



Test Valley Borough Council

Auditor's Annual Report

Year ended 31 March 2021

March 2022



EY

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

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

This report is made solely to the Committee and management of Test Valley Borough Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Committee and management of Test Valley Borough 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 Committee and management of Test Valley Borough 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's:	
Financial statements	Unqualified opinion - the financial statements give a true and fair view of the financial position of the Council as at 31 March 2021 and of its expenditure and income for the year then ended. The financial statements have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21. We issued our audit report on 13 January 2022, following the approval of the accounts at the General Purposes Committee on 12 January.
Going concern	We have concluded that the Head of Finance and Revenues (S151 Officer) use of the going concern basis of accounting in the preparation of the financial statements is appropriate.
Consistency of the Narrative Report and other information published with the financial statements	Financial information in the Narrative Report and published with the financial statements was consistent with the audited accounts.

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

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 our Audit Results Report to officers in December 2021, and presented it to the General Purposes Committee on 12 January 2022.
Issued a certificate that we have completed the audit in accordance with the requirements of the Local Audit and Accountability Act 2014 and the National Audit Office's 2020 Code of Audit Practice.	We have not yet issued our certificate for 2020/21 as we have not yet performed the procedures required by the National Audit Office on the Whole of Government Accounts submission. The guidance for 2020/21 is delayed and has not yet been issued.

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 our identified audit risks, as well as in relation to work required as a result of the revised ISAs that are in scope for this year end in relation to estimates and going concern, along with the additional work required for the revised Value for Money arrangements.

As a result, we will agree an associated additional fee with the Head of Finance and Revenues (S151 Officer). We include details of the final audit fees in Appendix 1.

We would like to take this opportunity to thank the Council's 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 on 29 June 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 issued an unqualified audit opinion on the Council's 2020/21 financial statements,

Key issues

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

We issued an unqualified opinion on the financial statements, on 13 January 2022, following the approval of the accounts at the General Purposes Committee on 12 January. 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

Misstatements due to fraud or error - management override of controls

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.

Our audit work found no evidence that management had attempted to override internal controls. We have not identified any instances of inappropriate judgements being applied.

We did not identify any other transactions during our audit which appeared unusual or outside the Council's normal course of business. This conclusion is based on detailed testing of accounts entries susceptible to potential manipulation.

Risk of fraud in revenue recognition - Inappropriate capitalisation of expenditure

Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition. We have identified an opportunity and incentive to capitalise expenditure under the accounting framework, to remove it from the general fund.

Our testing did not identify any material misstatements from inappropriate capitalisation of revenue expenditure.

We did not identify any material weaknesses in controls or evidence of material management override.

We did not identify any instances of inappropriate judgements being applied.

Continued over.

Financial Statement Audit (continued)

Significant Risk	Conclusion
<p>Valuation of Property, Plant and Equipment (PPE) including Investment Property</p> <p>Property, Plant and Equipment land and buildings (L&B) and Investment Properties (IP) represent significant balances in the Council's accounts. The valuation of land and buildings is complex and is 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 consider land and buildings valuations to be materially correct. The cycle of valuations was appropriate and we did not identify any material misstatements for assets not revalued.</p> <p>We consider all accounting entries have been correctly processed in the financial statements.</p>
Areas of audit focus	
<p>Pension Liability valuation</p> <p>The Pension Fund 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 have concluded that we could rely on the work of the Pension Fund actuary, and assess their assumptions as reasonable. The values and entries from the actuarial report were correctly reflected in the Council's financial statements.</p> <p>An adjustment of £2.4m was made to the gross pension asset as a result of information from the completed pension fund accounts not being passed to the actuary.</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>The accounting treatment adopted for Covid-19 related government grants is correct and have been adequately disclosed in the accounts.</p>

Continued over.

Financial Statement Audit (continued)

Other areas of audit focus	Conclusion
Payroll migration	
On 1st April 2020, the Council transferred its payroll processing system. The new system iTrent is being administered by Midland HR as a managed service contract.	We found no issues when we reviewed the transfer of the payroll system.
<hr/> Going Concern Compliance with ISA 570	
The Council is 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.	The Council's financial statements adequately disclosed management's assessment of its Going Concern and the relevant risks and challenges that have impacted the going concern period.

