

Mid Sussex District Council

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

March 2023



Building a better
working world

Contents

Section	Page
01 - Executive Summary	02
02 - Purpose and responsibilities	05
03 - Financial statements audit	07
04 - Value for Money	13
05 – Other reporting issues	28

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.

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

Section 1

Executive Summary



Executive Summary: Key conclusions from our 2020/21 audit

Area of work	Conclusion
Opinion on the Council:	
Financial statements	<p>Unqualified – the financial statements give a true and fair view of the financial position of the Council as at 31 March 2021 and of its expenditure and income for the year then ended. The financial statements have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.</p> <p>We issued our auditor's report on 19 April 2023.</p> <p>The audit took until April 2023 to complete because we received an objection to the 2020/21 accounts.</p>
Going concern	<p>We have concluded that the Assistant Director of Corporate Resources' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.</p>
Consistency of the Statement of Accounts 2020/21 and other information published with the financial statements	<p>We concluded that financial information in the Statement of Accounts 2020/21 and published with the financial statements was consistent with the audited accounts.</p>

Area of work	Conclusion
Reports by exception:	
Value for money (VFM)	<p>We had no matters to report by exception on the Council's VFM arrangements.</p> <p>We have included our VFM commentary in Section 04.</p>
Consistency of the annual governance statement	<p>We were satisfied that the annual governance statement was consistent with our understanding of the Council.</p>
Public interest report and other auditor powers	<p>We had no reason to use our auditor powers.</p>

Executive Summary: Key conclusions from our 2020/21 audit

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

Outcomes	Conclusion
Issued a report to those charged with governance of the Council communicating significant findings resulting from our audit.	We issued an Audit Results Report dated March 2023 to the Corporate Governance and Audit Committee.
Issued a certificate that we have completed the audit in accordance with the requirements of the Local Audit and Accountability Act 2014 and the National Audit Office's 2020 Code of Audit Practice.	We have not yet issued our certificate for 2020/21. We have performed the procedures required by the National Audit Office on the Whole of Government Accounts submission. However, the NAO have reserved the right to request further procedures, and until they have confirmed whether this is necessary we cannot certify closure of the audit.

Fees

We carried out our audit of the Council's financial statements in line with PSAA Ltd's "Statement of Responsibilities of auditors and audited bodies" and "Terms of Appointment and further guidance (updated April 2018)". As outlined in the Audit Results Report we were required to carry out additional audit procedures to address audit risks in a number of areas, and to respond to the objection to the accounts. As a result, we have calculated an associated additional fee which will be submitted to PSAA for determination.

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

Kevin Suter

Associate Partner
For and on behalf of Ernst & Young LLP

Section 2

Purpose and responsibilities



Purpose and responsibilities

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

Purpose

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

Responsibilities of the appointed auditor

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

As auditors we are responsible for:

Expressing an opinion on:

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

Reporting by exception:

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

Responsibilities of the Council

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

Section 3

Financial Statement Audit



Financial Statement Audit

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

Key issues

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

On **19 April 2023**, we issued an unqualified opinion on the financial statements. We reported our detailed findings to the Audit Committee, initially in March 2022 and then updated to the April 2023 once we had determined the objection to the accounts. We outline below the key issues identified as part of our audit, reported against the significant risks and other areas of audit focus we included in our Audit Plan.

Significant risk	Conclusion
<p>Misstatements due to fraud or error - management override of controls</p> <p>An ever present risk that management is in a unique position to commit fraud because of its ability to manipulate accounting records directly or indirectly, and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.</p>	<p>We did not identify any:</p> <ul style="list-style-type: none">• material weaknesses in controls or evidence of material management override;• instances of inappropriate judgements being applied; or• any other transactions during our audit which appear unusual or outside the Council's normal course of business.
<p>Inappropriate capitalisation of expenditure</p> <p>Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition. We have identified an opportunity and incentive to capitalise expenditure under the accounting framework, to remove it from the general fund.</p>	<p>In response to the risk we tested capital additions to ensure that the expenditure incurred and capitalised was clearly capital in nature.</p> <p>We are satisfied that capital additions made in the year met the requirements of IAS 16, and had been correctly capitalised</p>

Continued over.

