AS DEFINED IN PARAGRAPH 3 AND 7 OF PART 1 OF SCHEDULE 12A OF THE SAID ACT.

The Chairman moved a motion that the Press and Public be excluded from the meeting during consideration of the exempt business on the agenda. This was agreed unanimously and Kevin Suter, EY was invited to stay.

The meeting moved into the exempt session at 6.24pm.

12. CREDITORS SYSTEM UPDATE

The Chairman brought the meeting back into open session at 6.58pm on completion of consideration of the exempt item and moved to the recommendations included at item 12, subject to any offline discussions, the Committee recommended the report and the actions taken, this was agreed unanimously.

13. QUESTIONS PURSUANT TO COUNCIL PROCEDURE RULE 10.2 DUE NOTICE OF WHICH HAS BEEN GIVEN.

None.

The meeting finished at 7.00 pm

Chairman

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**Minutes of a meeting of Audit Committee
held on Wednesday, 11th May, 2022
from 7.31 pm - 7.33 pm**

Present: M Pulfer (Chairman)
J Llewellyn-Burke (Vice-Chair)

A Boutrup
I Gibson

S Hicks
L Stockwell

Absent: Councillors M Cornish

1. ELECTION OF CHAIRMAN.

Councillor Llewellyn-Burke nominated Councillor Pulfer as Chairman of the Committee for the 2022/23 Council year. This was seconded by Councillor Boutrup and with no further nominations put forward, this was agreed.

RESOLVED

That Councillor Pulfer be elected Chairman of the Committee for the 2022/23 Council year.

2. APPOINTMENT OF VICE-CHAIRMAN.

Councillor Pulfer nominated Councillor Llewellyn-Burke as Vice-Chairman of the Committee for the 2022/23 Council year. This was seconded by Councillor Boutrup and with no further nominations put forward, this was agreed.

RESOLVED

That Councillor Llewellyn-Burke be appointed Vice-Chairman of the Committee for the 2022/23 Council year.

3. TO CONSIDER ANY ITEMS THAT THE CHAIRMAN AGREES TO TAKE AS URGENT BUSINESS.

None.

The meeting finished at 7.33 pm

Chairman

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INTERNAL AUDIT ANNUAL REPORT 2021/2022

Report from: Head of Internal Audit
Contact Officers: Graeme Clarke, Mazars LLP
Juan Fosco, Mazars LLP
Email: graeme.clarke@mazars.co.uk
juan.fosco@mazars.co.uk
Wards Affected: All
Key Decision No
Date of Meeting 26 July 2022

EXECUTIVE SUMMARY AND RECOMMENDATIONS

1. Purpose of Report

- 1.1 This report contains the Head of Internal Audit (HOIA) annual assurance opinion on the control environment of Mid Sussex District Council (Council) based on internal audit work undertaken during the 2021/22 financial year.
- 1.2 This opinion forms one of the key sources of assurances within the Council. It is used to inform the compilation of the Council's Annual Governance Statement, which is included in the Financial Statements. The Internal Audit function of the Council, incorporating the HOIA, is outsourced to Mazars LLP via the APEX framework.

2. Summary

- 2.1 Mazars engagement with the Council commenced on 9 July 2021, when the Engagement Letter was signed. Before this date, the Internal Audit function was delivered by the former Internal Auditor at Crawley Borough Council.
- 2.2 The 2021/22 Plan was inherited from the former Internal Audit. It comprised of mostly Key Financial Audits that were historically delivered in the latter stages of the financial year by the former Internal Auditor. For the 2022/23 FY, we will employ a risk-based approach to determining the audit needs of the Council and use a risk-based methodology in planning and conducting our audit assignments.
- 2.3 At the time of drafting this report, there are two audits in progress (IT related) and two audits where the fieldwork was completed, with the report being at draft stage. All other audits in the Plan were finalised.
- 2.4 During the year, internal audit services were delivered remotely using tools such as screen-sharing functionalities. These arrangements and the current work in progress (at 2.3 above) were not considered to have a material impact on our ability to provide an annual opinion.
- 2.5 During the year, we consulted the Head of Corporate Resources and informed the Committee about changes to the audit plan, in particular, deferral of work for the Covid-19 Grants Assurance audit.
- 2.6 Based on our audit work, our HOIA opinion on the governance, risk management, and control framework is Moderate in its overall adequacy and effectiveness. Some improvements are required to enhance the adequacy and effectiveness of the governance, risk management and control framework.

3. Recommendation

The Committee is asked to receive the report.

4 Policy Context

4.1 Receiving this report enables the Committee to perform its duties under the Accounting and Auditing regulations

5. Other Options Considered

5.1 None.

6. Financial Implications

6.1 This is a report on the activity of Internal Audit in the previous year and has no financial implications. The Plan for Internal Audit relating to work undertaken during 2021/2022 had been discussed and approved in the March 2021 Audit Committee meeting.

7 Risk Management Implications

7.1 None.

Mid Sussex District Council

Internal Audit Annual Report 2021/22

Prepared by: Mazars LLP

Date: July 2022

Audit Committee - 26 July 2022

mazars



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02	Internal Audit Opinion
03	Internal Audit Work Undertaken in 2021/22
04	Benchmarking
05	Performance of Internal Audit

Disclaimer

This report ("Report") was prepared by Mazars LLP at the request of Mid Sussex District Council (MSDC) and terms for the preparation and scope of the Report have been agreed with them. The matters raised in this Report are only those which came to our attention during our internal audit work. Whilst every care has been taken to ensure that the information provided in this Report is as accurate as possible, Internal Audit have only been able to base findings on the information and documentation provided and consequently no complete guarantee can be given that this Report is necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required.

The Report was prepared solely for the use and benefit of MSDC and to the fullest extent permitted by law Mazars LLP accepts no responsibility and disclaims all liability to any third party who purports to use or rely for any reason whatsoever on the Report, its contents, conclusions, any extract, reinterpretation, amendment and/or modification. Accordingly, any reliance placed on the Report, its contents, conclusions, any extract, reinterpretation, amendment and/or modification by any third party is entirely at their own risk. Please refer to the Statement of Responsibility in this report for further information about responsibilities, limitations and confidentiality.

Appendices
A1 High Priority Recommendations
A2 Definitions of Assurance

01 Introduction

Mazars LLP provides internal Audit services to Mid Sussex District Council (Council) through the APEX framework with Croydon Council. The purpose of Internal Audit is to provide the Council, through the Audit Committee (Committee) and the Head of Corporate Resources (as the S151 Officer), with an independent and objective opinion on risk management, control and governance and their effectiveness.

This Annual Report covers the internal audit work we have undertaken in respect of the 2021/22 Plan and incorporates our internal audit opinion. It forms part of the framework of assurances received by the Council. It should be used to help inform the Annual Governance Statement within the Financial Statements. Internal Audit also has an independent and objective consultancy role to help line managers improve risk management, governance, and control.

Our professional responsibilities as internal auditors are set out within UK Public Sector Internal Audit Standards (PSIAS).

Performance against the Internal Audit Plan

The Committee approved the three-year Internal Audit Plan covering the 2021/22 to 2023/24 period on 2 March 2021. The 2021/22 Plan was for 220 days, including 30 days for NFI work, 20 days for IT audits and ten days for the Head of Internal Audit role.

Mazars engagement with the Council commenced on 9 July 2021, when the Engagement Letter was signed. Before this date, the Internal Audit function was delivered by the former Internal Auditor at Crawley Borough Council. The 2021/22 Plan comprised of mostly Key Financial Audits that were typically delivered in the latter stages of the financial year by the former Internal Auditor.

As reported in our most recent Progress Report presented to the Committee in March 2022, management requested to defer the audit of Covid-19 Grant Assurance from Q4 to 2022/23 due to a key member of Council staff becoming unavailable at very short notice. Subsequent to this meeting, following discussions with the Head of Corporate Resources, the "Risk Management Awareness and Training" advisory work was also replaced with a Business Continuity Review. The replacement was to optimize Council resources as the former Head of Corporate Resources indicated that training on Risk Management was recently delivered at the Council. The Business Continuity Review is in the form of three workshops focused on the design and approach taken to develop the current Business Continuity Management System (BCMS) and Business Continuity Plan (BCP), and the alignment to the international standard for Business Continuity Management (ISO 22301:2019).

There are two engagements in progress (IT related) and two audits where the fieldwork was completed with the report being at draft stage. All other audits in the Plan were finalised.

A summary of the reports we have issued is included in Section 03 of this Report.

Appendix A2 describes the levels of assurance we have provided in assessing the control environment and effectiveness of controls, and the classification of our recommendations.



Acknowledgements

We are grateful to the Head of Corporate Resources, Council's Management Team, Business Unit Leaders, and other staff throughout the Council and the Committee for the assistance provided during the year.

Sampling methodology

As part of our auditing methodology, we use various sampling techniques to provide a robust basis for our audit opinions. Where possible, we favour conducting whole data set testing using data analytics software such as IDEA. Where this is not possible or practical, we look to conduct sampling through the use of random number generators, stratified or systematic sampling as appropriate to ensure that our findings are both representative and relevant. Sample sizes are driven by the level of assurance being provided and, where not dictated as part of the audit scope, are at the discretion of the internal auditor in conjunction with the Engagement Manager.

02 Internal Audit Opinion

Remote Working

All of our audits were completed remotely, with walkthroughs and client interviews held virtually and all evidence being requested and provided digitally. The annual internal audit opinion provided below reflects the agreed-upon audit plan. It is not limited in scope to the extent that the assurance provided by Internal Audit can only ever be reasonable, not absolute.

Our opinion

Based on our audit work, our opinion on the governance, risk management, and control framework is **Moderate** in its overall adequacy and effectiveness. Some improvements are required to enhance the adequacy and effectiveness of the governance, risk management and control framework.

While there are some areas of activity where the expected levels of control have not been fully achieved, actions have been taken or are in progress in response to internal audit recommendations made.

Impact of Covid-19 on internal audit work during the year

During 2021/22, internal audit services were delivered remotely and using tools such as screen-sharing functionalities. This was in part due to the continued impact from Covid-19.

During the year, we consulted the Council and informed the Committee about any changes to the audit plan. Whilst the Grant Assurance review on Covid-19-related grants was delayed, this deferral was not due to Covid-19 specifically.

For the remaining audits in the Plan, whilst completed, we did encounter some delays during Q4 mostly due to resources becoming unavailable at short notice due to the impact of the Omicron variant.

Reliance Placed on Third Parties

Internal audit has not relied on third parties to assess the controls operated by the Council. Our opinion solely relies on our work and the results of the controls testing we have undertaken.

Scope of Opinion

In giving our annual audit opinion, it should be noted that assurance can never be absolute. The internal audit service can provide the Council with a reasonable assurance that there are no major weaknesses in risk management, governance, and control processes.

