

Interim Auditor's Annual Report on Hastings Borough Council

2020-21

30 Dec 2022

Final Report



Contents



We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our commentary relating to proper arrangements.

We report if significant matters have come to our attention. We are not required to consider, nor have we considered, whether all aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.



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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of completing our work under the NAO Code and related guidance. Our audit is not designed to test all arrangements in respect of value for money. However, where, as part of our testing, we identify significant weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all irregularities, or to include all possible improvements in arrangements that a more extensive special examination might identify. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Executive summary



Value for money arrangements and key recommendation(s)

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Authority has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. We are required to report in more detail on the Council's overall arrangements, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

2020-21 was an unprecedented year in which the Council operated with many of its staff home working whilst supporting local businesses and residents through the pandemic. This audit has identified some significant weaknesses in the arrangements for achieving Value for Money which are summarised below. Full details are contained in this report.

Criteria	Risk assessment	Finding
Financial sustainability	A risk of significant weakness was identified in relation to revenue and capital funding	A significant weaknesses in arrangements identified, one key recommendation and five improvement recommendations made
Governance	No risks of significant weakness identified	A significant weaknesses in arrangements identified, one key recommendation and three improvement recommendations made
Improving economy, efficiency and effectiveness	No risks of significant weakness identified	No significant weaknesses in arrangements identified, eight improvement recommendations made

	No significant weaknesses in arrangements identified.
	No significant weaknesses in arrangements identified, but improvement recommendations made.
	Significant weakness in arrangements identified and key recommendation made.



Financial sustainability

Whilst the Council has reserves and a history of delivering financial savings, the financial challenge and uncertainty continues to increase. The Council faces a significant challenge in achieving a balanced budget in the medium term without diminishing reserves below a minimum safe threshold. We consider this is an area of significant weakness in its arrangements and have made a key recommendation in this regard (See Page 5 for details). We have also made five improvement recommendations:

- Creating a full s25 report identifying risks to the budget and financial plans
- Making a clearer distinction between discretionary and core spend in the budget
- Improving internal budget setting guidance for budget holders
- Making a clearer link between the workforce plan and the budget
- Reviewing the frequency of review of Treasury Management outturn

Further details and managements response is provided on pages 13-15.



Governance

We have identified an area of significant weakness in the Council's governance arrangements with regard to assurance over effectiveness of its internal audit arrangements. We have made a key recommendation with regard to this (See page 6 for details). We have made four further improvement recommendations:

- The Council's corporate risk register should be mapped to corporate priorities.
- Core financial systems should be strengthened
- The Risk Management strategy and Risk Appetite should be reviewed
- The Fraud Risk Management Strategy should be reviewed.

Further details and managements response is provided on pages 19-20.



Improving economy, efficiency and effectiveness

We have not identified any significant weakness in arrangements for improving economy, efficiency and effectiveness. We have made eight improvement recommendations:

- Improvements to financial reporting arrangements
- Identifying recurring and non-recurring variances to budget
- benchmarking of service costs against similar organisations
- Reviewing the level of its fees and income charges
- Undertaking an internal audit of data quality of Key Performance Indicators
- Reviewing financial reporting of savings achieved
- Reviewing financial reporting of capital investments
- including contract management performance KPIs as part of overall KPI reporting

Further details and managements response is provided on pages 24-27.



Opinion on the financial statements

Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:

- the Council's financial statements give a true and fair view of the financial position of the Council and the Council's income and expenditure for the year; and
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.

We are also required to report whether other information published together with the audited financial statements, including the Annual Governance Statement (AGS) and Narrative Report, is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

The Council's finance team published draft 2020/21 financial statements in July 2021, and a revised set of statements for audit was presented to us in June 2022. Our audit work on the 2020-21 statutory audit of the financial statements was started in July 2022. We initially set aside a 6 week time period to complete the audit, however due to some delays in availability of completed high quality working papers and cleansed populations for testing the audit was paused while our team completed other scheduled assignments. We have identified a further period from mid-October through to the end of 2022 for the team to complete the audit and this second phase of fieldwork is currently in progress.

Findings from the audit of the financial statements can have an impact on value for money considerations, particularly around governance. Therefore, this report is presented as an Interim Annual Auditor Report and will be finalized and updated where appropriate on completion of the financial statements audit.



Key recommendations

Financial sustainability



Recommendation 1

The Council should ensure that savings and income targets are agreed which address the identified funding gaps and incorporate an element of headroom for any slippage to the plan. Timely and accurate financial monitoring information needs to be provided to members.

Why/impact

Balancing the budget without reducing services is becoming increasingly difficult and the Council needs to ensure it has plans which address the identified funding gaps so that its plans remain realistic and sustainable.

Auditor judgement

Our review of the Council's MTFS indicates that there are significant unidentified savings/funding gaps in financial planning that would substantially threaten the delivery of the plan and lead to unsustainable use of reserves. On this basis we have concluded that there are significant weaknesses in the Council's financial planning arrangements.

Summary findings

No structured medium-term savings or income plans sufficient to meet the identified funding gaps have been formulated or considered by members. A mid-year review, for members and officers was planned for 2021-22 but detailed plans have still not been drawn up. The potential impact on the delivery of the Council's strategic priorities has also not been assessed. The Council's own predictions envisage that in the absence of further savings or additional income then the general reserve budget will be extinguished by 2025/26 at the latest. The Overview and Scrutiny Committee received no financial report in the first half of 2020-21. We were advised to exclude Appendices relating to savings in the budget report from our review as the figures could be misleading. We were further advised that the way in which the Council revises its budget in February each year (one month before the year end) and then report any variance against the revised budget could be misleading.
See pages 9-10 for further details

Management Comments

As part of the budget setting process for 2023/24, savings have been identified and detailed, and will be reported against on a regular basis as part of the financial monitoring process. Internal management accounts are now being produced by the finance team and shared internally to aid financial decision making. Senior Officers and Cabinet members have met on a weekly basis to run through the financial position of the council and discussions have been ongoing since the summer and before the MTFS update report was presented to Council in September. There is also a regular task and finish group meeting to focus specifically on the councils housing crisis which is the main area of concern this financial year and a corporate priority to address.

The range of recommendations that external auditors can make is explained in Appendix C.



Key recommendations

Governance



Recommendation 2

The Council should reconsider the depth of its annual internal audit coverage to provide an appropriate level of assurance to members over the systems of internal control.

In accordance with best practice, members of the internal audit team should not have any other service responsibilities.

The Council should commission an independent assessment of its Internal Audit arrangements against the Public Sector Internal Audit Standards (PSIAS) requirements and implement any necessary changes arising from that review.

Why/impact

Without an effective independent assurance function the Council cannot determine the effectiveness of its Internal Control Framework.

Auditor judgement

We have concluded that the Internal Audit plan is light and delivery against that plan is lighter still. The Audit Committee has not challenged the implications of the planned Internal Audit coverage.

Summary findings

A light internal audit plan in both 2019/20 and 2020/21 (8 audits planned for each year). Only four Internal Audit reviews were delivered for 2019-20 and three in 2020-21. In the AGS the Chief Internal Auditor (CIA) stated that: "I am unable to provide a supported reasonable assurance opinion on the key areas of risk management, corporate governance and financial control". The Council has not had an independent assessment of its Internal Audit arrangements against Public Sector Internal Audit Standards (PSIAS).