Continued over.

Financial Statement Audit (continued)

Audit differences

Uncorrected adjustments

There are no uncorrected misstatements.

Corrected adjustments

- *Net Pension Liability*: Reduction to the pension fund assets of £2.47 million in light of more recent actuarial information.

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 £1.474m as 2% of gross revenue expenditure reported in the accounts. We consider gross revenue expenditure to be one of the principal considerations for stakeholders in assessing the financial performance of the Council.
Reporting threshold	We agreed with the Audit Panel that we would report to the all audit differences in excess of £74k.

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

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

Section 4

Value for Money



Value for Money (VFM)

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

Scope and risks

We have complied with the NAO's 2020 Code and the NAO's Auditor Guidance Note in respect of VFM. We presented our VFM risk assessment to the 29 June 2021 Audit Panel meeting which was based on a combination of our cumulative audit knowledge and experience, our review of Council and committee reports, meetings with the Head of Finance and Revenues (Section 151 officer) and evaluation of associated documentation through our regular engagement with management and the finance team

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

Reporting

We completed our planned VFM arrangements work and 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.

We have three VFM recommendations for improvement.

We identified three recommendations (on pages 19 – 20) that we believe should be considered for improvement in the Council's governance arrangements. We include within the VFM commentary below the associated recommendations we have agreed with the Council.

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

The Council monitors its financial pressures in detail each month. Quarterly corporate finance reports are considered by the Cabinet. The finance portfolio holder annually reports the Council's financial challenges to OSCOM Budget Panel, as shown in the OSCOM Finance Presentation in July 2020, which discussed the key issues and challenges for each service and the impact of COVID-19. This MTFS complements the Council's Corporate Plan and sets out a clear framework for financial decision making. The Corporate Plan makes clear what the Council's priorities are, and the MTFS sets out how the financial management process will contribute to delivering these priorities.

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

The MTFS has been produced at a challenging time for the Council's finances. The Council has a balanced budget and reserves are at a safe level, but there is little room for manoeuvre and savings will be required in future to maintain financial stability. The MTFS includes a forward look over the next 3 years, to anticipate additional spending requirements, and the level of savings that will be needed to keep Council Tax affordable. The MTFS forecast is based on a middle case scenario using the assumptions shown in annex 2. It should be recognised that there will not be sufficient resources to meet all the service delivery ambitions and priorities of the Council without the generation of significant savings or additional income. The MTFS for the three year period to 2022/23 should ensure that the financial resources of the Council continue to be aligned to the delivery of the Council's service and organisational priorities.

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

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)

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

The Council ensures that its Corporate Action Plan is used as a basis for corporate and service planning. The Council has established performance measures and governance structures that allow the Council to assess progress against their objectives. The Council has also kept its Medium Term Financial Plan under regular review so that financial planning is integrated with service planning.

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

A People Strategy was produced in 2020/21 which shapes the cultural direction and people management practices for the future to enable the Council to achieve its ambitions over the next 3-5 years. Whilst being able to respond to the changing needs of local government and the borough's residents this forms part of the Council's Corporate Framework with close links to the Corporate Plan and Medium Term Financial Strategy. The Council's MTFS sets out the key financial assumptions that have been made in producing the Medium Term Financial Forecast and sets out a proposed framework within which to work over the life of the strategy. This then links to the annual budget, prepared in to context of the MTFF.

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

The Corporate Challenge process has been very successful over the past nine years in challenging all aspects of the Council's spending, but as the Council approaches the next budget rounds, opportunities to find further savings and efficiencies are becoming harder to identify. In previous years, the Council has managed to balance the budget and protect frontline services through a mixture of savings, efficiencies, shared services, additional income and taking only a limited amount from reserves. The budget principles and guidelines outlined in the MTFS allow for a phased use of reserves over the medium term to allow time to adjust to a standstill budget and an ever decreasing amount of external support. The corporate challenge process, in November 2019, identified significant savings and additional income of £490,000, and the proposed use of retained Business Rate growth will help the budgetary position in the short-term. The forecasts show a balanced budget for 2021/22, but budget gaps in 22/23 and beyond.