Financial Statement Audit (continued)

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

Significant risk	Conclusion
<p>Sales, fees and charges income grant.</p> <p>As one of the responses to the Covid-19 pandemic and its impact on Local Authority finances, the Government introduced a reimbursement scheme for lost fees and charges income. After an initial 5% reduction for annual variability, local authorities are funded for 75% of their claimed losses.</p> <p>There is both incentive and opportunity for local authorities to inflate the returns to Central Government, and claim for funds that they are not entitled to under the scheme. There is also the potential for error</p>	<p>We gained an understanding of the Council's process for completing the fees and charges reimbursement grants returns to Central Government, and assessed whether those returns appropriately follow the guidance.</p> <p>We review whether the values included could be supported by relevant and appropriate evidence. This included to the original budget, and the recorded income within the trial balance.</p> <p>We were satisfied that the grant return was not materially misstated.</p>
<p>Valuation of Investment property</p> <p>The Council holds a significant investment property portfolio. The valuation of property is complex and subject to several assumptions and judgements. A small movement in these assumptions can have a material impact on the financial statements.</p> <p>Difficulties in the retails sector in particular have led to many retailers, including well-known names, closing stores, going into administration, or otherwise looking to reduce their rental costs by renegotiating existing leases.</p> <p>These difficulties have had a direct impact on the value of the retail units (high street shops, out of town retail parks and shopping centres) leased to retailers.</p>	<p>We instructed our property valuation team to review a sample of the valuation performed by the Council. The review focuses on whether the valuation is based on reasonable and supportable assumptions.</p> <p>From this review we identified three asset values were misstated. The key areas we identified differences on were;</p> <ul style="list-style-type: none">- Where the current tenant has a short period remaining on their tenancy, the valuation should allow for a void and incentive period at the end of the current lease- Purchase costs should be deducted on the valuation due to the UK market reporting yields on a net basis- The valuer was unable to support their assumption on market rent- One asset was valued on the incorrect basis <p>Following the correction of these misstatements, we concluded that the balance was fairly stated.</p>

Continued over.

Financial Statement Audit (continued)

Other area of audit focus	Conclusion
<p>Valuation of property, plant and equipment. (land and buildings)</p> <p>The value of Land and Buildings represent significant balances in the Council's accounts. The valuation of these assets are complex and are subject to a number of assumptions and judgements. A small movement in these assumptions can have a material impact on the financial statements.</p>	<p>We reviewed the work performed by a review of the Council's valuer, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work. We sample tested a selection of assets.</p> <p>We were satisfied that the valuation of property, plant and equipment was fairly stated and appropriately disclosed.</p>
<p>Pension Asset/Liability valuation</p> <p>The Pension Fund asset/liability is a material balance in the Balance Sheet. Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.</p>	<p>We obtained assurances from the auditors of West Sussex Pension Fund that the information supplied to the actuary in relation to Mid Sussex District Council was accurate and complete.</p> <p>We identified a judgement difference of £293k between the actuarial values and amount estimated from the Council's share of the final audited pension fund assets. This overstated the asset.</p> <p>We have engaged our specialists EY Pensions to assist in our conclusions over the completeness and accuracy of the model used by the actuaries in determining the obligation attributable to the Authority, in order to satisfy the requirements of the revised ISA540. No issues were noted.</p>
<p>Accounting for Covid-19 related grant funding</p> <p>The Council received government funding in relation to Covid-19. Whilst there is no change in the CIPFA Code or accounting standard (IFRS 15) in respect of accounting for grant funding, the emergency nature of some of the grants received and in some cases the lack of clarity on any associated restrictions and conditions, means that the Council will need to apply a greater degree of assessment and judgement to determine the appropriate accounting treatment in 2020/21.</p>	<p>Where the Council acted as principal, because it has the control over the allocation of the funding to the beneficiaries of these grants then these should be processed through the Comprehensive Income and Expenditure Statement (CIES).</p> <p>For those grants received where the Council is acting as an agent – passing on the funds without any discretion - we would not expect these to be processed through the CIES but would expect to see the amounts received disclosed in the notes to the accounts.</p> <p>As a result of our work, an error was identified where one grant was classified as agent, but in our view should have been principal. The Council amended the classification, increasing both income and expenditure by £3.692m.</p>