The matters raised in this report are only those that came to our attention during our internal audit work and are not necessarily a comprehensive statement of all the existing weaknesses or the improvements that may be required. In arriving at our opinion, we have taken the following matters into account:

- The impact on the Plan as a result of Covid-19;
- The results of all internal audits undertaken as part of the Plan;
- The results of follow-up action in respect of previous internal audits;
- Whether or not any previously raised recommendations by the former Internal Auditor have not been implemented by management and the consequent risks;
- The effects of any material changes in the organisation's objectives or activities;
- Matters arising from previous reports to the Committee;
- Whether or not any limitations have been placed on the scope of internal audit;
- Whether there have been any resource constraints imposed upon us which may have impinged on our ability to meet the entire internal audit needs of the organisation; and
- What proportion of the organisation's internal audit needs has been covered.

Follow Up

Internal audit recommendations are categorised according to priority (High, Medium, and Low). Five recommendations were raised in the 2020/21 FY by the former Internal Auditor. Three of which related to Council Tax which we followed up this year. For the remaining two recommendations, we will request updates from Management to monitor the implementation status. This will also be made for recommendations raised through the 2021/22 and 2022/23 financial year. Spot checks in the service area can supplement this to confirm that the recommendation is being implemented in practice. In addition, a procedure will be in place to escalate recommendations that have not been implemented to the Head of Corporate Resources and Business Unit Leaders and finally to this Committee where necessary. At the time of drafting this report, no high-priority recommendations raised were outstanding (past their due date). Further detail of the high-priority recommendations raised in 2021/22 is included in Appendix A1 of this report..

03 Internal Audit Work Undertaken in 2021/22

The audit findings in respect of each review, our recommendations for action and the management responses are set out in our detailed reports issued to the Service.

We have carried out two advisory reviews concerning Business Continuity Plans, and an IT Audit Needs Assessment. We undertook 9 audit reviews in which an assurance rating was provided, covering several important control systems, processes, and risks and reviewing the implementation of recommendations from prior years. The results of this work are summarised below:

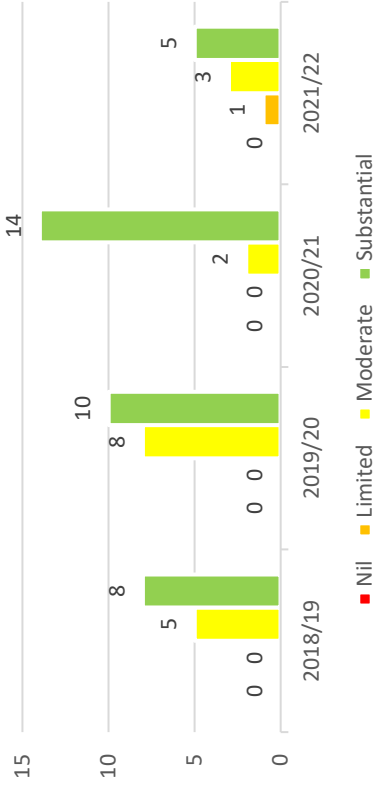
Audit Area	Assurance Level	Recommendations			Total
		High	Medium	Low	
Business Rates	Limited	1	1	1	3
Council Tax	Substantial	-	1	-	1
Budgetary Control	Substantial	-	-	1	1
Income Collection (Cashiers)	Substantial	-	-	1	1
Payroll	Draft*	-	-	-	-
Payments (Creditors)	Moderate	-	1	1	2
Capital Accounting and Asset Management	Substantial	-	-	-	-
Treasury Management	Substantial	-	-	1	1
Financial Management System (FMS)	Moderate	-	3	1	4
Sundry Debtors	Moderate	-	2	2	4
Housing Benefits and Council Tax Support	Draft*	-	-	-	-
Business Continuity Plans	N/A –Advisory	-	-	-	-
IT Audit Needs Assessment (ANA)	In Progress	-	-	-	-
Cyber Security	In Progress	-	-	-	-
Total		1	8	8	17

17 *Draft Report

04 Benchmarking

This section compares the Assurance Levels (where given) and categorisation of recommendations made at MSDC.

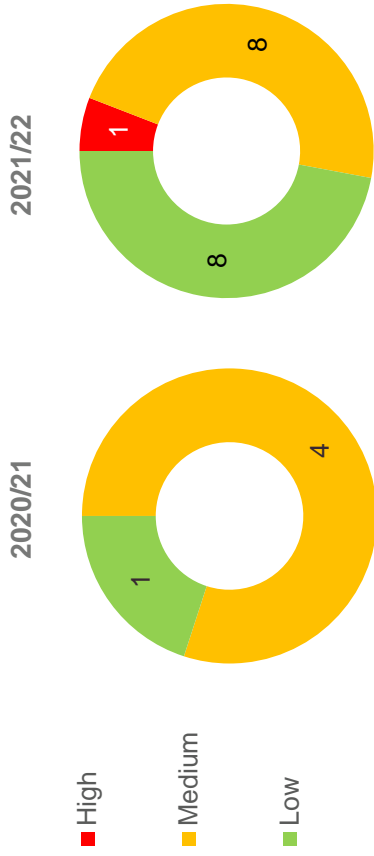
Assurance Opinions Since 2018/19



This chart shows the distribution of assurance over the past four years. The former Internal Auditor also had four levels of assurance opinions. However, with a slight change in terminology with our Moderate level equating what Satisfactory used to be.

Compared to 2020/21, based on Final Reports issued to date there was a decrease of Substantial opinions and a slight increase in Moderate opinions. We also provided a Limited Assurance Opinion related to the Business Rates audit undertaken in January 2022.

Comparison of Recommendation Gradings



During 2021/22 (and based on current Final Reports issued) to date, we have made a total of 17 new recommendations. One was High Priority, eight Medium Priority, and eight categorised as Low Priority. It should be noted that number may change with three assurance based reports due to be issued.

Compared to 2020/21, the total number of recommendations increased (five recommendations made in total during 2020/21). There were also five more assurance opinions given in 2020/21. Reasons behind the increased number of recommendations could be due to a fresh perspective/change in provider in conducting work.

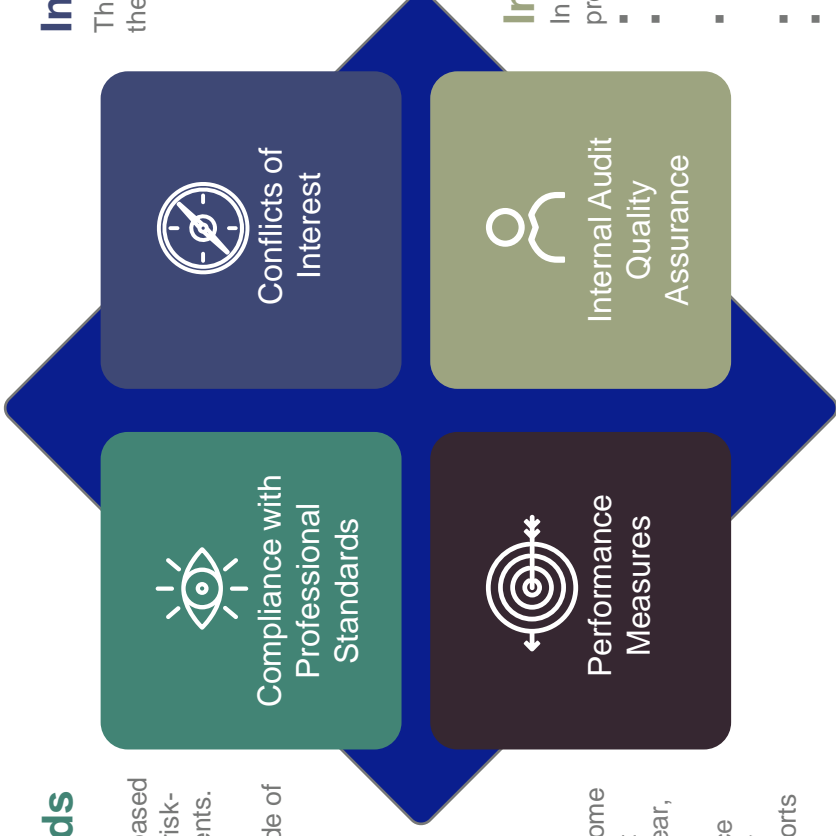
The distribution of priorities has varied. Alongside the new High Priority recommendation, there were four more Medium Priority recommendations raised and seven more Low Priority recommendations raised when compared to 2020/21 activity. The High Priority recommendation relates to the Business Rates audit and more details are provided in Appendix A1.

05 Performance of Internal Audit

We have provided some details below outlining our scorecard approach to our internal performance measures, which supports our overall annual opinion.

Compliance with Professional Standards

The 2021/22 Plan was inherited from the former Internal Audit at Crawley Borough Council. For the 2022/23, we will employ a risk-based approach to determining the audit needs of the Council and use a risk-based methodology in planning and conducting our audit assignments. Our work performed conforms to PS/IAS which includes the Core Principles for the Professional Practice of Internal Auditing and Code of Ethics.



Independence and Objectivity

There have been no impairments to independence and objectivity during the year covered by this Annual Report.

Performance Measures

Further to Section 01, there are four areas where reports are to be finalised at the time of drafting this report. We also did encounter some delays during Q4 mostly due to resources becoming unavailable at short notice due to the impact of the Omicron variant. During the year, we have consulted the Council and informed the Committee about changes to the audit plan including deferral of the Grants Assurance work. With the exception of these matters, we have completed our audit work in accordance with the agreed Plan and each of our reports issued had been shared with the service area and the Head of Corporate Resources.

Regular planned discussions on progress against the Plan have taken place with the Head of Corporate Resources and a meeting arranged with the Management Team to discuss progress and future work.

Internal Audit Quality Assurance

In order to ensure the quality of the work we perform; we have a programme of quality measures which includes:

- Supervision of staff conducting audit work;
- Review of files of working papers and reports by Managers and Partners;
- Annual appraisal of audit staff and the development of personal development and training plans;
- Sector specific training for staff involved in the sector;
- Issuance of technical guidance to inform staff and provide instruction regarding technical issues; and
- The maintenance of the firm's Internal Audit Manual.