Savings are planned to be achieved through (1) the continued corporate challenge and Service reviews (2) Closely monitor progress of budget / efficiency savings through monthly budget monitoring and (3) Use of the Budget Equalisation Reserve if necessary. In order to maintain a balanced budget, current forecasts indicate a gap of £435k in 2022/23 increasing by £2.796 million 2023/24 and by a further £342k in 24/25. This is the level of cumulative savings needed to close the forecast budget gap. However the full reset of business rates from April 2022 is no longer going ahead, as announced in the latest government budget, so the impact is being reviewed as part of the MTFS that is being presented to Council on 10 November 2021.

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

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's approach to risk management is outlined in its Risk Management Strategy. Corporate risks are reviewed on a quarterly basis by the Council's Service Performance Boards and progress in managing the corporate risk register is reported to the Council's Overview & Scrutiny Committee (OSCOM) on an annual basis. Annual workshops are also held with the Council's Management Team to review and update the corporate risks. The Finance Portfolio Holder is the Council's Member Champion for risk management and risk management is embedded within the Council's processes e.g. reports to decision-making committees use a template which includes a section on risk assessment which must be completed before the report can be considered.

However, we suggest that the risks to the delivery of the Council's strategic objectives, in the Council's Corporate Plan 2020 , should be recorded on the Corporate Risk Register on a strategic objective by objective basis, rather than on a thematic basis; for example, failure of major projects to deliver the desired outcomes or Medium Term Financial Strategy (including Reserves Policy) does not meet the needs of the Council . These themes could then be incorporated into the Council's business planning process.

The Corporate Risk Register and underpinning service risk registers should also be aligned to these strategic objectives, which will allow for a golden thread enabling the Council's risk management issues and resulting actions to be integrated into the Council's Performance Management Framework. This will give the Council a holistic view of the effectiveness of service delivery and better reflect a more mature risk model, such as the Enterprise Risk Management approach (see *VFM Recommendation1 on page 19*)

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

The Council is required to set a balanced budget. The Council's budgeting process is lead by the Chief Financial Officer, producing the proposed budget for Cabinet and then Full Council review annually. Pay and inflation allowances are built into budget forecasts as are projected changes in service activity. Income forecasts include detailed calculation of funding and income generation schemes. We are satisfied from our minute reviews and meetings with management that appropriate planning has been conducted. In addition, the Council has been proactive in it response to the pandemic and planning around this.

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

The Council has a history of good financial management with monthly financial reporting to budget holders. The Management Team review monthly finance reports that include analysis of position against budget month to date and forecast for the year In terms of taking corrective action, we have seen that the Council vires monies between service budgets, where appropriate, to keep budgets on track. A balanced budget has been set for 21/22.

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

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's OSCOM and its Audit Panel have the responsibility for overseeing the governance of the Council. The Council's Local Code of Corporate Governance is revised and reported to OSCOM in April each year. The Council's Local Code of Corporate Governance is consistent with the principles of the CIPFA Framework, 'Delivering Good Governance'. The various elements of the Local Code of Corporate Governance set out the systems and processes, culture and values by which the Council is directed and controlled and the activities it undertakes to engage with and be accountable to local communities. It enables the Council to monitor the achievement of the strategic objectives and to consider whether those objectives have led to the delivery of appropriate services and value for money.

The 2020/21 Annual Governance Statement details the effectiveness and compliance with the governance structure at the end of the financial year and this was reported to the 26th May 2021 Cabinet meeting. The Council has an adequate internal audit service whom reports its performance to the Audit Panel of the Council's OSCOM at every meeting quarter. The Council's 20/21 AGS states that "OSCOM and its Audit Panel takes responsibility for audit and risk management issues, reviewing the Council's work in these areas and monitoring the progress and performance of both Internal and External Audit."

However, the Council's General Purposes Committee is classed as "Those Charged with Governance" and has the responsibility for the approval of the Council's financial statements, which is a key document from which these arrangements come together as an external document. The role of the Panel in terms of the financial statements and work of external audit, ahead of the next General Purposes Committee meeting, was debated by Members at the Audit Panel meeting of 26th July and there was limited understanding on the Panel's role and its relationship with the General Purposes Committee. The independent Redmond Review (September 2020) into the Oversight of Local Audit notes that most local authorities have an Audit Committee that reports to Council. We suggest that the Council also considers its committee structure to accommodate an audit committee that does not report to OSCOM (see Recommendation 2 on page 19).