See pages 19-20 for further details

Management Comments

Agreed. We match the plan to resource and the depth of the coverage was more shallow during the Covid period because of our involvement in providing pre and post assurance checking to the Department for Business, Energy & Industrial Strategy (BEIS) of all Business Grant claims. Our latest plan for 2022 / 2023 has re-focused on financial controls.

The run-off of Procurement to the East Sussex Procurement Hub is now almost complete. A review of the Internal Audit team structure was already scheduled for March 2023.

The East Sussex Borough and District Councils have agreed to assess each other on a reciprocal basis and this programme has already started. It has already been agreed that the review for Hastings BC will be carried out during 2023 / 2024. We will then implement any recommendations to come out of it in the Quality Assurance Improvement Programme (QAIP) to ensure conformance with the Public Sector Internal Audit Standards (PSIAS).

Note: The Chief Auditor used to work in a Local Authority similar to our neighbouring Councils. To adopt a similar plan would not better serve Hastings Borough Council as it is a complex council. The same plan structure has been in place over 20 years and until prior to Covid, the Chief Auditor used to send it to External Audit for comment prior to presentation to the Audit Committee. It is accepted that the discharge of the assignments on the plans during the Covid period was light. There is a need to ensure that all the sources of assurance and other work that is referred to in the Internal Audit Plan is communicated to the Audit Committee.

Commentary on the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources

All Councils are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness from their resources. This includes taking properly informed decisions and managing key operational and financial risks so that they can deliver their objectives and safeguard public money. The Council's responsibilities are set out in Appendix A.

Councils report on their arrangements, and the effectiveness of these arrangements as part of their annual governance statement.

Under the Local Audit and Accountability Act 2014, we are required to be satisfied whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

The National Audit Office's Auditor Guidance Note (AGN) 03, requires us to assess arrangements under three areas:



Financial sustainability

Arrangements for ensuring the Council can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years).



Governance

Arrangements for ensuring that the Council makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the Council makes decisions based on appropriate information.



Improving economy, efficiency and effectiveness

Arrangements for improving the way the Council delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.



Our commentary on each of these three areas, as well as the impact of Covid-19, is set out on pages 8 to 35. Further detail on how we approached our work is included in Appendix B at page 39.

Financial sustainability



We considered how the Council:

- responded to the financial challenges posed by the Covid-19 pandemic
- identifies all the significant financial pressures it is facing and builds these into its plans
- plans to bridge its funding gaps and identify achievable savings
- plans its finances to support the sustainable delivery of services in accordance with strategic and statutory priorities
- ensures its financial plan is consistent with other plans such as workforce, capital, investment and other operational planning
- identifies and manages risk to financial resilience, such as unplanned changes in demand and assumptions underlying its plans.

We identified in the audit plan a risk of significant weakness in relation to Financial Sustainability.

Covid-19 arrangements and Outturn 2020-21

The impacts of Covid-19 were monitored through the year, a finance update setting out the impacts was presented to Cabinet in October 2020. This report predicted a worsening position with a forecast deficit of £2.7m against the original budget shortfall of £1.182m. The additional costs arising from Covid-19 that would fall in the 2020-21 year were estimated to be £1.528m, with loss of income estimated at £2.365m over the same period. The additional costs and loss of income was predicted to be offset by central government funding of £2.1m.

As a result of this update the Council approved a Covid-19 Recovery Themes and Action Plan which resolved that the Council would need to closely monitor and update budget impact analysis, regularly update the Cabinet on the position, and conduct a corporate review of all 2020-21 revenue budgets to identify areas for immediately reducing in-year expenditure through additional controls on non-essential spend and recruitment. The Council also updated its Medium-Term Financial Strategy (MTFS) to understand the short to medium term implications for savings requirements and use of reserves.

At the time of setting the 2021-22 budget the Council also set a revised budget position for 2020-21. The position for 2020-21 was reported to be more favourable than the mid-year forecasts in October 2020 had predicted. The 2020-21 budget envisaged total expenditure of £15.492m and a total funding deficit of £2.430m. This deficit was to be funded through use of reserves including £0.929m from general reserves and £0.253m from the Council's transition reserve in order to achieve a balanced budget. The final outturn was a more favourable position again with a net surplus of £1.071m. This surplus arose as a result of additional government support despite an overall increase in direct service expenditure.

This outturn position reflects financial pressures associated with the pandemic including £0.297m in reduced car parking income, and a £0.227m increased demand on homelessness support. These variances were offset by an increase in cemetery and crematorium income of £0.132m and Development Management Income of £0.155m compared to budget. There were also underspends on DSO Service (£0.128m) and £0.288m on Sports Centres.

Budget 2021-22

For 2021-22 the budget deficit was estimated at £1.483m which was to be funded by utilising £0.2m from the Council's Resilience and Stability reserve and £1.283m from the General Reserve. The budget took account of the central government funding including a new grant, the Lower Tier Services Grant (£0.163m); further Covid-19 grant anticipated to be received in April 2021 (£0.699m); and expected increase in Council Tax Support scheme costs which were provisionally estimated at £0.195m. The government's Lost Income Compensation scheme in respect of reduced sales, fees and charges continued for three months into 2021-22. New Homes Bonus has reduced significantly from £1.01m in 2017/18, to £173,162 in 2021-22 further increasing budgetary pressures.

Financial sustainability (cont'd)

Set against this were additional costs of homelessness through increased costs of temporary accommodation (£0.26m) as well as having to predict ongoing costs/loss of income arising from Covid-19 income for example Business rates (£0.2m). The Council increased its contingency budget from £0.3m to £0.5m as a result of these uncertainties. Funding within the budget also included an assumed 1.99% increase in council tax.

The Council's ongoing savings plan - Priority Income and Expenditure Review (PIER) identified savings of £0.484m for 2021-22. In 2019-20 PIER savings of £1.224m were delivered against an original budget estimate of £1.248m. For 2020-21 potential PIER savings of £1.784m were identified. The Council has not tracked the actual savings achieved for that year. The Council acknowledged at that time that even if the target savings for 2021-22 were achieved then that alone would be insufficient to balance the budget and that further savings or increased income would need to be identified.

A s25 statement is included within the budget papers and highlighted that the level of general reserves for long term provision could fall below the minimum level of £6m which the Council has set. A full separate s25 statement has not been created. An improvement recommendation has been made in this respect (recommendation 3).

Despite these pressures the Council still had plans to stimulate economic growth and provide new housing. These included a new hotel, the Harold Place redevelopment, new units at Churchfields Industrial Estate, and the town's Lower Tier and West Marina development.

A decision was taken in September 2017 to invest £50m over 3 years in Commercial Property (£29m), Housing (£15m) and Energy (36m) initiatives. This was projected to provide income of around £1.3m per annum. That figure was revised down to £0.85m in the 2021-22 budget.