Continued over.

Financial Statement Audit (continued)

Other area of audit focus	Conclusion
<p>Going concern disclosures</p> <p>The Council's required to carry out an assessment of its ability to continue as a going concern for the foreseeable future, being at least 12 months after the date of the approval of the financial statements. There is a risk that the Council's financial statements do not adequately disclose the assessment made, the assumptions used and the relevant risks and challenges that have impacted the going concern period.</p>	<p>Our review of management's continued use of the going concern assumption concludes it remains appropriate. We reviewed the proposed going concern disclosures for inclusion in the financial statements and proposed relatively minor updates which management made. In our view no significant uncertainty existed that may cast doubt on the Council's ability to continue to deliver its services, which would be required to be disclosed.</p>

Summary of Audit differences

Throughout the audit we identified a number of misstatements as shown below:

Unadjusted:

- Difference between the actuarial values and amount estimated from the Council's share of the final audited pension fund assets: £293k judgemental misstatement

Adjusted:

- Amendments to the valuations of investment properties, initially overstated by a net total of £1.4m.
- Incorrect classification of a Covid-19 grant as agent, rather than principal: £3.692m

Disclosure Errors

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

Continued over.

Financial Statement Audit (continued)

Our application of materiality

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

Item	Thresholds applied
Planning materiality	We determined planning materiality to be £1.496m as 2% of gross revenue expenditure reported in the accounts. We consider gross revenue expenditure to be one of the principal considerations for stakeholders in assessing the financial performance of the Council.
Reporting threshold	We agreed with the Corporate Governance and Audit Committee that we would report to the Committee all audit differences in excess of £0.075m.

Section 4

Value for Money



Value for Money (VFM)

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

Scope and risks

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

We kept our risk assessment up to date throughout the audit, including assessing any impact from the objection received to the accounts.

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

Reporting

We did not identify any significant weaknesses in the Council's VFM arrangements. As a result, we had no matters to report by exception in the audit report on the financial statements.

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

VFM Commentary

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

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

Introduction and context

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

The commentary below aims to provide a clear narrative that explains our judgements in relation to our findings and any associated local context.

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

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

Financial sustainability

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

Financial Strategy and Medium Term Financial Strategy (MTFS)

The Council produces an annual MTFS covering the current and next 4 years on a rolling basis. The MTFS should have regard to the following criteria:

- be constructed to resource the Corporate Plan;
- identify and quantify all known factors likely to impact on the Council's budget in the medium term (the financial risk matrix);
- use the service review process to identify efficiencies in order to maintain a balanced budget over the medium term;
- have regard to the current and potential legislative and national financial issues;
- community needs and taxation implications.

This strategy will set out the key financial principles to be utilised and key actions that need to be undertaken to ensure the council is able to continue to balance its finances over the medium term. The purpose of the report is to update the Council's financial strategy and action plan to help guide the management of the Council's finances during a period of pressures on resources.

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

Financial sustainability (continued)

Throughout 2020/21, the MTFS in place was the “Financial Strategy 2021-22 to 2024-25”. This was presented for approval at Full Council in March 2021. The four year financial model forecast was updated to reflect current assumptions; including government funding, council tax projections, projected costs and planned efficiencies. The medium-term financial plan included £3m use of reserve each year from 2022/23 to 2024/25. As noted in the report projections over future years should be treated with caution as circumstances can change quickly and figures underpinning the figures may change.