Appendices

- A1 High Priority Recommendations
- A2 Definitions of Assurance



A1 High Priority Recommendations

Business Rates 2021/22			
Finding	Recommendation	Management Response	Timescale / Responsibility
<p>Refunds – Accounts in Credit</p> <p>There is currently no documented policy in place for treating accounts in credit where overpayments had been received (i.e., notifying taxpayers and/or write-offs.)</p> <p>We reviewed a list of credit accounts to confirm if credits had been processed back to customers appropriately (e.g., refunded or rolled over).</p> <p>Our review of the above list found 537 transactions dating from the 1995/96 FY to the 2020/21 FY. The total value of these transactions is £1,045,851, with a one-off transaction of £526,823 related to the 2019/20 FY (Account ref 68438585).</p> <p>Credits shown on accounts have not been written-off or potentially allocated to other areas that may require funding due to a lack of a Policy.</p> <p>The Head of Corporate Resources and the Business Unit Leader for Revenues and Benefits confirmed the lack of treatment/policy for these cases indicating that it is an exercise requiring increased work and resources.</p> <p>Risk: If there is no policy in place on dealing with credits, there is a risk that credit write-offs cannot be processed. This may lead to financial loss to the Council.</p>	<p>The Council should develop and document a Policy that stipulates how credit accounts should be managed, including timeframes for writing off credits and potential allocation following a transparent prioritisation and approval method.</p> <p>As a minimum, this Policy should be developed considering:</p> <ul style="list-style-type: none"> - Legal implications and advice; - Whether funds could be kept by the Council or passed to Central Government given the dates of some; - Income recognition and money laundering implications; - Prioritisation of funds to be distributed if deemed appropriate to keep; - Processes for the Revenues team, including contacting taxpayers and updating accounts in Academy. <p>Following the policy approval, the Revenues Team should conduct an exercise that identifies any 'live' accounts from the credits list and exhaust all avenues of contacting the taxpayers to arrange a refund.</p>	<p>Agreed. We are keen to work on the accounts in credit but the Revenues Team have worked on over the last 24 months not only the day job but a large number of complex additional COVID duties have stopped the team from doing this as quickly as we ourselves wanted.</p> <p>These additional duties are continuing with the £150 Energy Rebate.</p> <p>We will however on the credits try and action the accounts in credit recommendations in this financial year (subject to not continuing to get additional COVID work).</p>	<p>31 March 2023</p> <p>Business Unit Leader – Revenues and Benefits</p>

A2 Definitions of Assurance

Assurance Gradings

We use categories to classify our assurance over the processes we examine, and these are defined as follows:

Level	Description
Substantial	The framework of governance, risk management and control is adequate and effective.
Moderate	Some improvements are required to enhance the adequacy and effectiveness of the framework of governance, risk management and control.
Limited	There are significant weaknesses in the framework of governance, risk management and control such that it could be or could become inadequate and ineffective.
Unsatisfactory	There are fundamental weaknesses in the framework of governance, risk management and control such that it is inadequate and ineffective or is likely to fail.

Recommendation Gradings

To assist management in using our reports, we categorise our recommendations according to their level of priority, as follows :

Priority	Description
High	Significant weakness in governance, risk management and control that if unresolved exposes the organisation to an unacceptable level of residual risk.
Medium	Weakness in governance, risk management and control that if unresolved exposes the organisation to a high level of residual risk.
Low	Scope for improvement in governance, risk management and control.

Annual Opinion

For annual opinions we use the following classifications within our audit reports:

Opinion	Definition
Substantial	The framework of governance, risk management and control are adequate and effective.
Moderate	Some improvements are required to enhance the adequacy and effectiveness of the framework of governance, risk management and control.
Limited	There are significant weaknesses in the framework of governance, risk management and control such that it could be or could become inadequate and ineffective.
Unsatisfactory	There are fundamental weaknesses in the framework of governance, risk management and control such that it is inadequate and ineffective or is likely to fail.

Contacts

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Audit Committee - 26 July 2022

We take responsibility to MSDC for this report which is prepared on the basis of the limitations set out below.

The responsibility for designing and maintaining a sound system of internal control and the prevention and detection of fraud and other irregularities rests with management, with internal audit providing a service to management to enable them to achieve this objective. Specifically, we assess the adequacy and effectiveness of the system of internal control arrangements implemented by management and perform sample testing on those controls in the period under review with a view to providing an opinion on the extent to which risks in this area are managed.

We plan our work in order to ensure that we have a reasonable expectation of detecting significant control weaknesses. However, our procedures alone should not be relied upon to identify all strengths and weaknesses in internal controls, nor relied upon to identify any circumstances of fraud or irregularity. Even sound systems of internal control can only provide reasonable and not absolute assurance and may not be proof against collusive fraud.

The matters raised in this report are only those which came to our attention during the course of our work and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. Recommendations for improvements should be assessed by you for their full impact before they are implemented. The performance of our work is not and should not be taken as a substitute for management's responsibilities for the application of sound management practices.

This report is confidential and must not be disclosed to any third party or reproduced in whole or in part without our prior written consent. To the fullest extent permitted by law Mazars LLP accepts no responsibility and disclaims all liability to any third party who purports to use or reply for any reason whatsoever on the Report, its contents, conclusions, any extract, reinterpretation amendment and/or modification by any third party is entirely at their own risk.

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REVIEW OF TREASURY MANAGEMENT ACTIVITY 2021/22

REPORT OF: Stephen Fitzgerald, Interim Head of Corporate Resources

Contact Officer: Email: pamela.coppelman@adur-worthing.gov.uk Tel: 01903 221236

Wards Affected: All

Key Decision: No

Report to: Audit Committee 26th July 2022

Purpose of Report

1. The report sets out the Council's treasury management activity for the year ended 31st March 2022.

Summary

2. All transactions are in order and the performance of the service has been in keeping with the requirements of the Service Level Agreement (SLA) with our shared services provider, except as noted here.

Recommendations

3. The Committee is requested to note the contents of the report.
-

Background

4. The Treasury Management function of this Council has been provided by Adur and Worthing Councils as a shared service since October 2010. This has enabled the cost of the service to be reduced whilst giving access to specialist advice and the administration skills of a larger authority. The SLA was extended for a further three years from 18th October 2019.
5. The 2021-22 Treasury Management Annual Report produced by the Group Accountant (Strategic Finance) is attached as Appendix 1. Members should note that this report format and level of detail is similar to that presented to the other authorities in the shared service and whilst it may appear to contain much in the way of industry knowledge, it would reward careful reading by those with an interest.

For those Members seeking a summary, paragraph 11.2 of Appendix 1 sets out the key points:

The actual outturn performance for investment income was an overachievement of £3k against the budget. Whilst interest rates were below budget average balances were far higher than predicted due to the receipt of various grants. The shared service will continue to monitor the market carefully for the best possible interest rates. All counterparty lending limits approved at the start of the year were met except as detailed here and previously reported, and all Prudential Limits were adhered to."

6. The Group Accountant would welcome questions and queries from Members using the contact details above.

Policy Context

7. The presentation of this report fulfils the requirements under the Council's treasury management policy to produce an annual report by 31st August 2022 after the year end. Providing transparency and approval of the strategies contained in this report is an important part of the Council's statutory role. Treasury Management has become increasingly topical given the nature of the world's financial markets in recent years, and Members are expected to have a basic understanding of how the Council uses its reserves and cash flows which are in the stewardship of the Head of Corporate Resources.

Other Options Considered

8. None – this report is statutorily required by regulations issued under the Local Government Act 2003.

Financial Implications

9. This report has no quantifiable financial implications. Interest payable and interest receivable arising from treasury management operations, and annual revenue provisions for repayment of debt, form part of the revenue budget but are not required to support the provision of services.

Risk Management Implications

10. This report has no specific implications for the risk profile of the Council.

Equality and Customer Service Implications

11. None

Other Material Implications

12. None

Sustainability Implications

13. None

Background Papers

- Treasury Management Strategy Statement & Annual Investment Strategy 2021/22 to 2023/24 (Council on 31st March 2021), and Review of Treasury Management Activity 1 April – 30 September 2021.
- The CIPFA code of Practice on Treasury Management (the code).
- CIPFA Prudential code for Capital Finance in Local Authorities (the Prudential Code)
- Link Asset Services report template (April 2022)

1. SUMMARY

This report summarises the operation of the treasury management service for the financial year 2021/22. The presentation of this report fulfils the requirements under the Council's treasury management policy.

2. INTRODUCTION AND BACKGROUND

2.1 Treasury management is defined as:

“The management of the local authority's cash flows and investments, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks”

2.2 The Council is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2021/22. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).

2.3 The regulatory environment places responsibility on members for the review and scrutiny of treasury management policy and activities. This report is, therefore, important in that respect, as it provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by members.

2.4 For 2021/22 the minimum reporting requirements were that the Council should receive the following reports, which incorporate a variety of policies, estimates and actuals:

- The Annual Treasury Management Strategy Statement and Annual Investment Strategy approved by full Council in advance of the year on 31st March 2021
- The mid-year treasury management operations update report
- An annual review (this report) to be presented to the Audit Committee following the end of the year, describing the activity compared to the strategy.

2.5 The Council confirms that it has complied with the requirement under the code to give prior scrutiny to all of the above treasury management reports by the Audit Committee before they were reported to the full Council. Training was supplied to Members by Link Asset Services on the 28th September 2021

3. THE COUNCIL'S CAPITAL FINANCING AND EXPENDITURE

The Council undertakes capital expenditure on long-term assets. These activities may either be:

- Financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.), which has no resultant impact on the Council's borrowing need; or
- If insufficient financing is available, or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need.

The actual capital expenditure forms one of the required prudential indicators, because the Council must ensure that capital expenditure is affordable, approved and monitored. The table

below shows the actual capital expenditure and how this was financed.

£m	2020/21 Actual	2021/22 Strategy	2021/22 Actual
Capital expenditure	11.419	5.195	10.842
Financed in year	11.419	5.195	10.842
Unfinanced capital expenditure	0.000	0.000	0.000

4. THE COUNCIL'S OVERALL BORROWING NEED

4.1 Some of the Council's capital expenditure is funded immediately by, for example, capital grants, capital receipts from the sale of assets, or from contributions from the revenue budget (capital funded by revenue as approved by statute). Capital expenditure that is not funded by any of these means is described as "the underlying need to borrow" and is termed the Capital Financing Requirement (CFR). The Council decides whether or not to borrow these amounts externally, or alternatively to use cash that would otherwise be invested (internal borrowing). This decision is based on a number of factors, including the prevailing interest rates for borrowing compared to those for investing, the likelihood of a capital receipt in the near future or a forecast of additional capital grants.

4.2 **Gross borrowing and the CFR** - in order to ensure that borrowing levels are prudent over the medium term and only for a capital purpose, the Council should ensure that its gross external borrowing does not, except in the short term, exceed the total of the capital financing requirement in the preceding year (2021/22) plus the estimates of any additional capital financing requirement for the current (2022/23) and next two financial years. This essentially means that the Council is not borrowing to support revenue expenditure. This indicator allowed the Council some flexibility to borrow in advance of its immediate capital needs to take advantage of, say, low interest rates.

The table below highlights the Council's gross borrowing position against the CFR.

	31 March 2021 Actual	31 March 2022 Strategy	31 March 2022 Actual
CFR (£m)	7.195	26.382	6.661
External Debt	(5.298)	(0.153)	(0.153)
Finance Lease *	(2.258)	(1.970)	(1.970)
Total Borrowing	(7.556)	(2.123)	(2.123)
(Over)/under borrowing	(0.361)	24.259	4.538

The difference between the forecast CFR and the actual CFR at 31 March 2022 is due to the receipt in full of the proceeds from the sale of Hurst Farm. The forecast assumed a partial receipt in 2020/21.