The Finance Department discuss budget requirements with relevant budget holders and also help to identify potential savings as part of the PIER savings plan. All Cost Centres were reviewed line by line by the Finance Director. The Finance Director then consolidates the individual budget and savings plans into an organisational plan which is discussed with the Finance lead, Managing Director and Full Council. Although the budget report for 2021-22 provides a clear and detailed narrative on the key budget assumptions, risks and uncertainties, and the minimum level of unallocated reserves it is not always clear how these assumptions and risks have been determined. There is no budget setting guidance for budget holders to ensure consistency of approach, and an improvement recommendation has been made in this respect (recommendation 4).

Draft budget proposals were considered by the Cabinet in January 2021 prior to the final budget being approved by Full Council in February 2021. Comments on the annual corporate plan update and draft budget were sought from residents, council staff and a range of community and business organisations. A summary of the responses received was presented with the budget report. There is therefore appropriate and timely consultation with key stakeholders in the preparation of the annual budget.

Overall we found no evidence of significant weaknesses in the Council's budget setting arrangements.



Medium Term Financial Strategy (MTFS)

The MTFS includes assumptions around New Homes Bonus, business rate income, council tax increases, fees and charges, pay increases and borrowing costs. Pay pressures were initially forecast at realistic levels but there is still a great deal of uncertainty in these figures.

The MTFS for 2021-22 to 2024-25 was updated at the time of setting the 2021-22 budget in February 2021. That MTFS identified a funding shortfall of £1.483m in 2021-22, rising to £2.3m in 2022-23 and to £2.64m thereafter.

The Council acknowledge that in order to achieve a balanced budget for the period 2022/23 – 2024/25, further savings, or additional income will need to be generated to avoid further unsustainable use of the General Reserve to balance the budget. The Council's own predictions envisage that in the absence of further savings or additional income then the general reserve budget will be extinguished by 2025/26 at the latest.

The Council has projected total PIER savings of £1.884m to the end of 2023/24. The Council

Financial sustainability (cont'd)

has stated that: ‘...after ten years of funding reductions, there are few illusions left about the difficulty in identifying the further budget reductions required to even achieve the levels of reduction required’.

The Council also acknowledged that these estimates carried some uncertainty and did not take account of the potential 5% annual decrease in future central government funding. The £6m minimum reserve level set by the Council includes a sum of £2m to allow for unexpected decrease in income of up to 15%. The MTFS in November 2021 stated that the General Reserves could fall below that £6m threshold by 2023/24.

No structured medium-term savings or income sufficient to meet the identified funding gaps have been formulated or considered by members. Priority Income and Efficiency Reviews (PIER) are monitored through the Strategic Oversight and Planning Board. In February 2021 this was charged with identification of a sustainable budget for a period in excess of one year. A mid-year review, for members and officers was planned for 2021-22 but detailed plans have still not been drawn up. It is concerning that there is a lack of specific plans to address the gaps. The impact on the delivery of the Council's strategic priorities is also not clear. The strategic priorities are reviewed each year with the budget however there is no clear line of sight between elements of the MTFS and the Strategic Priorities. At present long term financial plans are not dependent upon reduction or removal of services but are likely to be necessary in the future.

When setting savings targets it should be ensured that they are sufficient to bridge the funding gaps identified in the MTFS, even if there is slippage to the plan. The current savings schemes identified are insufficient to balance the budget over the short to medium term. The Council's current financial plans rely on unsustainable use of general reserves in order to bridge the funding gaps faced by the Council. There is also no headroom in the plan. A key recommendation in this respect is included in this report so that clear savings targets are identified sufficient to meet identified funding gaps. (Key recommendation 1).

When setting and monitoring the budget the distinction between discretionary and core spend is not clear. Highlighting core and discretionary spend would enable the Council to better consider the discretionary nature of some costs when deciding whether to continue with the delivery of such services. Although discretionary spend does come under scrutiny when plans are being considered, it would not be clear to a resident that there is a distinction between statutory and discretionary spend. An improvement recommendation in this is included in this report (recommendation 5).

Insufficient organisational capacity to deliver existing commitments set out in the corporate plan alongside implementing the required changes to meet the challenge of the council's budget deficits are recorded as a strategic risk rated as red in the strategic risk register. Key controls in place to manage this are the budgeting process, where strategic priorities are reassessed based on available resources. The link between available resources set out in a workforce plan and the budget could be made clearer and an improvement recommendation has been made in this respect (recommendation 6).

Our review of the Council's MTFS indicates that there are significant unidentified savings/funding gaps in financial planning that would substantially threaten the delivery of the plan and lead to unsustainable use of reserves. On this basis we have concluded that there are significant weaknesses in the Council's financial planning arrangements. Key recommendations have been identified to further strengthen arrangements in relation to ensuring appropriate savings targets are set and monitored and opportunities for commercial income streams are identified.

Reserves and risk mitigation

The 2021-22 budget report recognised that the Council's general reserves will fall below the Council's own defined minimum recommended level of £6m by the end of 2023-24 and could be extinguished entirely by 2025-26 at the latest. The below table sets out the latest MTFS balance of the General Fund at the end of each financial year based on the current plan. It should be noted that the assumptions built into this strategy still do not fully reflect the pressures that the current cost of living crisis may bring.

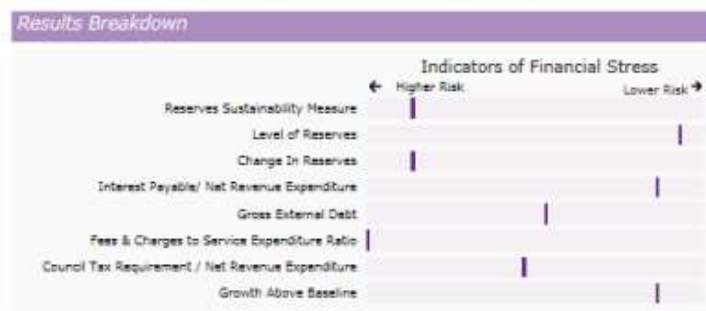
General reserve fund balance over life of latest MTFS (£000s)

2021/22	2022/23	2023/24	2024/25	2025/26
9146	6169	3631	853	0

Financial sustainability (cont'd)

As the graphic below demonstrates the CIPFA Financial Resilience Indicators show that the Council is in the higher risk category regarding reserves sustainability measures than its statistical nearest neighbours.

Table: Showing CIPFA Indicators of Financial Stress for Hastings BC



Each year the Council reviews its “base budgets” to identify efficiency savings and to ensure existing spend is still a Council priority (Priority Income and Efficiency Reviews (PIER)). The Council has also established an Invest to Save Reserve to assist with the achievement of identified savings. This reserve will however be exhausted by the end of 2021-22.

The Council has a comprehensive repair and renewal programme. The Council contributes an annual sum of £0.508m to a reserve which funds the programme. Currently annual expenditure on repairs and maintenance is almost double this amount. If the contributions to this reserve and annual expenditure on repairs and maintenance remain at current levels then this specific reserve balance will be extinguished by 2022/23. This reserve could be eroded quicker than this because as the Capital Programme expands then maintenance and repair costs will further increase beyond inflation.

The Council utilised £0.937m of earmarked reserves in 2019/20 but was able to replenish that in 2020-21 as a result of the surplus achieved through the receipt of additional government grants.