During the year the update to the “Financial Strategy” was for 2022-23 to 2025-26 and was taken to the March 2022 Council. This report revised down the use of the general reserve to £181k in 2022/23 and approximately £1.3m for each year between 2023/24 to 2025/26.

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

Budget Setting Process

The Council has a statutory duty to prepare a balanced annual revenue budget. The Council’s budget must be constructed so as to ensure that resource allocations properly reflect the Council’s priorities.

The financial strategy is based on the rolling four year cycle. This sets out the likely envelope of resources available to the council over the following four years for both revenue and capital spending (see section above on MTFS). This strategy shall be approved by Council, having first been considered by Cabinet.

After considering the financial strategy and the Council’s priorities, the draft budget is prepared and is approved by Council, having been recommended by Cabinet. The Council will consider the proposals of the Cabinet and may adopt them, amend them, refer them back to the Cabinet for further consideration, or substitute its own proposals in their place

Each of the Council’s budgets are delegated to a designated budget manager. Budget managers have the responsibility to:

- Only incur expenditure or vire budget provision for which they have approved budgets or specific authority.
- Monitor and control revenue and capital expenditure and income under their control.
- Submit periodic capital and revenue monitoring reports to members.
- On becoming aware of a potential overspend either take remedial action to prevent such an overspend or submit a virement proposal prior to the overspend occurring.

Financial sustainability (continued).

Responsibility of CFO

In relation to Financial Planning, the CFO has responsibilities of:

- Ensuring lawfulness and financial prudence of decision making;
- Administration of financial affairs;
- Contributing to corporate management.
- Advising whether executive decisions are within the budget
- Providing advice
- Give financial information
- Supporting the Audit Committee

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

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

In preparation for the annual budget process the Council's Financial Strategy and the 4 year Financial Model, including the key financial principles are reviewed. This is in order to take account of financial pressures, saving plans and the key assumptions being used for future years' forecasts. To address the impact on the financial position of the council, saving proposals of £1m were approved as part of the corporate plan. The saving plans were profiled evenly over a four year period.

The annual budget for revenue spending for 2021-22 was approved by full Council on 3 March 2021. The budget incorporated the first year of the savings identified in the Corporate plan.

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

Mid Sussex District Council has a Corporate Plan which sets out the Council's future priorities and objectives. This helps to ensure that:

- the Council manages its resources effectively
- that projects can be delivered by the council's services and that enough capacity is available to deliver them
- the Council's Cabinet can plan its work
- a framework is provided for evaluating the Council's performance

In September 2020 the Council adopted a revised Corporate Plan, in response to the impacts of the pandemic, which consisted of a wide-ranging set of recovery plans, designed to reshape and reaffirm their offer to the community and direct necessary redesigns their services to ensure efficient delivery in a post-Covid19 world. Primary amongst those plans is the Council's role in supporting economic recovery and growth in the District, enabling community resilience and the need to maintain financial independence.

Financial sustainability (continued)

The priorities set out in the plan were:

- Effective and responsive services
- Sustainable economic growth
- Strong and resilient communities
- Financial independence

As noted above, the Financial Strategy and Plan has regard to the corporate plan, therefore, ensuring the consistency of financial strategy with the corporate strategy.

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

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

Under the umbrella of the Financial Strategy are other linked policies and strategies which assist with ensuring the robust financial management of the Council, including the Treasury Management and Investment Strategies and a Capital Strategy. We note that throughout the financial planning i.e. budget and MTFs, consideration of other plans such as capital and treasury management also take place. The Financial Strategy and Plan incorporates the revenue effect of capital and other investment decisions, and those impacting the workforce as a whole.