*The Authority has a contract with SERCO for the provision of waste collection. The new fleet of vehicles used to provide the service is shown as Property, Plant and Equipment in the Balance

Sheet, with a vehicle life of 10 years 4 months which ends 30 July 2028. Accordingly this is recognised as a Finance Lease.

The difference between the CFR and the gross borrowing position is termed under or over borrowing. If a Council is under borrowed, it is using some of its internal cash that could otherwise be invested. It can therefore choose to borrow externally up to the CFR so as to take advantage of favourable interest rates. If a Council is over borrowed, it needs to ensure that this position is remedied over a two year period. The Council was over underborrowed by £4.538m at the 31st March 2022, and repaid £5m of debt in November 2021.

- 4.3 The authorised limit** is the “affordable borrowing limit” required by s3 of the Local Government Act 2003. Once this has been set, the Council does not have the power to borrow above this level. The table below demonstrates that during 2021/22 the Council has maintained gross borrowing within its authorised limit.

The operational boundary is the expected borrowing position of the Council during the year. Periods where the actual position is either below or over the boundary are acceptable subject to the authorised limit not being breached. The Council did not breach the operational boundary during the year.

Actual financing costs as a proportion of net revenue stream - this indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream. The costs incurred through capital expenditure are the interest payable on money borrowed and the Minimum Revenue Provision (MRP see section 9), which is a statutory annual revenue charge to reduce the indebtedness of a Council, based on the amount of unfunded capital expenditure.

Investment income is deducted from the costs and the net figure is then compared to the Council’s net revenue stream – the income received from grants and taxation as shown in the Statement of Accounts. Consequently if only the costs of the capital programme increase or the investment income decreases, the proportion of financing costs to net revenue stream will increase. If only the net revenue stream increases, then the proportion will reduce. Usually there will be a combination of both factors.

	2021/22
Authorised limit	£34.000m
Maximum gross borrowing position during the year	£7.556m
Operational boundary	£32.000m
Average gross borrowing position	£4.84m
Financing costs as a proportion of net revenue stream	0.76%

5. THE COUNCIL'S TREASURY POSITION AT 31 MARCH 2022

5.1 The Council's treasury position at the beginning and end of the year was as follows:-

	Principal at 31.03.21 £m	Average Interest Rate	Average Life in Years	Principal at 31.03.22 £m	Average Interest Rate	Average Life in Years
<u>Borrowing</u>						
PWLB	(0.298)	4.55%	1.92	(0.153)	4.55%	0.92
Other Borrowing	(5.000)	1.3%	0.64	0	0	0
Finance lease	(2.258)			(1.970)		
TOTAL BORROWING	(7.556)			(2.123)		
CFR	7.195			6.661		
(Over)/under borrowing	(0.361)			(4.54)		
<u>Investments:</u>						
Local Authority Property Fund	5.689	4.14%	n/a	6.687	3.98%	n/a
In-house:						
Long Term	0.025	n/a	n/a	6.025	0.38%	107
Short Term	57.010	0.26%	< 1 year	63.604	0.23%	< 1 year
TOTAL INVESTMENTS	62.724			76.316		
NET INVESTMENTS	55.168			74.193		

5.2 The maturity structure of debt table that follows demonstrates that procedures are in place to prevent the maturity of too much debt in a single period, when only high interest rates may be available for refinancing the debt, if required.

	31 March 21 actual	2022/23 original limits	31 March 2022 actual
Under 12 months	5.458	80%	0.447
12 months and within 24 months	0.447	70%	0.300
2 year to 5 years	0.920	80%	0.939
Over 5 Years	0.756	80%	0.436

5.3 Investments held at 31 March 2022 (excluding the Local Authority Property Fund):

Counterparty	Issue Date	Maturity Date	Principal	Current Interest Rate	Long Term Rating
CAMBRIDGE BUILDING SOCIETY	09/07/2021	05/07/2023	£1,000,000.00	0.4000	*
CAMBRIDGE BUILDING SOCIETY	05/07/2021	05/07/2023	£2,000,000.00	0.4000	*
CCLA Investment Management Limited	06/02/2020	n/a	£3,000,000.00	0.5785	AAA
CLOSE BROTHERS LIMITED	07/09/2021	05/09/2022	£2,000,000.00	0.4500	A-
CLOSE BROTHERS LIMITED	30/03/2022	30/03/2023	£2,000,000.00	1.5000	A-
Coventry Building Society	10/08/2021	10/08/2022	£1,000,000.00	0.0800	A-
Coventry Building Society	18/08/2021	18/08/2022	£1,000,000.00	0.0800	A-
Coventry Building Society	01/10/2021	30/09/2022	£1,000,000.00	0.1300	A-
Coventry Building Society	31/03/2022	31/03/2023	£1,000,000.00	1.4000	A-
GOLDMAN SACHS FUNDS plc	29/10/2021	n/a	£595,000.00	0.4821	AAA
Goldman Sachs International Bank	30/09/2021	30/09/2022	£1,000,000.00	0.3750	A+
Goldman Sachs International Bank	24/02/2022	24/02/2023	£3,000,000.00	1.4300	A+
HANDELSBANKEN	15/06/2018	n/a	£5,000.00	0.0150	AA-
LEEDS BUILDING SOCIETY	07/04/2021	05/04/2022	£3,000,000.00	0.1500	A-
Lloyds Call Account	10/05/2021	n/a	£10,000.00	0.0100	A+
Lloyds TSB Plc 95 day Notice	22/07/2020	n/a	£10,000.00	0.0500	A+
MONMOUTHSHIRE BUILDING SOCIETY	02/08/2021	07/08/2023	£3,000,000.00	0.3500	*
NATIONAL COUNTIES B SOC	05/05/2021	05/05/2022	£1,000,000.00	0.3300	*
NATIONAL COUNTIES B SOC	22/03/2022	22/03/2023	£2,000,000.00	1.2700	*
National Westminster Bank	29/06/2021	29/06/2022	£3,000,000.00	0.1700	A
National Westminster Bank	30/06/2021	30/06/2022	£1,000,000.00	0.1600	A
National Westminster Bank	27/01/2022	27/02/2023	£1,000,000.00	0.9300	A
NATIONWIDE BLDG SOCIETY	30/06/2021	30/06/2022	£1,000,000.00	0.0800	A
NATIONWIDE BLDG SOCIETY	07/02/2022	08/08/2022	£3,000,000.00	0.6100	A
Newcastle Building Soc.	08/04/2021	05/04/2022	£3,000,000.00	0.1700	*
Principality Building Soc	30/04/2021	05/05/2022	£2,000,000.00	0.1500	BBB
Principality Building Soc	26/05/2021	06/06/2022	£1,000,000.00	0.1600	BBB
Progressive Building Society	05/07/2021	05/07/2022	£1,000,000.00	0.2000	*
Progressive Building Society	31/03/2022	31/03/2023	£2,000,000.00	1.3000	*
SAFFRON BUILDING SOCIETY	07/03/2022	06/03/2023	£3,000,000.00	1.0500	*
Santander 95 day notice account	10/11/2020	n/a	£5,016,355.11	0.5000	A
STANDARD CHARTERED BANK	31/03/2022	31/03/2023	£3,000,000.00	1.9400	A+
THURROCK BOROUGH COUNCIL	26/05/2021	25/05/2022	£3,000,000.00	0.1600	AA-

U K DEBT MANAGEMENT	10/02/2022	10/08/2022	£3,500,000.00	0.6700	AA-
U K DEBT MANAGEMENT	30/03/2022	14/04/2022	£4,500,000.00	0.5500	AA-
WARRINGTON BOROUGH COUNCIL	10/06/2021	09/06/2022	£3,000,000.00	0.1000	AA-
West Bromwich Building So	05/07/2021	05/07/2022	£2,000,000.00	0.1500	BB-
West Bromwich Building So	01/07/2021	05/07/2022	£1,000,000.00	0.1600	BB-
Yorkshire Building Society	27/07/2021	26/07/2022	£3,000,000.00	0.1000	A-
Yorkshire Building Society	02/03/2022	06/03/2023	£1,000,000.00	1.0900	A-
TOTAL			£77,636,355.11		

* - Not on credit list

All investments listed are due to mature within 12 months.

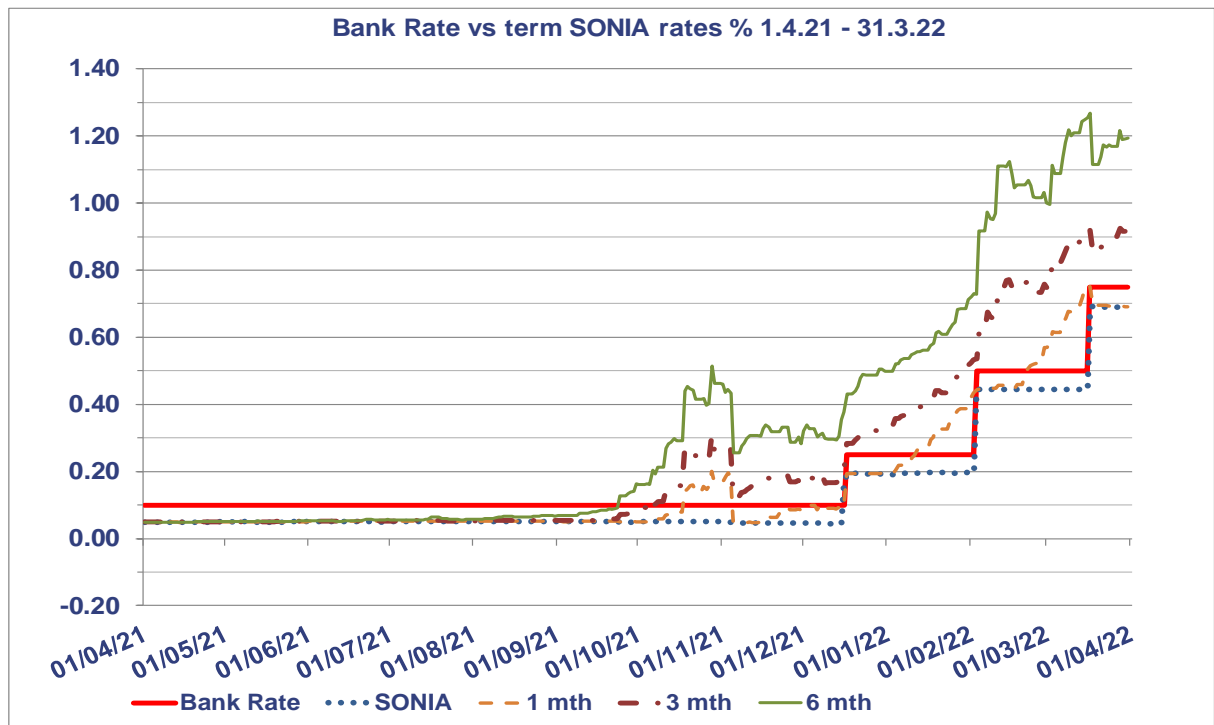
Local Authority Property Fund – the Council has also invested £6m with the Local Authorities’ Property Fund.