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).

The roles of the Cabinet, OSCOM, and other committees of the Council as well as specific roles assigned to the Leader, Deputy Leader, Portfolio Holders and senior officers of the Council are defined and documented within the Council's Constitution. The Constitution also clearly identifies the powers, duties and responsibilities delegated to the Deputy Leader, Portfolio Holders and Officers, and includes rules for how Council and committee meetings should operate and the relationship between Members and Officers. Arrangements have been put in place to hold meetings virtually in accordance with legislation during the Covid19 pandemic to continue to enable Members to fully engage in decision making and allow for public participation. The conduct of Members and Officers is regulated by separate codes of conduct within the Council's Constitution. The Council's General Purposes Committee together with the General Purposes Employment Appeals and Ethics Sub-Committee promote high standards of conduct by Members and consider complaints made against Members.

Improving economy, efficiency and effectiveness

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

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

Financial and performance information is reported to the Council's Performance Boards which feeds into the monitoring of progress against the Council's Corporate Plan for 2019 / 2023 "Growing Our Potential". The Plan has four main aims and an action plan detailing how these aims will be delivered. It is supported by a financial and performance management framework (including performance indicators) to measure progress. The Council has in place a Medium Term Financial Strategy, updated annually, which supports the aims of the Corporate Plan.

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

The Council formally reviews its progress and performance against its corporate priorities through an Annual Corporate Action Plan Report which is presented to Overview and Scrutiny Committee (OSCOM) and the Cabinet. The quality and value for money of services provided to users is measured through the Authority's performance management system. This includes the measurement and review of performance against national and local performance indicators and actions taken to address areas for improvement. Performance is monitored regularly throughout the year by Performance Boards.

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

The Council has identified its key partnerships and promotes good governance in those. The Council's Contract Standing Orders and Financial Regulations contain specific sections on partnerships and identify officer responsibilities in relation to the management and involvement in partnerships. Protocols and agreements are put in place for the management of significant partnerships. A single strategic partnership for the Borough is in place called the Test Valley Partnership. It brings together the key partner agencies from across the public and voluntary and community sector. It meets twice a year and provides a place in which the key strategic issues facing the borough can be discussed, joint work developed and statutory duties met. Throughout the pandemic, the Test Valley Partnership has continued to meet and has provided an essential role in bringing together community response. This has enabled strategic partners to work together to focus on future recovery. A full meeting of the partnership took place in October 2020 to review lessons learned from the pandemic so far and to discuss longer term systematic issues requiring a partnership response.

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.

The Council's Contract Standing Orders and Financial Regulations contain specific sections on procurement and the Council's Scheme of Delegation details the roles, legislation and thresholds that officers must adhere depending on their level of seniority in the Council. The conduct of day to day Council business is regulated through the Contract Standing Orders and Financial Regulations and although the Council's Annual Governance Statement (AGS) reports that "these accord with good professional practice", they were last revised 4 years ago in 2017. We have made a recommendation that these are revised in the 2021/22 financial year (see *Recommendation 3 on page 20*)

While we have concluded that appropriate arrangements are in place, we make the following recommendations for improvement.

The Council has agreed these recommendations which we will follow up as part of our 2021/22 VFM arrangements work.

Recommendations

As a result of the VFM procedures we have carried out we have agreed the following three recommendations with the Council:

1: Alignment of the Corporate and Service Risks to the Council's strategic objectives in the Corporate Plan

The risks to the delivery of the Council's strategic objectives, in the Council's Corporate Plan 2020, should be recorded on the Corporate Risk Register on a strategic objective by objective basis, rather than on a thematic basis; for example, the failure of major projects to deliver the desired outcomes. The alignment of risk to strategic objectives will allow for a golden thread enabling risk management issues and resulting actions to be integrated into the Council's Performance Management Framework. This will give the Council a holistic view of the effectiveness of service delivery and better reflect a more mature approach to organisational risk management.