The Capital Programme is based upon the Corporate Plan which will identify the need for investment.

The capital strategy implemented by Mid Sussex District Council provides a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local services and how associated risk is managed by the council. The Council approves a capital programme on recommendation from the Council's Cabinet. This programme consists of significant projects that qualify as capital expenditure and a planned programme of scheduled asset replacements.

Key driver of the Capital Strategy is the Council's Statement of Main Purpose 'To be an effective Council delivering value for money services and helping to create a strong economy, environment and community' and the accompanying priorities.

This statement gives a strategic direction to the Council to enable it to meet the demands of the future.

The Treasury Management strategy is concerned with keeping sufficient but not excessive cash available to meet the Council's spending needs, while managing

Financial sustainability (continued)

the risks involved. Surplus cash is invested until required, while a shortage of cash will be met by borrowing.

Decisions on treasury management investment and borrowing are made daily and were therefore delegated to the Head of Corporate Resources, who must act in line with the treasury management strategy approved by Council.

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

Please see documentation above about the annual budget setting process and MTFS. Throughout the preparation of each of these, risks are taken into consideration in order to see how they impact certain areas and what the financial implications of these risks might be.

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

The Council has an effective strategic risk management framework and register in place to identify, mitigate and monitor the risks to the organisation in delivering strategic objectives. This includes both financial and non-financial risks.

Cabinet is the body responsible for the Council's strategic risk management. Cabinet approves the Council's strategic risks on an annual basis. Cabinet members work with Heads of Service regarding the progress in managing risks that fall within their portfolio. In addition, Cabinet is responsible for:

-
- Providing an overall direction on strategic risk management.
 - Promoting a positive risk culture throughout the organisation including promoting its importance to other Members.
 - Holding an annual workshop to agree the strategic risks for the following 12 months.
 - Approving an annual Strategic Risk Profile.

The Cabinet Member for Finance and Service Delivery is recognised as the Member Risk Champion and works with the Officer Risk Champion to embed risk management into the organisation. Management Team is responsible for ensuring the Council's strategic risks are actively managed through the year. It uses its weekly meetings to monitor progress across all the risks and where it is found a risk has raised up the risk profile, a report is submitted to Cabinet.

In addition, Management Team has the following responsibilities:

- Implementing the strategic risk management policy.
- Reviewing the management of strategic risk.
- Monitoring the effectiveness of the controls developed to implement the chosen risk response.
- Integrating risk management into the service and budget planning process.

Financial sustainability (continued)

- Promoting a robust and proactive risk culture throughout the organisation.
- Ensuring that appropriate training is put in place for appropriate officers and that it is reflected in the Member Development programme.

The Assistant Chief Executive is recognised as the Officer Risk Champion and works with the Member Risk Champion to embed risk management into the organisation.

These arrangements come together, linking the Corporate Plan and its risk assessment, through to the financial plans and implications, as part of the ongoing monitoring of performance and then the annual refresh associated with developing the annual budget.

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

Governance

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

The Council has an effective strategic risk management framework and register in place to identify, mitigate and monitor the risks to the Organisations in delivering strategic objectives. This includes both financial and non-financial risks.

The Council maintains a strategic risk register. The register details any risks along with the internal controls in place, plus any associated action plans to manage those risks. Updates to the risk register and are discussed in Cabinet as described above.

The Council has an Internal Audit function in place. The Internal Audit Service provided a continuous and independent review of all internal control systems. It objectively examines, evaluates and reports upon the adequacy of such internal controls.

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

The findings and recommendations from each audit review are reported to the Audit Committee.

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

The Council has a statutory duty to prepare a balanced annual revenue budget. The Council's budget must be constructed so as to ensure that resource allocations properly reflect the Council's priorities.

The financial strategy based on the rolling four-year cycle. This sets out the likely envelope of resources available to the council over the following four years for both revenue and capital spending (see section above on MTFs). This strategy shall be approved by Council, having first been considered by Cabinet.