6. THE STRATEGY FOR 2021/22

Some of the information and tables in the following paragraphs are supplied by the Council’s treasury advisors, Link Asset Services and consist of detailed economic and market information which informed the Council’s treasury management decisions throughout the year.

6.1 Investment strategy and control of interest rate risk

SONIA: the Sterling Overnight Index Average, a replacement set of indices (for LIBID)



Investment returns remained close to zero for much of 2021/22. Most local authority lending managed to avoid negative rates and one feature of the year was the continued

growth of inter local authority lending. The expectation for interest rates within the treasury management strategy for 2021/22 was that Bank Rate would remain at 0.1% until it was clear to the Bank of England that the emergency level of rates introduced at the start of the Covid-19 pandemic were no longer necessitated.

The Bank of England and the Government also maintained various monetary and fiscal measures, supplying the banking system and the economy with massive amounts of cheap credit so that banks could help cash-starved businesses to survive the various lockdowns/negative impact on their cashflow. The Government also supplied huge amounts of finance to local authorities to pass on to businesses. This meant that for most of the year there was much more liquidity in financial markets than there was demand to borrow, with the consequent effect that investment earnings rates remained low until towards the turn of the year when inflation concerns indicated central banks, not just the Bank of England, would need to lift interest rates to combat the second-round effects of growing levels of inflation (CPI was 6.2% in February).

While the Council has taken a cautious approach to investing, it is also fully appreciative of changes to regulatory requirements for financial institutions in terms of additional capital and liquidity that came about in the aftermath of the financial crisis. These requirements have provided a far stronger basis for financial institutions, with annual stress tests by regulators evidencing how institutions are now far more able to cope with extreme stressed market and economic conditions.

Investment balances have been kept to a minimum through the agreed strategy of using reserves and balances to support internal borrowing, rather than borrowing externally from the financial markets. External borrowing would have incurred an additional cost, due to the differential between borrowing and investment rates as illustrated in the charts shown above and below. Such an approach has also provided benefits in terms of reducing counterparty risk exposure, by having fewer investments placed in the financial markets.

6.2 **Borrowing strategy and control of interest rate risk**

The Council has maintained an under-borrowed position in 2021/22. This meant that the capital borrowing requirements (the Capital Financing Requirement), was not fully funded with loan debt, as cash supporting the Council's reserves, balances and cash flow was used as an interim measure. This strategy was prudent as investment returns were low in relation to the cost of borrowing and minimising counterparty risk on placing investments also needed to be considered. All capital expenditure in 2021/22 was funded through grants or other contributions, so no new borrowing was required.

Against this background and the risks within the economic forecast, caution was adopted with the treasury operations. The Head of Corporate Resources therefore monitored interest rates in financial markets and adopted a pragmatic strategy based upon the following principles to manage interest rate risks

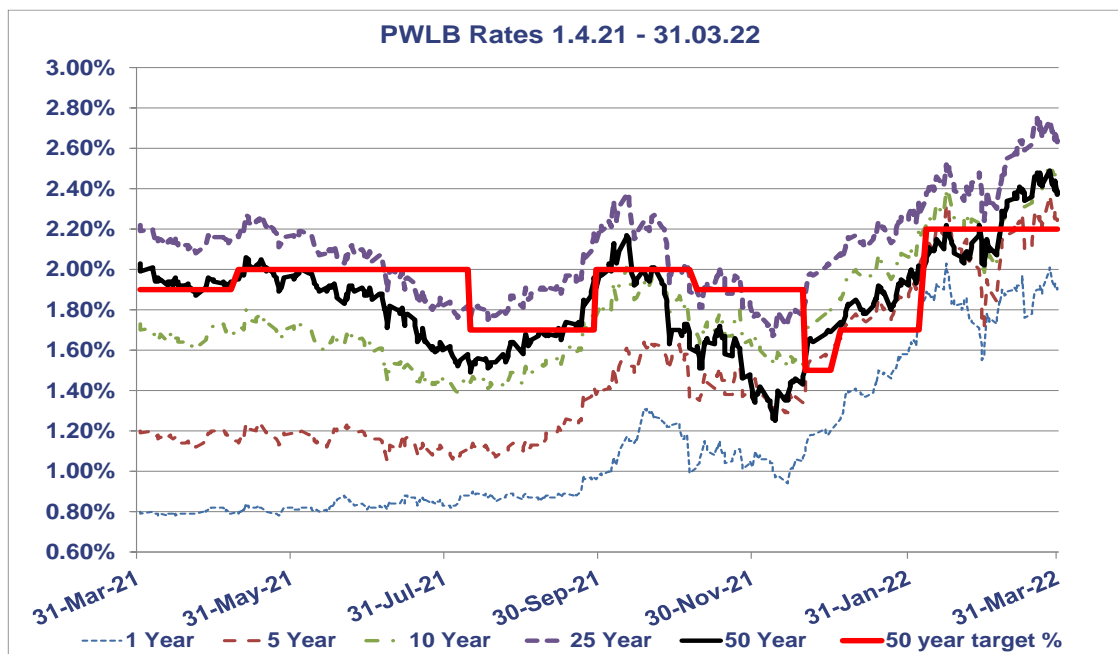
- if it had been felt that there was a significant risk of a sharp FALL in long and short term rates, (e.g. due to a marked increase of risks around relapse into recession or of risks of deflation), then any necessary long term borrowings would have been postponed, and potential rescheduling from fixed rate funding into short term borrowing would have been considered.

- if it had been felt that there was a significant risk of a much sharper RISE in long and short term rates than initially expected, perhaps arising from an acceleration in the start date and in the rate of increase in central rates in the USA and UK, an increase in world economic activity or a sudden increase in inflation risks, then the portfolio position would have been re-appraised. Most likely, fixed rate funding, if required, would have been drawn whilst interest rates were lower than they were projected to be in the next few years.

6.3 Interest rate forecasts expected only gradual rises in medium and longer-term fixed borrowing rates during 2021/22 and the two subsequent financial years until the turn of the year, when inflation concerns increased significantly. Internal, variable, or short-term rates, were expected to be the cheaper form of borrowing until well in to the second half of 2021/22.

Link Group Interest Rate View		8.2.21											
	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
BANK RATE	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
3 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
6 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
12 month ave earnings	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20
5 yr PWLB	0.90	0.90	0.90	0.90	1.00	1.00	1.10	1.10	1.10	1.20	1.20	1.20	1.20
10 yr PWLB	1.30	1.30	1.30	1.30	1.40	1.40	1.50	1.50	1.50	1.60	1.60	1.60	1.60
25 yr PWLB	1.90	1.90	1.90	1.90	2.00	2.00	2.10	2.10	2.10	2.20	2.20	2.20	2.20
50 yr PWLB	1.70	1.70	1.70	1.70	1.80	1.80	1.90	1.90	1.90	2.00	2.00	2.00	2.00

PWLB rates are based on gilt (UK Government bonds) yields through H.M.Treasury determining a specified margin to add to gilt yields. The main influences on gilt yields are Bank Rate, inflation expectations and movements in US treasury yields. Inflation targeting by the major central banks has been successful over the last 30 years in lowering inflation and the real equilibrium rate for central rates has fallen considerably due to the high level of borrowing by consumers: this means that central banks do not need to raise rates as much now to have a major impact on consumer spending, inflation, etc. This has pulled down the overall level of interest rates and bond yields in financial markets over the last 30 years. We have seen, over the last two years, many bond yields up to 10 years in the Eurozone turn negative on expectations that the EU would struggle to get growth rates and inflation up from low levels. In addition, there has, at times, been an inversion of bond yields in the US whereby 10 year yields have fallen below shorter term yields. In the past, this has been a precursor of a recession. Recently, yields have risen since the turn of the year on the back of global inflation concerns.



Gilt yields fell sharply from the spring of 2021 through to September and then spiked back up before falling again through December. However, by January sentiment had well and truly changed, as markets became focussed on the embedded nature of inflation, spurred on by a broader opening of economies post the pandemic, and rising commodity and food prices resulting from the Russian invasion of Ukraine.

At the close of the day on 31 March 2022, all gilt yields from 1 to 5 years were between 1.11% – 1.45% while the 10-year and 25-year yields were at 1.63% and 1.84%.

Regarding PWLB borrowing rates, the various margins attributed to their pricing are as follows: -

- **PWLB Standard Rate** is gilt plus 100 basis points (G+100bps)
- **PWLB Certainty Rate** is gilt plus 80 basis points (G+80bps)
- **PWLB HRA Standard Rate** is gilt plus 100 basis points (G+100bps)
- **PWLB HRA Certainty Rate** is gilt plus 80bps (G+80bps)
- **Local Infrastructure Rate** is gilt plus 60bps (G+60bps)

There is likely to be a further rise in short dated gilt yields and PWLB rates over the next three years as Bank Rate is forecast to rise from 0.75% in March 2022 to 1.25% later this year, with upside risk likely if the economy proves resilient in the light of the cost-of-living squeeze. Medium to long dated yields are driven primarily by inflation concerns but the Bank of England is also embarking on a process of Quantitative Tightening when Bank Rate hits 1%, whereby the Bank's £895bn stock of gilt and corporate bonds will be sold back into the market over several years. The impact this policy will have on the market pricing of gilts, while issuance is markedly increasing, is an unknown at the time of writing.

7 BORROWING OUTTURN for 2021/22

- 7.1 The Council has not borrowed more than, or in advance of its needs, purely in order to profit from the investment of the extra sums borrowed.
- 7.2 No rescheduling was done during the year as the average 1% differential between PWLB new borrowing rates and premature repayment rates made rescheduling unviable.
- 7.3 The Council's debt at 31 March 2022 comprises one loan from the Public Works Loan Board (PWLB), which matures on 1 March 2023.

8 INVESTMENT OUTTURN FOR 2021/22

- 8.1 **Investment Policy** – the Council's investment policy is governed by DLUHC investment guidance, which has been implemented in the annual investment strategy approved by the Council on 31st March 2021. This policy sets out the approach for choosing investment counterparties, and is based on credit ratings provided by the three main credit rating agencies, supplemented by additional market data, (such as rating outlooks, credit default swaps, bank share prices etc.).

The investment activity during the year conformed to the approved strategy, and the Council had no liquidity difficulties.

- 8.2 **Local Authorities' Property Fund** – the Council has invested £6m with the Local Authorities' Property Fund and earned £221k in dividend income in 2021/22.