The Council is aiming for a position where recurring expenditure is met from recurring

resources. Conversely the Council aims to utilise non-recurring resources such as reserves and balances to meet non-recurring expenditure. Given the above potential use of reserves this aim appears aspirational rather than achievable in the medium term. It should also be recognised also that the COVID-19 support provided by government will cease and this, combined with the need to manage more significant funding gaps in 2022/23 and 2023/24, will present an even bigger challenge for the Council. This includes increased levels of savings required in these years, as well as the inevitable increased strain on services due to the cost-of-living crisis.

As stated previously the Council’s current financial plans rely on unsustainable use of general reserves in order to bridge the funding gaps faced by the Council. As such we have concluded that there is a significant weakness with regard to those financial plans.

Capital strategy and treasury management

The Council approved the Capital Programme, Capital Strategy and Treasury Management Strategy for 2020-21 during February 2020 and it was reviewed again in February 2021 for 2021-22. These documents set out the Council’s capital expenditure, capital financing, minimum revenue provision and borrowing projections. The February 2021 review updated the Treasury Management and Investment Strategy. The Council approved Capital schemes aligned to the Council’s corporate priorities. Schemes also had to meet one or more of the following criteria:

- be of a major social, physical or economic regeneration nature,
- meet the objective of sustainable development,
- lever in other sources of finance or provide a financial return for the Council, or
- is an "invest to save" scheme and reduces ongoing revenue costs.

The Capital projects form a key part of the Council’s plans and are expected to provide a significant return on investment. However even a small downturn in the economy could result in a reduction in income which would require the Council to make greater service reductions to balance the budget.

The Treasury Management strategy states that the Council seeks to minimise the costs of borrowing and maximise investment income whilst ensuring the security of its investments. The Council has made substantial investments in commercial property, housing and energy generation initiatives, and this has been funded through external borrowing. External borrowing was £65m as at 31 March 2021 and is within CIPFA

Financial sustainability (cont'd)

Prudential limits. The financing costs of this debt are reflected in the Council's revenue budget. The Treasury Management strategy was presented to Audit Committee in January 2021 with a recommendation to Full Council as part of the budget setting process.

The Council has stated that Treasury Management performance should be reviewed quarterly by the Audit Committee, this did not happen in 2020-21. The Audit Committee only received one report and this looked at future strategy rather than in-year performance. We have raised an improvement recommendation in this respect (recommendation 7). The Council undertook cash flow monitoring during 2020-21 and there were no reported liquidity issues.

We have found no evidence of significant weakness in the Council's capital and treasury arrangements.

Conclusion

We identified financial sustainability as a significant risk in planning this work. Following our review we have identified significant weaknesses arising from unidentified savings/funding gaps in financial planning that would substantially threaten the delivery of the plan or lead to unsustainable use of reserves to bridge those funding gaps. We have made a key recommendation (see page 5) and five Improvement recommendations setting out the steps the Council should take in order to address these weaknesses. These improvement recommendations are set out on the following pages.

Improvement recommendations



Financial sustainability

Recommendation 3

recommendation	The Section 151 Officer should prepare a full s25 report annually setting out the risks and assumptions built into the budget and medium term financial plans.
Why/impact	It is essential that the Council is able to fully scrutinise and understand the risks associated with its financial plans and ability to achieve a balanced budget.
Summary findings	The Council has not prepared a full s25 statement as required.
Management comment	Agreed – This has historically been included as part of the budget report but this will be separated out in future as a separate report.

Recommendation 4

recommendation	The Finance Director should produce budget setting guidance for budget holders.
Why/impact	It is essential that the Council has a consistent approach to building its annual budget.
Summary findings	The Council does not have any budget setting guidance.
Management comment	Noted. Written finance guidance notes are currently provided for the closure of accounts and verbal discussions are undertaken between finance staff and officers for the budget setting process but this will be updated for the new financial year.

The range of recommendations that external auditors can make is explained in Appendix B

Improvement recommendations



Financial sustainability

Recommendation 5

Recommendation Discretionary and Core expenditure should also be clearly identified in financial plans and budget monitoring to aid decision making.

Why/impact Highlighting core and discretionary spend would enable the Council to better consider the discretionary nature of some costs when deciding whether to continue with the delivery of such services.

Summary findings Budget reports presented to Cabinet as part of the 2021-22 budget setting process recognise that a strategic approach to identifying savings is required to balance the financial position.

The Council has not developed any firm savings plans, is reluctant to further raise prices on areas of discretionary income e.g. car parking and commercial lets, and has not therefore taken adequate commercial steps to address the gaps. The impact of the financial gaps on the delivery of the Council's strategic aims is not clearly set out. The Director of Finance acknowledges this and intends to align future MTFS with the potential impact on strategic priorities.

When setting and monitoring the budget the distinction between discretionary and core spend is not clear.

Management comment As part of the Budget setting process, the 2023/24 Fees and Charges was agreed to be increased at an average of 11%. This was after detailed discussions with each area of the organisation and cabinet officers. This process was analysed thoroughly and discussed in more detailed as part of the budget setting process compared to previous years and as a direct result of weekly meetings between officers and Cabinet members. This is linked to the MTFS and discussions around core and discretionary expenditure and services are all discussed as part of the budget setting process.

Recommendation 6

The link between available resources under a workforce plan and the budget could be made clearer.

Insufficient organisational capacity to deliver existing commitments set out in the corporate plan alongside implementing required changes to meet the challenge of the council's budget deficits are recorded as a strategic risk rated as red in the strategic risk register

There is no clear line of site between available resources through the workforce plan and the MTFS and budget decisions.

Capacity of officers is raised regularly at Overview and Scrutiny meetings around organisational performance, and officers will include any requirements as part of any cabinet reports highlighting both the resourcing impact as well as the financial impact.

The range of recommendations that external auditors can make is explained in Appendix B

Improvement recommendations

Financial sustainability

7 Recommendation	The frequency of review of the Treasury Management Performance should be reconsidered by the Audit Committee
Why/impact	It is essential that Treasury Management Performance is monitored on a regular basis.
Summary findings	The Council's Treasury Management Strategy states that Treasury Management performance should be reviewed on a quarterly basis by the Audit Committee. This did not happen in 2020-21 (reviewed once) or 2019-20 (reviewed twice).
Management comment	The Treasury Management performance should be reviewed half yearly, and the Treasury Management Strategy will be updated to reflect this. Currently we report quarterly as part of the financial update reports relating to interest performance and also MRP levels compared to budget. This is an ongoing development in terms of information contained in the report but this has already improved since 2020/21 financial year. Long term staff absence was the reason for the missed report in 2020/21 which has now been resolved.



The range of recommendations that external auditors can make is explained in Appendix C.

Governance



We considered how the Council:

- considered the impact of Covid-19 on the governance arrangements
- monitors and assesses risk and gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud
- approaches and carries out its annual budget setting process
- ensures effectiveness processes and systems are in place to ensure budgetary control
- ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency
- monitors and ensures appropriate standards.

COVID-19 arrangements

During the 2020-21 financial year the Council supported the community, local businesses and the delivery of critical services through the pandemic, and adapted governance arrangements as required. Council and Committee meetings were held remotely throughout the year, allowing for public participation and for the democratic decision making process to continue. The majority of Council staff were required to work from home during the pandemic.