- **MANAGEMENT RESPONSE**

A review of the ways that risk is presented, both internally for operational management purposes, and to Councillors for review and scrutiny will be carried out during 2022. The outcome of this is likely to be impacted by the outcome of recommendation 2, below. No agreement to deliver the exact recommendation is made in this response, though further progress is expected throughout 2022.

2: Establishment of an Audit Committee reporting to Council

There needs to be more clarity between the role of the Audit Panel (which takes responsibility for audit and risk management issues and monitoring the progress and performance of both Internal and External Audit) and that of the Council's General Purposes Committee who are "Those Charged with Governance" and the designated Committee of the Council to approve the Council's Annual Financial Statements and Annual Governance Statement. We recommend a separate Audit Committee be established, with a terms of reference and a work programme in line with CIPFA good practice, that meets in public each quarter and has publicly available minutes (which the Audit Panel currently does not). This takes into account the expected direction of travel highlighted in the independent Redmond review on the "*Oversight of Local Audit and the Transparency of Local Authority Financial Reporting*".

- **MANAGEMENT RESPONSE**

Officers will investigate options for establishing an Audit Committee and carry out research necessary for potential implementation during the 2022/23 financial year. Once this research is completed, options for future governance arrangements will be discussed with Councillors.

3: Revision of Contract Standing Orders and Financial Regulations

The conduct of day to day Council business is regulated through policies and procedures such as Contract Standing Orders and Financial Regulations. However these have not been revised since 2017. Although the Council's Annual Governance Statement documents that these SOs and FRs accord with good professional practice, we suggest that the Council's SOs and FRs are reviewed and revised where necessary during the 2021/22 financial year.

- **MANAGEMENT RESPONSE**

A review of the Council's Financial Procedure Rules and Contract Standing Orders will be undertaken. It is anticipated that the review will be concluded in summer 2022, with any recommended changes being reported to Council later in the year.

A photograph of a business meeting in progress. Several people in professional attire are gathered around a wooden conference table. A woman with blonde hair is leaning forward, resting her chin on her hand, looking intently at a document on the table. Other participants are also visible, some with their hands on the table, suggesting a collaborative discussion. The background is softly blurred, showing a bright, modern office environment with large windows and indoor plants.

Section 5

Other Reporting Issues

Other Reporting Issues

Governance Statement

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

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

Whole of Government Accounts

We have not yet performed the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts consolidation pack submission. The guidance for 20/21 is yet to be issued. We will liaise with the Council to complete this work as required.

Report in the Public Interest

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

We did not identify any issues which required us to issue a report in the public interest.

Other powers and duties

We identified no issues 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 adopted a fully substantive approach and have therefore not tested the operation of controls.

Our audit did not identify any controls issues.

Appendix A

Audit Fees



Audit Fees

The scale fee for 2020/21 is in line with the audit fee reported in our Audit Plan and Audit Results Report. Included below are details of the proposed additional fees for 2020/21.

Description	Final Fee 2020/21 £	Planned Fee 2020/21 £	Final Fee 2019/20 £
Base Audit Fee - Code work	40,679	40,679	40,679
Scale fee rebasing (note 1)	25,612	20,490	
Scale fee variation (note 3)	23,752		20,105 (note 2)
Total Audit Fee - Code work	90,043		60,784

Note 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 in 2019/20 that the recurrent cost of additional requirements to carry out our audit should increase by £20,490. We have continued to include this increase at the same audit inputs, but updated for PSAA's 25% increase in the scale fee variation fee rates for 2020/21.

Note 2 – together with the rebasing proposal, for 2019/20 we submitted a variation of £37,933. PSAA determined both together, for a total of £20,105.

Note 3 – we propose an in-year variation of £25,416 for issues encountered during the audit, as set out in this report including payroll migration and accounting for the impact of Covid-19 on the council's grants and going concern assessment. We also incurred unplanned time reviewing a prior period restatement, and changes in the council's NDR appeals provision methodology.

This incorporates PSAA's published 'Additional information for 2020/21 audit fees' in August 2021. PSAA commissioned external independent technical research for setting standardised fee variations to assess the expected impact on audit work programmes for requirements relating to the new VFM requirements under the NAO's 2020 Code of Audit Practice (£6k - £11k), and the revised auditing standard on estimates ISA540 (minimum £2.5k).

We confirm we have not undertaken any non-audit work.

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