8.3 Investments held by the Council (excluding the Local Authorities' Property Fund)

- The Council maintained an average balance of £80.404m of internally managed funds.
- The internally managed funds earned an average rate of return of 0.23%
- The comparable performance indicator for 12 month investments was 0.14% (rate supplied by Link Asset Services).
- This compares with a budget assumption of £42.958m investment balance earning an average rate of 0.4%.
- Total investment income was £175k compared to a budget of £172k.

- 8.4 **Resources** – the Council's cash balances comprise revenue and capital resources and cash flow monies. The Council's core cash resources comprised as follows:

Balance Sheet Resources	31 March 2021 £'000s	31 March 2022 £'000s
Balances	7.811	9.835
Earmarked Reserves	23.816	22.333
Provisions	3.401	3.419

Balance Sheet Resources	31 March 2021 £'000s	31 March 2022 £'000s
Usable Capital Receipts	5.641	5.731
Capital Grants Unapplied	5.635	5.185
Amount available for investment	46.304	46.503

9. MINIMUM REVENUE PROVISIONS (MRP) FOR REPAYMENT OF DEBT

- 9.1 The Council, in accordance with legislation, makes a provision from revenue to enable the repayment of borrowing that has been undertaken to fund the capital programme. This provision is known as the Minimum Revenue Provision (MRP) and is charged to the General Fund Revenue Account each year. MRP is set aside each year at an amount equivalent to the value of debt repaid in the year.
- 9.2 For 2021/22 an amount of £534k has been set aside in the annual accounts as the MRP for repayment of debt.

10. OTHER ISSUES AND MATTERS

Shared Services Arrangements

- 10.1 The Council's treasury management services are provided under a shared services arrangement (SSA) performed by the in-house treasury management team formed out of partnership working between Adur District Council and Worthing Borough Council. The treasury management team is based at Worthing Town Hall, but services all three Councils' treasury management operations from this location utilising similar banking arrangements. The SSA is provided under a Service Level Agreement that was renewed from 18th October 2019, and which defines the respective roles of the client and provider authorities for a period of three years.

10.2 Statutory override

Following the consultation undertaken by the Ministry of Housing, Communities and Local Government, [MHCLG], on IFRS9 the Government has introduced a mandatory statutory override for local authorities to reverse out all unrealised fair value movements resulting from pooled investment funds. This will be effective from 1 April 2018. The statutory override applies for five years from this date. Local authorities are required to disclose the net impact of the unrealised fair value movements in a separate unusable reserve throughout the duration of the override in order for the Government to keep the override under review and to maintain a form of transparency.

10.3 Covid-19

The Council recorded investment income just above the budget, mainly due to Covid grants due to be repaid to the Government, but not yet reclaimed pending central reconciliations. This resulted in higher than forecast investment balances. Investment rates achievable in the market during the year also began to rise following the increases in Bank Base Rate, although it was necessary to keep the funds awaiting repayment in short term and call investments, with resulting lower rates of return. The Covid-19 virus has not affected the fixed term deposits already held by the Council. However the rates on money market funds and new fixed term deposits have been low and on only started to rise in the later part of the year.

The Council does not invest in stocks and shares so is not exposed to those market fluctuations.

11. CONCLUSION

- 11.1 This report fulfils the requirements of the CIPFA Codes as well as the Council's own treasury management practices to present an annual outturn report on treasury management activity.
- 11.2 The actual outturn performance for investment income was an overachievement of £3k against the budget. Whilst interest rates were below budget average balances were far higher than predicted due to the receipt of various grants. The shared service will continue to monitor the market carefully for the best possible interest rates.

EXTERNAL AUDIT PLAN

REPORT OF: Interim Head of Corporate Resources
Contact Officer: Steven Fitzgerald, Interim Head of Corporate Resources
Email: stephen.fitzgerald@midsussex.gov.uk Tel: 01444 477244
Wards Affected: All
Key Decision No
Report Audit Committee
to 26 July 2022

1. Purpose of Report

To inform the Committee of the External Auditor's plan to cover the 2021/22 audit of the financial statements.

2. Recommendations

The Audit Committee is recommended to note the 2021/22 Annual Audit Plan

3 Background

3.1 Attached at Annex 1 is the Annual Audit Plan for EY's audit of the Council's financial statements for the year 2021/22. This document provides an overview of their plans and fee as well as the initial considerations of the risk areas that will receive attention as part of the audit.

3.2 At the meeting, the Audit Director will be able to elucidate on any points raised by Members.

4 Financial implications

There are no financial implications arising from this report. .

5 Equalities and customer service implications

The report raises no implications of this nature.

6 Risk Management Implications

No material risks arise from this report

7 Other Material Implications

None.

8 Sustainability Implications

None

Background Papers

None

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Mid Sussex District Council

Outline Audit Plan

Year ended 31 March 2022

July 2022



Building a better
working world



Members of the Audit Committee
Mid Sussex District Council
Oaklands Road
Haywards Heath
West Sussex
RH16 1SS

8 July 2022

Dear Audit Committee Members

Outline Audit Plan

We are pleased to attach our Outline Audit Plan.

Its purpose is to provide the Audit Committee with an overview of our plans and fee for the 2021/22 audit. Due to the timing of our audit for the year, we have not yet completed our detailed planning procedures. We will provide a more detailed and comprehensive audit plan for the Committee following completion of our planning procedures, or circulate the plan separately if Members prefer. This report sets out the areas which we consider will be a focus for our 2021/22 plan.

Our audit is undertaken in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2020 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements.

This report is intended solely for the information and use of the Audit & Governance Committee and management, and is not intended to be and should not be used by anyone other than these specified parties.

We welcome the opportunity to discuss this report with you on 26th July 2022 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Kevin Suter

For and on behalf of Ernst & Young LLP

Enc

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01 2021/22 Audit



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03 Fee



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

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

This report is made solely to the Audit Committee and management of Mid Sussex District Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit Committee, and management of Mid Sussex 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 Committee and management of Mid Sussex 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.



01 2021/22 Audit

Planning for 2021/22

We are currently organising our initial planning for the 2021/22 audit. This will incorporate learning from the 2020/21 audit, when completed.

For 2021/22, the timetable as amended in the Department for Levelling Up, Housing and Communities paper titled "Measures to improve local audit delays" published in December 2021 extends the publication date for audited local authority accounts from 31 July to 30 November 2022.

Due to the ongoing impact of later deadlines and completion of audits from 2020/21, we have yet to start our planning for the 2021/22 audit. We set out in this report our initial considerations of the risks for the audit - these are broadly similar to those identified in 2020/21. We will update these risks as our planning progresses.

Our 2021/22 audit is now scheduled to start on 14 November 2022, and planned to be completed in February 2023.

Wider public sector audit context

Recognising the increasing pressure on all auditors in the current climate the Department for Levelling Up, Housing and Communities (DLUHC) and CIPFA/LASAAC have both published papers relating to audit firms and timely completion of audits.

Department of Levelling Up, Housing & Communities (DLUHC)

The DLUHC paper published in December 2021 recognises that challenges remain around the timeliness of local audit, which was one of the key issues highlighted in the Redmond review. As the National Audit Office (NAO) outlined in its 2020 report Timeliness of local auditor reporting on local government in England, a variety of complex factors are contributing to audit delays. These include:

- Audit firms are struggling with a net loss of qualified staff, with many qualified accountants choosing to leave the audit sector entirely.
- Increasing workload and regulatory pressure on auditors. The NAO found that the additional requirements of new International Financial Reporting Standards (IFRS), along with increased expectations from the Financial Reporting Council (FRC) following high-profile corporate failures such as Carillion and Patisserie Valerie, had combined to produce a significant increase in audit work.

In addition to the challenges faced by auditors, in the face of competing workload pressures, some local authorities have diverted staff resources away from completing working papers and preparing accounts, while the quality of processes within the finance functions of some local authorities has affected their preparedness for audit. These issues, have been exacerbated by the impact of the COVID-19 pandemic.

Considering the complexity of the drivers behind audit delays, it is clear that a whole system response is needed, with local bodies, audit firms, regulatory bodies and code-setters working collectively to implement solutions across the sector. The paper therefore sets out a series of additional measures committed to by government and other key stakeholders to support improved timeliness and the wider local audit market. These commitments are set out in Appendix A.

CIPFA/LASAAC

Following an exceptional consultation by CIPFA/LASAAC on time limited changes to the 2021/22 and the 2022/23 Code of Practice on Local Authority Accounting in the United Kingdom, a decision has been made to defer the implementation of IFRS 16 until 1 April 2024 (and therefore in the 2024/25 Code). However, both the 2022/23 and the 2023/24 Codes will allow for adoption as of 1 April 2022 or 2023.

A consultation is also taking place on accounting for Infrastructure Assets, but this is not expected to significantly impact Mid Sussex District Council.

Materiality

Our application of materiality

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

We set our planning materiality for the Council at £1.6m, which is based on 2% of gross revenue expenditure reported in the 2020/21 accounts. We consider gross revenue expenditure to be one of the principal considerations for stakeholders in assessing the financial performance of the Council.

We will report to the Committee all audit differences in excess of £0.081m.

These figures will be updated upon receipt of the draft 2021/22 financial statements.

Overview of our 2021/22 audit strategy

The following 'dashboard' summarises the significant accounting and auditing matters. It seeks to provide the Audit Committee with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year.

Audit risks and areas of focus

Risk / area of focus	Risk identified	Change from PY	Details
Misstatements due to fraud or error	Fraud risk	No change in risk or focus	As identified in ISA 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 would otherwise appear to be operating effectively. In addition to our overall response, we consider where these risks may manifest themselves and identify separate fraud risks as necessary below.
Risk of fraud in revenue recognition - inappropriate capitalisation of revenue expenditure	Fraud risk	No change in risk or focus	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. Our judgement is the significant risk at the Council relates to the improper capitalisation of revenue expenditure.
Valuation of investment property	Significant risk	No change in risk or focus	Investment Properties (IP) 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 year-end IP balances held in the balance sheet. The risk is heightened for traditional retail assets due to market difficulties, partly arising from the advent of Covid-19 (C-19), such as reduced consumer confidence and competition from internet based retailers with lower cost bases. Errors have been identified in the valuations for the past two years.
Valuation of Land and Buildings	Inherent risk	No change in risk or focus	Property, Plant and Equipment Land and Buildings (L&B) represent significant balances in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgements and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.



Overview of our 2021/22 audit strategy

The following 'dashboard' summarises the significant accounting and auditing matters. It seeks to provide the Audit Committee with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year.

Audit risks and areas of focus

Risk / area of focus	Risk identified	Change from PY	Details
Pension Liability Valuation	Inherent risk	No change in risk or focus.	<p>The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by West Sussex County Council.</p> <p>The Council's pension fund asset is a material estimated balance and the Code requires that this asset 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 County Council.</p> <p>Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.</p>

2020/21 issues no longer assessed as risks for 2021/22.