In October 2020 the Cabinet received a special report setting out a Covid-19 Initial Impact Analysis for the period March-June 2020. These updates included the progress on delivering grants to support local businesses, reopening public conveniences and communal enclosed spaces safely.

Managing risk

The Council's Risk Management Strategy was last updated in 2009. We have reviewed the document and are of the opinion that the lack of update does not represent a risk and that there are no fundamental issues, however it would be prudent for the Council to undertake a review and update as necessary particularly to ensure it is aligned to the Council's current risk appetite (recommendation 8).

The Council maintains a corporate and operational risk register. The corporate risk register is reviewed by Risk Management Group and reported to the Audit Committee. Workforce information and performance against strategic priorities are reported to Overview and Scrutiny Committee as part of the Quarterly Performance Financial risks are reported to Council however the impact of other risks are not linked through to financial plans or strategic priorities. We have raised an improvement recommendation in this respect (recommendation 9).

From our work we have not identified any significant areas of weakness in the Council's arrangements to manage and report risk. We have made an improvement recommendation that risks within the risk register should be mapped to financial plans and corporate priorities to ensure that their potential impact on the corporate plan is understood so that risk reporting becomes more dynamic and integral to the financial planning process.

Internal control – Internal Audit

Internal audit is provided by an in-house team. The team was depleted in 2020-21 and were able to complete only a small portion of the 2020-21 audit plan before 31st March 2021. This was due to one team member on long term absence and another being seconded into Covid-19 business grant payments. Only four audits were completed in 2019-20 against a plan of 8. A revised audit plan was put forward in November 2020 with 8 audits listed in the plan: three core audits (Housing

Governance

Benefit, Debtors and Payroll) and five 'risk review, follow up and other audits' (IT resilience, Syrian Refugee Resettlement Programme, CT Reduction scheme, Single Person Discount review and National Fraud Initiative (NFI) data matching, NNDR). Only the three core audits were completed in 2020-21. Even if the Council had completed all 8 planned audits then this volume would still be below the level achieved by near neighbours, for example Wealden District Council completed 14 reviews and Rother district Council completed 20 reviews according to published data.

In addition to the three audits conducted by the Council's Internal Audit Team, an external assurance review of Housing was undertaken by TIAA an external provider of assurance work who reported in November 2020. This provided a reasonable assurance level (second highest level available).

In the Annual Governance Statement the Chief Internal Auditor (CIA) stated that: "I am unable to provide a supported reasonable assurance opinion on the key areas of risk management, corporate governance and financial control". However, based on the fact that 100% of staff were able to work from home in a secure way, enquiries made by the CIA with service managers, CIA knowledge of the controls over Covid 19 grant payments, budgetary position and review of the risk registers, the CIA concluded that: 'there is no reason to believe that internal controls are unsatisfactory or worse.'

The Council's Audit Committee did not meet during the first half of the 2020-21 financial year, its first meeting of that year being in November 2020. The November meeting considered: The Treasury Management Outturn 2019-20, the Audit Committee Annual report to Council for 2019-20 and the revised Internal Audit plan for 2020-21 as detailed above. At its January 2021 meeting the Committee considered the Treasury Management mid year report and a review of the Treasury Management Strategy. A final meeting for the year took place in February 2021 to consider the Final Accounts 2019-20 and the external audit completion report.

As stated above only limited Internal Audit work was undertaken in both 2019-20 and 2020-21. This lack of assurance work does not appear to have led to much challenge or discussion by the Audit Committee.

There is no evidence that the Internal Audit team provide the Audit Committee with follow up progress on key findings or recommendations. A key finding from the TIAA Housing review was that the system introduced to manage the properties acquired by the Council to offer emergency housing is not currently reconciled to the Council's financial information system. At the time management stated that a review of Social Lettings Agency working practices was underway, to incorporate the recommendations of the report.

This was due to be completed by December 2020 but the outcome of this work has not been reported to or followed up by the Audit Committee.

The Council has not had an independent assessment of its Internal Audit arrangements against Public Sector Internal Audit Standards (PSIAS). The PSIAS require an independent assessment every five years.

As a result of the limited number of audits planned and completed, and the lack of independent assessment of Internal Audit arrangements against PSAIS we have concluded that officers have not been sufficiently held to account and that this is a significant weakness in arrangements. We have raised a key recommendation in this respect (Recommendation 2).

Internal control – Financial Statements

In our statutory audit of the financial statement for both the 2018-19 and 2019-20 years we encountered the following issues which we have concluded are indicative of weaknesses in the control environment around core financial systems and the production of financial statements which have an adequate and traceable audit trail:

- Delays in production of working papers to support the financial statements. And the working papers and populations provided were not sufficiently clear and often were difficult to reconcile easily to the General Ledger and financial statements;
- Reports and listings from sub-ledgers and other accounting sub-systems often had not been regularly/clearly reconciled to the General Ledger;
- Debtor and creditor ledgers appeared to contain older balances which had not been fully reviewed;
- The Council made significant/material changes to the financial statements from the initial draft provided, and during our audit our team also identified a high level of misstatement, classification and disclosure issues in the statements

In our Audit Findings Report 2018-19 we highlighted 5 control recommendations. When we revisited these during the 2019-20 we were not satisfied these had been adequately followed up and implemented. We made 3 further control recommendations in the Audit Findings Report 2019-20. It isn't clear that these recommendations had been followed up by the Audit Committee.

Governance

These issues have been a significant contributory factor in the audits for 2018/19 and 2019/20 both taking longer than would otherwise be expected.

In mitigation of the points made above, we note that:

- Financial statements for the year 2019/20, and 2020/21 were published in line with the statutory timetable, and changes to the Comprehensive Income and Expenditure statement, in which users would primarily be interested, was not significantly changed between draft and audited versions. Therefore reasonably accurate income and expenditure information was available to users in the form of draft statements ahead of the audit being completed.
- Audit misstatements identified in the audit were not individually or cumulatively material.
- The financial statements audit for 2020/21 is still ongoing so we are as yet unable to fully conclude on whether the issues on page 19 are still persisting to a level which would continue to delay audit processes.

Therefore, we do not currently view this as being a significant weakness in arrangements as the core income and expenditure information reported was reasonably accurate. We have raised an improvement recommendation in respect of this issue (Recommendation 10). However, our view is that should the issues above continue to similarly persist in the 2020/21 and 2021/22 audit to a similar or greater extent (particularly if material misstatements were to be detected during those audits) this could be concluded to be a significant weakness in arrangements in future periods if it is clear that control recommendations have not been followed up appropriately.

Monitoring Standards

The Council has constituted a Standards Committee to promote and monitor compliance with the Members' Code of Conduct. The Committee has the power to deal with complaints regarding conduct and to impose sanctions. The Composition of the Committee includes two independent persons, which is good practice. There is evidence of an appropriate culture within the Council to prevent and detect fraud and corruption, with the relevant policies in place. In 2020-21 the Committee considered complaints against two members, one complaint was upheld and the member required to undergo further training.

An Anti-Fraud and Corruption Policy and Strategy is in place which also references the whistleblowing policy and anti-money laundering procedures. It is not clear when this strategy was last updated. Although we have not identified any significant weaknesses with this strategy we have raised an improvement recommendation in this respect (recommendation 11).