After considering the financial strategy and the Council's priorities, the draft budget is prepared and is approved by Council, having been recommended by Cabinet. The Council will consider the proposals of the Cabinet and may adopt them, amend them, refer them back to the Cabinet for further consideration, or substitute its own proposals in their place.

Each of the Council's budgets are delegated to a designated budget manager. Budget managers have the responsibility to:

- Only incur expenditure or vire budget provision for which they have approved budgets or specific authority.

Governance (continued)

- Monitor and control revenue and capital expenditure and income under their control.
- Submit periodic capital and revenue monitoring reports to members.
- On becoming aware of a potential overspend either take remedial action to prevent such an overspend or submit a virement proposal prior to the overspend occurring.
- Should a need to incur unavoidable or non-controllable expenditure be identified, a proposal for a supplementary estimate shall be submitted to Cabinet.

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

See section above.

Each of the Council's budgets will be delegated to a designated budget manager. Budget managers have the responsibilities as documented above.

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

Both revenue and capital monitoring take place on a frequent basis through the year, at periods 2, 4, 6, 9 and 12.

All budget managers have access to the Council's general ledger system in order to review actual performance against budget. The queries outlined below can be produced as and when required to help with budget monitoring:

- Compare the annual budget with all posted income and expenditure, including commitments. The query will show the total remaining uncommitted budget.
- Compare the profiled budget to all income, expenditure, and commitments as at the end of the last completed month. This query will show the variance to date for budget monitoring purposes.
- Compare the annual budget with the full year income and expenditure for the last complete financial year.

The Council also reviews its Treasury Management performance. As reported in Note 18 to its accounts, during the year the Council received large Covid grant payments from Central Government to distribute to local businesses. It was required to keep these funds liquid to ensure their timely distribution, and as a result the Council breached its counter-party limits (the limits set to ensure investments were not concentrated on a particular counter-party) during the year. These breaches were identified, reported, and no losses occurred. This demonstrates the Council's ongoing arrangement to monitor its Treasury Management functions. We did not judge this to be a risk of a lack of appropriate arrangements.

Governance (continued)

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

The Council has a number of arrangements in place to ensure that appropriate decisions are made. The decision-making process is detailed within the Council's Constitution and sets out how different decisions are made.

The Constitution states that all decisions are made in accordance with the following Principles:

- There should be clarity of aims and desired outcomes;
- Proper regard should be paid to professional advice from officers;
- Proper regard should be paid to internal and external consultation according to the decision in question;
- There should be respect for human rights;
- There should be a presumption in favour of openness;
- There should be proportionality (i.e. the action must be proportionate to the desired outcome);
- There should be an explanation of the alternative options considered; and
- There should be proper reasons for the decision which are documented.

The Full Council

The Constitution sets out the role of Full Council and explains that the Council is the policy making body from which the Policy Framework will be established.

Cabinet

The Cabinet is the part of the Council which is responsible for operational decisions. When major decisions ('key decisions') are to be discussed or made, these are published in the Forward Plan in so far as they can be anticipated. If these major decisions are to be discussed at a meeting of the Cabinet, this will be open for the public to attend except where personal or confidential matters are being discussed. The Cabinet has to make decisions which are in line with the Council's overall policies and budget. If it wishes to make a decision which is outside the budget or policy framework, this must be referred to the Council as a whole to decide.

Cabinet was made up of seven councillors, including the Leader and Deputy Leader. It is responsible for almost all the functions and services of the Council but is not allowed to deal with certain matters like planning and licensing applications. These are dealt with by other Committees. Each member of the Executive has responsibility for a specific range of council activities (portfolios) and will act as the Council's spokesman for those functions. There are five portfolio areas:

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

Governance (continued)

- Housing and Customer Services
- Leisure and Parking
- Economic Growth and Net Zero
- Planning
- Community

Whilst some decision-making powers are delegated to individual Executive members, generally the Executive makes decisions as a committee.