The following items appeared in our 2020/21 audit plan, and are no longer assessed as risks for our 2021/22 audit:

- Risk of fraud in revenue recognition - sales, fees and charges income grant - we do not expect this to be material for 2021/22
- Accounting for Covid business grants - This was assessed to be an inherent risk in the prior year due to the first year of accounting for the Covid-19 related grants. Following our completion of testing in 2020/21, where we were satisfied with the recording of Covid-19 related grants in the accounts, we consider the risk of material misstatement in this area to be sufficiently reduced.
- Going Concern Disclosures: Compliance with ISA 570 - we consider this to be an embedded process, and on the evidence of the previous years where there is no identified material uncertainty, there is no level of risk to flag to your attention.



Value for Money

02



Value for money

Council responsibilities for value for money

The Council is required to maintain an effective system of internal control that supports the achievement of their policies, aims and objectives while safeguarding and securing value for money from the public funds and other resources at its disposal.

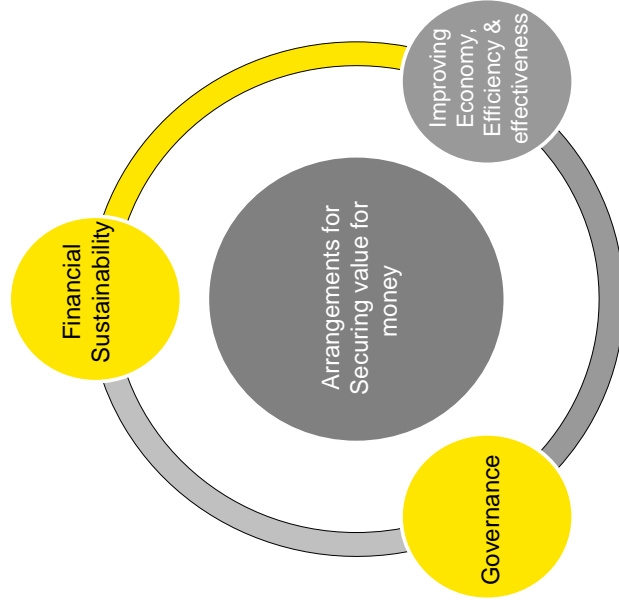
As part of the material published with its financial statements, the Council is required to bring together commentary on its governance framework and how this has operated during the period in an annual governance statement. In preparing its annual governance statement, the Council fulfils the content to reflect its own individual circumstances, consistent with the requirements of the relevant accounting and reporting framework and having regard to any guidance issued in support of that framework. This includes a requirement to provide commentary on its arrangements for securing value for money from their use of resources.

Auditor responsibilities under the Code

Under the 2020 Code we are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. The Code requires the auditor to design their work to provide them with sufficient assurance to enable them to report to the Council a commentary against specified reporting criteria (see below) on the arrangements the Council has in place to secure value for money through economic, efficient and effective use of its resources for the relevant period.

The specified reporting criteria are:

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





Value for money risks

Planning and Identifying VFM risks

The NAO's guidance notes require us to carry out a risk assessment which gathers sufficient evidence to enable us to document our evaluation of the Council's arrangements, in order to enable us to draft a commentary under the three reporting criteria. This includes identifying and reporting on any significant weaknesses in those arrangements and making appropriate recommendations.

In considering the Council's arrangements, we are required to consider:

- The Council's Annual Governance Statement
- Evidence that the Council's arrangements were in place during the reporting period;
- Evidence obtained from our work on the accounts;
- The work of inspectorates (such as Ofsted and CQC) and other bodies; and
- Any other evidence source that we regard as necessary to facilitate the performance of our statutory duties.

We then consider whether there is evidence to suggest that there are significant weaknesses in arrangements. The NAO's guidance is clear that the assessment of what constitutes a significant weakness and the amount of additional audit work required to adequately respond to the risk of a significant weakness in arrangements is a matter of professional judgement. However, the NAO states that a weakness may be said to be significant if it:

- Exposes - or could reasonably be expected to expose - the Council to significant financial loss or risk;
- Leads to - or could reasonably be expected to lead to - significant impact on the quality or effectiveness of service or on the Council's reputation;
- Leads to - or could reasonably be expected to lead to - unlawful actions; or
- Identifies a failure to take action to address a previously identified significant weakness, such as failure to implement or achieve planned progress on action/improvement plans.

We should also be informed by a consideration of:

- The magnitude of the issue in relation to the size of the Council;
- Financial consequences in comparison to, for example, levels of income or expenditure, levels of reserves (where applicable), or impact on budgets or cashflow forecasts;
- The impact of the weakness on the Council's reported performance;
- Whether the issue has been identified by the Council's own internal arrangements and what corrective action has been taken or planned;
- Whether any legal judgements have been made including judicial review;
- Whether there has been any intervention by a regulator or Secretary of State;
- Whether the weakness could be considered significant when assessed against the nature, visibility or sensitivity of the issue;
- The impact on delivery of services to local taxpayers; and
- The length of time the Council has had to respond to the issue.



Value for money risks

Responding to identified risks

Where our planning work has identified a risk of significant weakness, the NAO's guidance requires us to consider what additional evidence is needed to determine whether there is a significant weakness in arrangements and undertake additional procedures as necessary, including where appropriate, challenge of management's assumptions. We are required to report our planned procedures to the Audit Committee.

Reporting on VFM

In addition to the commentary on arrangements, where we are not satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources we are required to refer to this by exception in the audit report on the financial statements.

We are also required to include the commentary on arrangements in our Auditor's Annual Report. The 2020 Code states that the commentary should be clear, readily understandable and highlight any issues we wish to draw to the Council's attention or the wider public. This should include details of any recommendations arising from the audit and follow-up of recommendations issued previously, along with our view as to whether they have been implemented satisfactorily.

Where we have sufficient evidence to determine that there is a significant weakness on VFM related arrangements we are able to report that weakness, and an associated recommendation for improvement, at that time and not wait until we issue our Audit Results Report on the audit of the statement of accounts.

Status of our work

We have not yet started our value for money procedures for 2021/22. A full update following completion of our planning work will be included within our detailed audit plan. Based on our work in the previous year, and our current understanding of the circumstances of the Council, we have not currently identified any issues that indicate a significant risk.



Fees

03

Fees

Fees

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for the Department for Levelling Up, Housing and Communities.

This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the requirements of the Code of Audit Practice and supporting guidance published by the National Audit Office, the financial reporting requirements set out in the Code of Practice on Local Authority Accounting published by CIPFA/LASAAC, and the professional standards applicable to auditors' work.

	Planned fee 2021/22	Planned fee 2020/21
	£	£
PSAA Scale Fee	38,917	38,917
Total agreed fees:	38,917	38,917
Scale fee rebasing (Note 1)	31,642	25,314
Scale Fee Variation (Note 2)	TBC	TBC
Total proposed audit fees	70,559	64,231

The table sets out our current expected fees for 2021/22, and the comparator for the 2020/21 plan.

We are unable to present the final 2020/21 fee as the audit is not complete, due to the objection to the accounts..

- (1) In order to meet regulatory and compliance audit requirements not present in the market at the time of our most recent bid to PSAA, we assessed that the recurrent cost of additional requirements to carry out our audit should increase. More information was set out in our 2019/20 annual audit letter. The value has increased by 25% since our planning report for the 2020/21 audit as the PSAA fee variation rates have increased by 25%.
- (2) Any SFV for matters specific to 2021/22 will be discussed with officers as they arise from the detailed planning and execution of our audit.

All fees exclude VAT

The agreed fee presented is based on the following assumptions:

- ▶ Officers meeting the agreed timetable of deliverables;
- ▶ Our accounts opinion and value for money conclusion being unqualified;
- ▶ Appropriate quality of documentation is provided by the Authority; and
- ▶ The Authority has an effective control environment.

If any of the above assumptions prove to be unfounded, we will seek a variation to the agreed fee. This will be discussed with the Authority in advance.

Fees for the auditor's consideration of correspondence from the public and formal objections will be charged in addition to the scale fee.



04 Appendices

Department for Levelling Up, Housing and Communities - Measures to improve local audit delays

The following commitments are made within the Department for Levelling Up, Housing and Communities paper titled- Measures to improve local audit delays:

1. FRC to publish updated Key Audit Partner (KAP) guidance by spring 2022, including new routes for an experienced Registered Individual to become a KAP;
2. Work with CIPFA to further develop the proposal for a new local audit training diploma in local government financial reporting and management aimed at different levels of auditor, and a new technical advisory service that could provide support to firms, and in particular new entrants;
3. DLUHC to provide further funding of £45 million over the course of next Spending Review period to support local bodies with the costs of strengthening their financial reporting, new burdens related to appointment of independent members and other Redmond recommendations and increased auditing requirements;
4. CIPFA to publish strengthened guidance on audit committees by April 2022. The guidance will emphasise the role that audit committees should have in ensuring accounts are prepared to a high standard, alongside broader changes including appointment of independent members. Following consultation, consider making the guidance, committees and the independent member statutory;
5. DLUHC to provide via the Local Government Association sector grant for a number of targeted training events for audit committee chairs;
6. NAO rolling over of amendments to 20/21 AGN 03 and 07 to allow for altering the timing of elements on the VfM arrangements work and enable more focus on fully delivering opinions on the financial statements;
7. CIPFA/LASAAC is undertaking a project to improve the presentation of local authority accounts to inform the development of the 22/23 Accounting Code and comply with IFRS and statutory accounting principles HMT to undertake thematic review of financial reporting valuations for non-investment properties to inform development of the Accounting Code from 22/23 onwards;
8. The government has asked CIPFA/LASAAC to consider the merits of a time-limited change to the Accounting Code for 21/22;
9. Delaying implementation of standardised statements and associated audit requirements;
10. PSAA to progress their proposed procurement strategy for the next round of local audit contracts from 2023/24;
11. Extending the deadline for publishing audited local authority accounts to 30 November 2022 for 21/22 accounts, then 30 September for 6 years, beginning with the 22/23 accounts.;
12. NAO to prepare for a re-laying of the Code of Audit Practice 2020 in parliament, so that it will apply for the whole of the next appointing period; and,
13. Developing an industry-led workforce strategy, working with the system leader and audit firms, to consider the future pipeline of local audits, and associated questions related to training and qualifications.