Codes of conduct are in place for both Members and officers and these include the policies relating to declarations of interest and gifts and hospitality. The Financial Procedures Rules also contain provisions for declaration of Conflicts of Interests specific to contracts for purchase of goods and services.

Member declarations of interest are available on the Council's website. There were no declarations of gifts and hospitality made by Members during the year. The Code of Conduct contains details of the gifts and hospitality policy. An email address is provided for sending through reports of gifts via a pro-forma. There is evidence of a number of low level gifts being reported by officers during the year.

The Council has a range of officers who are responsible for ensuring and monitoring compliance with statutory standards, such as the Monitoring Officer and the Section 151 Officer who both sit on the Council's leadership team.

We have not identified any significant weaknesses with regard to the Council's arrangements for ensuring adherence to laws and regulations or ethical standards.

Budgetary control 2020-21

We have considered the Council's processes for monitoring the 2020-21 budget during what was a difficult year to accurately forecast costs and income due to the effects of the pandemic, periods of lockdown, and incremental announcements of government funding.

Under the Council's Financial Rules Chief Officers are required to ensure that budgetary control is maintained within their Directorates and there is a named Budget Manager for each cost-centre. Budget responsibility is aligned with the decision-making that commits the expenditure on that budget, so that Budget Managers are accountable only for income and expenditure that they can control. Performance levels/levels of service are monitored in conjunction with the budget and necessary action is taken to align service outputs and budget revenue position.

We have not identified any significant weaknesses with regard to the Council's arrangements for budgetary control.

Conclusion

Overall, we consider that there is a significant weakness in the Council's governance arrangements in respect to the depth and coverage of Internal Audit. We have made a key recommendation in this respect. We have also made three improvement recommendations in other areas of governance to strengthen existing arrangements.

Improvement recommendations



Governance

Recommendation 8

recommendation The Council's overall Risk Management Strategy and Risk Appetite should be reviewed.

Why/impact It is important that the Council considers its overall strategy and risk appetite on a regular basis.

Summary findings The Council's Risk Management strategy and risk appetite has not been reviewed since 2009.

Management comment Accepted. The Audit Committee identified a need for more recent Risk Management Training and this was successfully delivered in 2021 to coincide with the roll-out of the new Risk management system. This system is online, facilitates 'drill down' and is equipped with 'dashboard' reporting' so whilst our Risk Management processes are robust, the Council's overall Risk Management Strategy and Risk Appetite should be reviewed.

Recommendation 9

Risks within the Council's Corporate risk register should be mapped to corporate priorities and the methodology for assessing and scoring risks included in the Risk Management Strategy.

Mapping risks to corporate priorities would ensure that their potential impact on the corporate plan is understood and only key risks are reported to Members.

The risk registers reported to Members include a description of the risk, mitigating actions, and a RAG rated risk score derived from the severity and likelihood of the risk occurring. Risks are assigned to named officers and contain a narrative on the current position. Risks are not mapped to corporate priorities. Risk updates to members are generally provided verbally.

Accepted – virtually already completely discharged. The Audit Committee has received risk management reports in accordance with the Council's Risk Management Policy and the highest risks always brought to their attention in the covering report both for the Strategic Risk Register and Operational Risk Register. Dashboard reporting was demonstrated to Councillors at a training session on 2 June 2021 and the whole purpose of this was show the high level risks, open risks, risks by service area etc. The new Risk Management system covers all of the above criteria and more except mapping risks to Corporate priorities. This will be immediately addressed.

The range of recommendations that external auditors can make is explained in Appendix B

Improvement recommendations



Governance

Recommendation 10

Recommendation 11

Recommendation The Council should ensure that weaknesses and control recommendations issued as a result of the financial statements audit are implemented in order to strengthen core financial systems, and particularly the processes for the production of robust and accurate financial statements underpinned by good quality and timely audit working papers. The Audit Committee should follow-up/monitor recommendations made as a result of the financial statements audit.

The Council's Fraud Risk Management Strategy should be reviewed.

Why/impact The Council has a responsibility to establish a robust control environment around core financial systems and the production of accurate financial statement which present a true and fair financial position to users of the statements.

It is important that the Council considers its overall fraud strategy and regular updates this to reflect new or emerging risks.

Good quality, timely audit working papers will contribute to a timely and efficient audit.

Summary findings We encountered a number of issues during the financial statements audits for 2018-19 and 2019-20 which were indicative of weaknesses in the control environment around core financial systems and the production of financial statements/working papers. Recommendations made as a result of the audits were not fully implemented and were not monitored/followed up by the Audit Committee.

There is no evidence that the Council's Fraud Risk Management Strategy has been regularly reviewed.

Management comment Financial Statements were adjusted as part of the Audit process for 2019/20, and accepted the recommendations as part of that process. This was improved for the following financial years, which should be noted as part of the current 2020/21 and 2021/22 audits. The External Audit team was also not consistent throughout the process of the 2019/20 audit and this contributed to issues with understanding of working papers and query resolution.

Accepted. The Council's Fraud Risk Management Strategy will be formally reviewed and updated and communicated to all councillors and staff. However, whilst the main document has not been reviewed for several years, we do review our arrangements each year and report those in the Annual Governance Statement. The Internal Audit team comprises of 2 professionally qualified Investigators and 1 experienced Investigator.

The range of recommendations that external auditors can make is explained in Appendix B

Improving economy, efficiency and effectiveness



We considered how the Council:

- responded to the changes required as a result of Covid-19
- uses financial and performance information to assess performance and identify areas for improvement
- evaluates the services it provides to assess performance and identify areas for improvement
- ensures it delivers its role within significant partnerships, engages with stakeholders, monitors performance against expectations and ensures action is taken where necessary to improve
- ensures that it commissions or procures services in accordance with relevant legislation, professional standards and internal policies, and assesses whether it is realising the expected benefits.

COVID-19 arrangements

During 2020-21 the Section 151 Officer continually assessed the impact of COVID-19 on the Council's long-term financial viability and provided regular updates to Members as part of the standard financial reporting to members. The Council also provided the necessary monthly returns to central government and used this information to inform its budget monitoring. The Council is able to identify directly attributable Covid-19 impacts for some income streams such as business rates, parking and leisure, it is not able to identify the Covid-19 related impact indirectly attributable for other income such as planning. It is important for the Council to get an understanding of the exceptional non-recurring nature of these variances to budget so that it can more accurately assess the financial impact of Covid-19 for the future. We have made an improvement recommendation with regard to this (recommendation 12).

Performance management

The Council's Corporate Plan was approved in February 2020 and sets out the five key priority themes:

- Tackling poverty, homelessness and ensuring quality housing;
- Keeping Hastings clean and safe;
- Make best use of our land, buildings, public realm and cultural assets;
- Minimising environment and climate harm in all that we do;
- Delivery of our major regeneration schemes; and ensuring the council can survive and thrive into the future.

Key Performance Indicators (KPIs) relating to the delivery of services and the Council's Corporate Strategy are reported quarterly to the Council's Senior Management Team (SMT) and then to members through the Quarterly Performance Reports. The Council moved to an online reporting portal from December 2020 which has significantly improved the level of reporting in this respect.