Scrutiny Committee

The roles and responsibilities of the three Scrutiny Committees are set out within the Constitution and are summarised below:

- i) review and/or scrutinise decisions made or actions taken in connection with the discharge of relevant functions of the Council;
- ii) make reports and/or recommendations to the full Council and/or the Cabinet and/or any joint committee in connection with the discharge of any functions; and
- iii) exercise the right to call-in, for reconsideration, decisions made but not yet implemented by the Cabinet and/or any joint committee, where this is necessary and having regard to the call in procedure set out in the Scrutiny Procedure Rules in Part 4 of this Constitution.

Audit Committee

The Audit Committee is independent of the executive and scrutiny functions and embedded as a key part of the authority's overall governance framework. Its terms of reference are aligned to CIPFA's best practice standards for audit committees. This Committee ensures that the Council is managing risks properly and that proper audit arrangements are in place.

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

We have inspected the website of the Mid Sussex District Council and identified the various policies in place regarding the integrity, ethical values and behaviour of key executives.

Mid Sussex District Council have adopted a number of codes and protocols that govern the standards of behaviour expected of members and officers, including a Code of Conduct for Councillors and a separate one for Staff. These Codes of Conduct forms part of the Constitution and is updated on a regular basis. The Code of Conduct has been created to assist individuals with the behaviour that is expected of them.

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

Governance (continued)

Included within this Code of Conduct there is a section of “gifts and hospitality”. This guidance sets out the members’ obligations to declare gifts and hospitality received in their official capacity as members of the Council. Officers also have to declare any gifts and hospitality offered and approval sought prior to acceptance if deemed appropriate.

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

Improving economy, efficiency and effectiveness

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

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

Mid Sussex District Council implement a Corporate Plan which sets out the Council's future priorities and objectives. This helps to ensure that:

- the Council manages its resources effectively
- that projects can be delivered by the council's services and that enough capacity is available to deliver them
- the Council's Cabinet can plan its work
- a framework is provided for evaluating the Council's performance

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

The Council's cabinet monitor progress against the key projects, budgets and performance measures on a regular basis and take action where any activities are behind schedule.

In September 2020 the Council adopted a revised Corporate Plan, in response to the impacts of the pandemic, which consisted of a wide-ranging set of recovery plans, designed to reshape and reaffirm their offer to the community and direct necessary redesigns their services to ensure efficient delivery in a post-Covid19 world. Primary amongst those plans is the Council's role in supporting economic recovery and growth in the District, enabling community resilience and the need to maintain financial independence.

The priorities set out in the plan are:

- Effective and responsive services
- Sustainable economic growth
- Strong and resilient communities
- Financial independence

As noted above, the Financial Strategy and Plan has regard to the corporate plan, therefore, ensuring the consistency of financial strategy with the corporate strategy.

Performance Information

In order to track performance and judge how well the Council are delivering their services to customers, they measure their key activities and set performance targets using performance indicators. These performance measures are split by service area and show indicators such as target, status and comparisons to other periods

Improving economy, efficiency and effectiveness (continued)

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

The Constitution states that the Council is able to:

- enter into arrangements or agreements with any person or body
- co-operate with, or facilitate or co-ordinate the activities of, any person or body and
- exercise on behalf of that person or body any functions of that person or body

In order to manage these arrangements, the Council may appoint joint committees with the other party to oversee and make decisions in relation to the arrangement.

In the ordinary business of Council meetings, Council is to receive reports, and receive questions and answers, on the business of any joint arrangements. This enables the effective monitoring of these arrangements and ensures that Council are held accountable by any stakeholders.

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

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

Mid Sussex District Council has in place “procurement code,” This information is laid out within the Constitution (page 164) and sets out the procedures that that must be followed in relation to the procurement and award of a Contract. These are intended to promote good purchasing practice and public accountability and deter corruption.