ANNUAL GOVERNANCE STATEMENT 2021/22

REPORT OF: Interim Head of Corporate Resources
Contact Officer: Stephen Fitzgerald, Interim Head of Corporate Resources
Email: steven.fitzgerald@midsussex.gov.uk Tel: 01444 477244
Wards Affected: All MSDC Wards
Key Decision: No
Report to: Audit Committee
26 July 2022

Purpose of Report

1. This report brings forward the authority's Annual Governance Statement (AGS) for consideration and approval.

Recommendation

2. **The Committee is asked to consider and approve the AGS for inclusion in the Statement of Accounts 2021/22.**

Background

3. The Annual Governance Statement is a statutory document which explains the processes and procedures in place to enable the council to carry out its functions effectively.
4. The AGS forms part of the governance framework of the authority and whilst Members have approved it as part of the Statement of Accounts (and will continue to do so) the Cipfa guidance is that it is also considered as a separate item.
5. The document, in addition to stating that the organisation acknowledges its responsibility for ensuring governance is effective, should;
 - focus on outcomes and value for money
 - evaluate against the local code of governance (i.e. the Constitution) and principles
 - be in an open and readable style
 - include an opinion on whether arrangements are fit for purpose
 - include identification of significant governance issues and an action plan to address them
 - explain action taken in the year to address the significant governance issues identified in the previous year's statement
 - be signed by the chief executive and leading member in a council.
6. The AGS is attached at Appendix A. Members are invited to consider the document and approve it for 2021/22.

Policy Context

7. This report fulfils the Council's obligations under the Accounts and Audit Regulations 2015.

Other Options Considered

8. None.

Financial Implications

9. None.

Risk Management Implications

10. None.

Equality and Customer Service Implications

11. None.

Other Material Implications

12. None.

Sustainability Implications

13. None

Background Papers

None

ANNUAL GOVERNANCE STATEMENT 2021/22

1. Scope of responsibility

Mid Sussex District Council (“the Council”) is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, and including arrangements for the management of risk.

2. The purpose of the governance framework

The governance framework comprises the systems, processes, culture and values, by which the authority is directed and controlled and its activities through which it accounts to, engages with and leads the community. It enables the authority to monitor the achievement of its strategic objectives of appropriate, cost-effective services.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable, and not absolute, assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks, the achievement of the Council’s policies, aims and objectives, to evaluate the likelihood of those risks being realised, (and the impact should they be realised), and to manage them efficiently, effectively and economically.

The governance framework has been in place at the Council for the year ending 31 March 2022 and up to the date of approval of the Statement of Accounts.

3. The Council’s governance framework

The Council’s Constitution, which is updated as required and was last fully considered in May 2020, sets out how the Council operates. It states what matters are reserved for decision by the whole Council, the responsibilities of the Cabinet and the matters reserved for collective and individual decision.

Decision-making powers not reserved for councillors are delegated to the Chief Executive and Heads of Service. The Monitoring Officer ensures that all decisions made are legal and supports the Standards Committee in promoting high standards of conduct amongst Members and the wider Parish Council community in Mid Sussex. In January 2022 the Council adopted the Local Government Association Members Code of Conduct with that decision taking effect on 1st March 2022. Training is being organised for all members starting with the Standards Committee itself.

The Scrutiny Committees are dual role in that they offer advice to Cabinet and Council both collectively, and to Cabinet members individually, and will scrutinise decisions made by the Cabinet, individual Cabinet members and Executive decisions taken by officers and those published on the Members' Information Service, and in the formulation of new policies. Calls can be made on these decisions although none has been enacted in the last year.

The overall budget and policy framework of the Council is set by the Council and all decisions are made within this framework. The Council's overall policy is represented through the Corporate Plan, which is a combination of service and financial plans.

The Corporate Plan is a key reference for the Medium-Term Financial Plan, which enables the Council to forecast forward and make best use of financial, human, technological and other resources available and to enable the continued provision of value for money services that meet the needs of residents, businesses and other stakeholders. At the broadest level, the Council also works with a number of key strategic partners through the local strategic partnership group of organisations.

From the Corporate Plan, service plans and business plans are developed, and individual officer work plans are agreed, with performance targets agreed at every level. More detailed budgets are aligned to corresponding plans following a robust budget challenge process, which challenges managers to demonstrate efficiency and value for money. Performance is monitored and managed at every level on a regular basis.

The Council also monitors its performance through feedback from its residents and service users. An analysis of complaints raised under the Council's Corporate Complaints Policy is regularly reported and considered by the Scrutiny Committee for Community, Customer Services and Service Delivery ; the last instance being in February 2022. The Council also has a Whistleblowing Policy, which encourages staff to report any instances of suspected unlawful conduct, financial malpractice, or actions that are dangerous to the public or environment.

The Council's financial management arrangements conform to the standards of the Chartered Institute of Public Finance and Accountancy (CIPFA) and have regard to the 'Statement on the Role of the Chief Financial Officer in Local Government'. The Head of Corporate Resources has statutory responsibility for the proper management of the Council's finances and is a key member of the Management Team. The four Heads of Service with the Chief Executive sit as a Management Team and may further devolve decision making to Business Unit Leaders through written schemes of management. The Head of Corporate Resources will also provide detailed finance protocols, procedures and guidance and training for managers, staff and Members.

The Council's Risk Management Strategy ensures proper management of the risks to the achievement of the Council's priorities and helps decision-making. In the Council's day-to-day operations, a framework of internal controls (e.g. authorisation, reconciliations, separation of duties, etc) control the risks of fraud or error, and this framework is reviewed by Internal Audit. Partnership working is governed by agreements, protocols or memoranda of understanding relevant to the type of work or relationship involved. The Council's legal services and procurement teams ensure that all are fit for purpose and the Council's interests are protected.

The Audit Committee is responsible for monitoring the effective development and operation of corporate governance in the Council. It provides independent assurance of the adequacy of the Council's governance arrangements, including the associated control environment, the authority's financial (and non-financial) performance to the extent that it affects the authority's exposure to risk and weakens the control environment, oversight of the financial reporting process and scrutiny of the treasury management strategy and policies.

It is planned as part of the action plan arising from the governance review to further align the Audit Committees' general oversight with the guidance from Cipfa on the 'Role of the Audit Committee in Local Government' and allow it to review the management of Strategic Risks on an annual basis. This is subject to an amendment to the constitution to follow in the year, which was not actioned last year.

4. Review of effectiveness

The Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the senior managers within the Council who have responsibility for the development and maintenance of the governance environment, the Internal Audit annual report, and by comments made by the external auditors and other review agencies and inspectorates. The process that has been applied in maintaining and reviewing the effectiveness of the governance framework includes the following in the last year:

- A review of governance across the authority during late winter and early spring 2021 by a respected and expert independent third party, the report from which has been positively received and is being implemented in a structured and incremental way although this has yet to fulfil the promise which was expected;
- The Council's internal management processes, such as performance monitoring and reporting; the staff performance appraisal framework; monitoring of policies, such as the corporate complaints and health and safety policies; and the corporate budget challenge process;
- The work of the corporate Joint Procurement Board partnered with Horsham DC, Crawley BC and Mole Valley DC which is working to update the procurement processes as the legislative framework changes following the departure of the UK from the EU;
- The Council's internal audit coverage (purchased from Mazars via a Croydon LBC framework), which is planned using a risk based approach. The outcome from the internal audit coverage helps form the Chief Internal Auditor's opinion on the overall adequacy of the Council's internal control framework, which is reported in their annual report.
- The Chief Internal Auditor's annual report on anti-fraud and corruption activities, including the use of the National Fraud Initiative data matching exercise;
- The annual review of the effectiveness of the internal audit function;
- External audit review of the work of the internal audit service and comment on corporate governance and performance management in their Annual Audit Letter and other reports;

- Workforce assessments and accreditation where appropriate and affordable;
- The External Auditor's opinion on the Council's financial statements;
- The work of the Audit Committee, which reviews the outcomes from the annual audit plan and the annual report of the audit function;
- The work of the Scrutiny Committees;
- The changes made to the Planning Committees in 2020 to reduce the number of meetings have bedded in well.

Work of the Standards Committee to deal with Code of Conduct complaints and promoting the adoption of the Local Government Association Members Code of Conduct following the report of the Committee for Standards in Public Life from January 2019.

5. Significant governance issues

Once again, the Covid-19 pandemic has provided the context within which all business at the authority has been conducted during 2021/22. Further national grant schemes have been introduced and the increase in demand for some services such as homelessness has not abated. Remote working has become the norm and 'new ways of working' with increased dependence on digital solutions has been widely adopted both at Mid Sussex and across the sector.

Members have continued with virtual meetings throughout the year where legally possible, which has enabled scrutiny and decision making to continue to a high standard, although as may be expected, there is now an appetite to return to the more established face to face ways of working. With new equipment installed in the refurbished Council Chamber all our meetings are now live streamed.

In that context, which may have increased the possibility of risk of governance issues, there do not appear to be systemic governance issues on which to report. There are however two specific areas where governance has been tested through the year, and which represent issues to be addressed for the future.

Firstly, as with all local authorities, the departure of the United Kingdom from the European Union will have a particular impact on the procurement regime for local government. Previously the EU procurement regime had set rules that impacted on public procurement across all member states. In the UK these arrangements are now being dismantled in areas such as "state aid". Once the new domestic arrangements are fully established staff will need to have comprehensive training on the implications of the changes to the Councils approach to procurement.

Secondly, as mentioned elsewhere, we must take seriously the growing threat of cybercrime given our increasing reliance on Cloud- based line of business systems; and a programme of training and risk assessment is to be undertaken in the coming year.

These specific issues identified as part of the assurance processes detailed above have been addressed or are included in action plans for the relevant managers.



Cllr Jonathan Ash-Edwards
Leader of Council
July 2022



Kathryn Hall
Chief Executive
July 2022

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COMMITTEE WORK PROGRAMME 2022/23

REPORT OF: Tom Clark, Head of Regulatory Services
Contact Officer: Ellen Fisher, Member Services Officer
Email: ellen.fisher@midsussex.gov.uk Tel: 01444 477208
Wards Affected: All
Key Decision: No

Purpose of Report

1. For the Audit Committee to note its Work Programme for 2022/23.

Summary

2. Members are asked to note the attached Work Programme. The Work Programme will be reviewed as the final piece of business at each meeting, enabling additional business to be agreed as required.

Recommendations

3. The Committee are recommended to note the Committee's Work Programme as set out at paragraph 5 of this report.
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Background

4. It is usual for Committees to agree their Work Programme at the first meeting of a new Council year and review it at each subsequent meeting to allow for the scrutiny of emerging issues during the year.

The Work Programme

5. The Committee's Work Programme for 2022/23 is set out below:

Meeting Date	Item
20 September 2022	Internal Audit Monitoring Report
15 November 2022	Review of Treasury Management Activity Auditors Annual Report 2020/21 Grant Certification Internal Audit Monitoring Report
13 December 2022	TBC
21 February 2023	Financial Statements 2021/22 External Audit Results Report 2021/22 Treasury Management Strategy Statement Internal Audit Monitoring Report Annual Audit Grant Certification

Policy Context

6. The Work Programme should ideally reflect the key priorities of the Council, as defined in the Corporate Plan and Budget.

Other Options Considered

7. None.

Financial Implications

8. None.

Risk Management Implications

9. None.

Equality and Customer Service Implications

10. None.

Other Material Implications

11. None.

Sustainability Implications

12. None

Background Papers

13. None