Managers are responsible for their own KPI data and there are few Data Quality checks. There has been no Internal Audit of Key Performance Indicators or Data Quality. A Data Quality Policy is not in place. We have made improvement recommendations in these respects (recommendation 13).

Performance reports also include financial reports however these are reported independently making it difficult to align financial decisions with operational delivery and performance overall against the Corporate Priorities. We have also noted that many of the financial updates are presented verbally rather than in writing. Written reports have also been presented late due to long term sickness and difficulties with recruitment in the Finance Team. These reports have not been as regular as they should have been, the Overview and Scrutiny Committee received no financial report in the first half of 2020-21. This does not allow for members to identify areas for debate or provide effective scrutiny.

Improving economy, efficiency and effectiveness

The financial information provided to members is sometimes confusing and potentially misleading. The Annual Budget report includes an Appendix K which sets out the PIER savings identified for the next year as well as a column with PIER savings for the current year. We were initially advised that this latter column represented the actual PIER savings achieved in that year. We were then advised that this represented additional savings identified during the year. We were then advised to exclude that column from our review as the figures could be misleading.

As a further example the Council has always revised its budget in February each year (one month before the year end) and then report any variance against the revised budget. This had the effect of minimising reported variances. Officers have advised that the Council will no longer report in this way as this approach was unhelpful and could be misleading.

An improvement recommendation has been made with regard to financial performance reporting (recommendation 14).

Savings are monitored in-year through the budget monitoring process with variances identified through projected under or over-spend against budget. Performance in this respect is not explicitly reported until the annual budget setting process. An improvement recommendation has been made in this respect (recommendation 15).

For Capital projects the initial proposals are scrutinised for potential Return on Investment (ROI) however these are not followed through with monitoring of actual ROI post implementation. An improvement recommendation has been made in this respect (recommendation 16).

Our review of the Council's arrangements for managing performance has not identified any significant weakness.

Benchmarking

Benchmarking is an effective tool that enables an organisation to compare and analyse its performance with others. It can provide a basis for collaboration and identify areas for improvement.

We have identified that the Council does not widely undertake performance benchmarking. It is seen as having limited value due to definitions and not comparing like with like. There is evidence of limited benchmarking by the Transformation Team as

well as for areas such as planning. Informal discussions do take place with cross-Sussex groups including Finance Officers Group and Revenues Groups. We have raised an improvement recommendation in this respect (recommendation 17).

Our benchmarking review of the CIPFA Financial Resilience Index highlighted Fees and Charges to Service Expenditure Ratio as a high-risk area. This indicator shows the proportion of fees and charges against the Council's total expenditure and for the Council this is 3.5% which is extremely low compared to its statistical nearest neighbour group. It is the lowest ratio by some margin within that group with Great Yarmouth and Preston being the next lowest at 14.55% and 14.69% respectively.

This is something the Council should consider reviewing given its current financial situation. We have raised an improvement recommendation in this respect (recommendation 18).

Significant partnerships

The Council works with a variety of partners to deliver corporate objectives and priorities for the local area. There are many examples of strategies developed at partnership level being translated into actions for the Council to deliver, and evidence that partnership work is overseen by the Council. Separate entries on the Corporate Risk Register confirm risks are being assessed for such partnerships.

The Financial Rules set out responsibilities for the Chief Finance Officer, Directors and Chief Legal Officers in the management of Partnerships.

The Council has a number of strategic Partnerships which have individual account managers, performance is ultimately scrutinised by the Council's Scrutiny Committee.

The most significant joint delivery/partnerships the Council has are:

- Procurement Hub (hosted by Wealden District Council);
- Financial system (with Rother District Council);
- Grounds Maintenance (with Rother District Council);
- Waste Management (Biffa) jointly managed although separate contracts. Managed by Wealden and management fee paid)

The Council has a number of key performance indicators underwritten by Service Level

Improving economy, efficiency and effectiveness

Agreements (SLAs) however online performance management portal doesn't, as yet, include contract management. We have raised an improvement recommendation in this respect (recommendation 19).

An External Overview & Scrutiny Committee monitors the performance of key partners. The Committee received a number of such reports which were reviewed and challenged by the Committee.

The Council belongs to Procurement Hub a key Partnership hosted by Wealden Borough Council. The constitution Financial Rules set out a Contract Policy to ensure works, goods and services are obtained honestly and openly; are appropriate for the purpose for which they are obtained; offer the most advantageous balance of quality and price and that are consistent with the policies of the Council. These rules also apply to use of consultants.

Our work has not identified any areas of significant weakness regarding how the Council works with its strategic partners.

Conclusion

Overall, we have concluded that there is no significant weakness in the arrangements for improving the way the Council delivers its services. We have made key recommendations which are set out on the following pages.

Improvement recommendations



Improving economy, efficiency and effectiveness

Recommendation 12

Recommendation 13

recommendation	The Council should identify recurring and non-recurring variances to budget arising specifically as a result of Covid-19.	The Council should undertake an Internal Audit of its Key Performance Indicators and Data Quality and consider the need to create a Data Quality Policy.
Why/impact	It is important for the Council to get an understanding of the exceptional non-recurring nature of these variances to budget so that it can more accurately assess the financial impact of Covid-19 for the future.	Good data is integral to performance management and so needs to be accurate, timely and complete
Summary findings	The Council is able to identify directly attributable Covid-19 impacts for some income streams such as business rates, parking and leisure, it is not able to identify the Covid-19 related impact indirectly attributable for other income such as planning.	Data is obtained from service heads and collated by performance officer. A Sense check is applied by Performance Officer and SMT but underlying data not validated.
Management comment	As part of the variance analysis of financial performance, reasons are identified through that process. At time of writing Covid-19 impact is decreasing and is not considered a high ongoing risk at this stage, although services are considering how they provide services in the wake of changes as a result of Covid-19.	Agreed. An Internal Audit of Key Performance Indicators will be carried out during quarter 1, 2023/2024 before publication of the full year's performance data

The range of recommendations that external auditors can make is explained in Appendix B

Improvement recommendations



Improving economy, efficiency and effectiveness

Recommendation 14

recommendation Financial reporting arrangements should be reviewed to ensure that: financial reporting is integrated with performance against the Corporate Priorities. Financial reporting should be timely, accurate and clear.

Why/impact There should be a clear line of site between the financial reporting and performance against the Council's Corporate Priorities. Inaccurate or confusing information could impact on the ability for the Council to identify areas for improvement.

Summary findings Financial reporting is provided separately from performance monitoring making it difficult to align financial decisions with operational delivery and performance overall against the Corporate Priorities.

Management comment Financial reporting is discussed at Overview and Scrutiny meetings but currently two separate reports. Process to combine the reports is underway with the aim of combining in the future.

Recommendation 15

The Council should review its reporting of savings to include regular monitoring of actual v budgeted savings

It is important that the Council carefully monitors its outturn against budget for anticipated savings.

Savings are monitored in-year through the budget monitoring process with variances identified through projected under or over-spend against budget. Performance in this respect is not explicitly reported until the annual budget setting process.

Already noted in a previous recommendation and this will be included in the regular financial reporting moving forwards.