The Standing Orders go through each step of the Contract process detailing the minimum requirements for all Contracts taken out by the Authority.

Officers undertaking procurement exercises on behalf of the council are supported by the Procurement Service to aid compliance. In addition to this any necessary training including updates or refresher training is given to these Officers to ensure that these individuals have up to date skills and knowledge to perform these procurement exercises.



Section 5

Other Reporting Issues

Other Reporting Issues

Governance Statement

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

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

Whole of Government Accounts

We have performed the procedures required by the National Audit Office on the Whole of Government Accounts submission. However, the NAO have reserved the right to request further procedures, and until they have confirmed whether this is necessary we cannot certify closure of the audit.

Report in the Public Interest

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

During the course of the audit we received an objection to the Council's accounts for the year-ended 31 March 2021.

The objection was received in two parts, and contained 3 heads of objection. The items that in my discretion I decided to accept for consideration are summarised below:

For head of objection 1, I apply to the court under section 28 of the Local Audit and Accountability Act 2014 for a declaration that the following is an unlawful item of account: Payments recorded to Cross Stone Urban Regeneration, as they are made without a contract in apparent departure from the Council's own procurement guide and procurement legislation.

For head of objection 2, I issue a public interest report in relation to:

- Scrutiny Committees are ineffective; i): Issues relating to the Scrutiny Committee work programme
- Failure to follow the Constitution
- Lack of transparency, and openness with the public which has enabled the Council to prevent any potential judicial review of their decision to sell all of the land at Hurst Farm to Homes England and avoid public scrutiny;

For head of objection 3, I issue a public interest report in relation:

- The timing of the sale of the land at Hurst Farm;
- That the Council may not have received a fair share of the sales proceeds in its agreement with other landowners at the Hurst Farm site resulting in a loss of public funds.
- There are risks to value for money from the Council's management of its commercial property investment in the Orchards shopping centre; and

Other Reporting Issues

- The land at Hurst Farm, which was within the Mid Sussex District boundary, was designated open space for residents, which was not considered by the Cabinet.

In considering the objection we carried out the following work:

- Requested a formal response from the Council regarding the issues accepted for the objection;
- Reviewed the Council's formal response;
- Evaluated the information gained and identified the material information;
- Took our own legal advice;
- Drafted and shared provisional views with the objector and with the Council;
- Considered the comments in response to the provisional views from both parties.

We decided that we would not apply to the court for a declaration of unlawful expenditure, nor would we issue a public interest report.

Our statement of reasons to our decision was issued on 03 March 2023.

We made three recommendations to the Council within the decision and statement of reasons.

We summarised the decision and statement of reasons within our updated audit results report to the 19 April 2023 Audit Committee, which included reporting the above recommendations.

Other powers and duties

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

Other Reporting Issues (cont'd)

Control Themes and Observations

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

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

The matters reported are shown below and are limited to those deficiencies that we identified during the audit and that we concluded are of sufficient importance to merit being reported. This matter was originally included in our report to the March 2022 Audit Committee:

In the last two financial years we have identified material errors in property valuations. The issues identified have included; the valuer not being able to support assumptions on yield or market rents; the valuer not explicitly stating their assumptions on voids & purchase costs; the nature of the asset not being correctly reflect in the valuation, and the valuation not reflecting ongoing rent reviews.

In our view, management should put into place the following controls:

- Personnel at the Council, who have sufficient knowledge of the asset, should review the information provided to the valuer to ensure the information up to date, relevant, and accurate
- Management should ensure that the valuer explicitly states, and be able to support, all their assumptions in the valuation
- Personnel at the Council, who have sufficient knowledge of the asset, should review the valuations performed by the valuer.

Management agreed the recommendation, and committee to the Finance and Estates teams agreeing a workflow to prepare and check the valuations performed by the Council's external valuer.

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