The range of recommendations that external auditors can make is explained in Appendix B

Improvement recommendations



Improving economy, efficiency and effectiveness

Recommendation 16

Recommendation 17

recommendation The Council should review its monitoring arrangements including ongoing Return on Investment of capital projects.

The Council should review its Income and Fees strategy to identify areas where fees and income can be increased.

Why/impact It is important that the Council carefully monitors its outturn against budget including income and expenditure for capital investments.

This is something the Council should consider reviewing given its current financial situation.

Summary findings For Capital projects the initial proposals are scrutinised for potential Return on Investment (ROI) however these are not followed through with monitoring of actual ROI post implementation.

Our benchmarking review of the CIPFA Financial Resilience Index highlighted Fees and Charges to Service Expenditure Ratio as a high risk area. This indicator shows the proportion of fees and charges against the Council's total expenditure and for the Council this is 3.5% which is extremely low compared to its statistical nearest neighbour group. Indeed it is the lowest ratio by some margin within that group with Great Yarmouth and Preston being the next lowest at 14.55% and 14.69% respectively.

Management comment Full project reviews currently underway for existing projects to analyse financial viability and all future proposals are fully challenged and scrutinised before a decision is made. Finance colleagues are embedded in discussions with operational colleagues to ensure that all projects have been fully financially reviewed prior to any decision making, with all costs (including MRP impact) have been included over the life of the project proposal.

Already noted in a previous response, Fees and Charges increased as part of Budget setting discussions 2023/24.

The range of recommendations that external auditors can make is explained in Appendix B

Improvement recommendations



Improving economy, efficiency and effectiveness

Recommendation 18

recommendation The Council should routinely benchmark service costs against statistically similar councils in order to identify areas where efficiencies or savings could be achieved.

Why/impact Formal corporate benchmarking of service costs can be used to inform future budget rounds and service redesign. This will be particularly relevant as the Council seeks to implement a more strategic approach to generating savings to balance the budget.

Summary findings The Council does undertake performance benchmarking for some key service areas. There is however no formal corporate benchmarking of costs. Our benchmarking identified Fees and Income as an area of focus for the Council.

Management comment Noted.

Recommendation 19

The Council should include contract management performance KPIs as part of its overall online KPI reporting through the online portal.

It is important that there is visibility of the performance of key contractors and partners

The Council has a number of key performance indicators underwritten by Service Level Agreements (SLAs) however the Council's online performance management portal doesn't, as yet, include contract management.

Noted.

The range of recommendations that external auditors can make is explained in Appendix B

Opinion on the financial statements



Audit opinion on the financial statements

The audit of the 2020-21 financial statements audit is ongoing. We are targeting completion of the audit prior to Christmas 2022. However this is dependent on the efficient turnaround of audit queries, and the quality of evidence/explanation provided.

Findings from the audit of the financial statements can have an impact on value for money considerations, particularly around governance. Therefore, this report is presented as an Interim Annual Auditor Report and will be finalized and updated where appropriate on completion of the financial statements audit.

Audit Findings Report

Our Audit Findings Report, will be reported to the Council's Audit Committee on completion of the audit.

Whole of Government Accounts

To support the audit of the Whole of Government Accounts (WGA), we are required to review and report on the WGA return prepared by the Council. This work includes performing specified procedures under group audit instructions issued by the National Audit Office.

These instructions have yet to be issued and as such we cannot complete this work or formally certify the

© 2022 closure of our audit.

Grant Thornton provides an independent opinion on whether the accounts are:

- True and fair,
- Prepared in accordance with relevant accounting standards,
- Prepared in accordance with relevant UK legislation.



Appendices

Appendix A - Responsibilities of the Council



Role of the Chief Financial Officer (or equivalent):

- Preparation of the statement of accounts
- Assessing the Council's ability to continue to operate as a going concern

Public bodies spending taxpayers' money are accountable for their stewardship of the resources entrusted to them. They should account properly for their use of resources and manage themselves well so that the public can be confident.

Financial statements are the main way in which local public bodies account for how they use their resources. Local public bodies are required to prepare and publish financial statements setting out their financial performance for the year. To do this, bodies need to maintain proper accounting records and ensure they have effective systems of internal control.

All local public bodies are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness from their resources. This includes taking properly informed decisions and managing key operational and financial risks so that they can deliver their objectives and safeguard public money. Local public bodies report on their arrangements, and the effectiveness with which the arrangements are operating, as part of their annual governance statement.

The Chief Financial Officer (or equivalent) is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Chief Financial Officer (or equivalent) determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Chief Financial Officer (or equivalent) or equivalent is required to prepare the financial statements in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom. In preparing the financial statements, the Chief Financial Officer (or equivalent) is responsible for assessing the Council's ability to continue as a going concern and use the going concern basis of accounting unless there is an intention by government that the services provided by the Council will no longer be provided.

The Council is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.



Appendix B - Risks of significant weaknesses - our procedures and findings

As part of our planning and assessment work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources that we needed to perform further procedures on. The risks we identified are detailed in the table below, along with the further procedures we performed, our findings and the final outcome of our work:

Risk of significant weakness	Procedures undertaken	Findings	Outcome
Financial sustainability was identified as a potential significant weakness at the planning stage, see pages 8 to 17 for more details.	No additional procedures undertaken. Financial sustainability was assessed through the standard procedures including reviewing the budget setting process and medium-term financial plan.	Significant weaknesses identified	One Key and Five improvement recommendations raised.
Governance was not identified as a potential significant weakness at the planning stage, see pages 18 to 24 for more details.	No additional procedures undertaken	Significant weaknesses identified	One key and four improvement recommendations raised.
Improving economy, efficiency and effectiveness was not identified as a potential significant weakness, see pages 25 to 35 for more details	No additional procedures undertaken	No Significant weaknesses identified	Eight improvement recommendations raised.

Appendix C - An explanatory note on recommendations

A range of different recommendations can be raised by the Council's auditors as follows:

Type of recommendation	Background	Raised within this report	Page reference
Statutory	Written recommendations to the Council under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the Council to discuss and respond publicly to the report.	No	N/A
Key	The NAO Code of Audit Practice requires that where auditors identify significant weaknesses as part of their arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the Council. We have defined these recommendations as 'key recommendations'.	Yes	Pages 5 and 6
Improvement	These recommendations, if implemented should improve the arrangements in place at the Council, but are not a result of identifying significant weaknesses in the Council's arrangements.	Yes	Pages 13-17 Pages 21 - 24 Pages 28- 35

Appendix D – Use of formal auditor’s powers

We bring the following matters to your attention:

Statutory recommendations

Under Schedule 7 of the Local Audit and Accountability Act 2014, auditors can make written recommendations to the audited body which need to be considered by the body and responded to publicly

We have not issued any statutory recommendations.

Public interest report

Under Schedule 7 of the Local Audit and Accountability Act 2014, auditors have the power to make a report if they consider a matter is sufficiently important to be brought to the attention of the audited body or the public as a matter of urgency, including matters which may already be known to the public, but where it is in the public interest for the auditor to publish their independent view.

We have not issued a public interest report.

Application to the Court

Under Section 28 of the Local Audit and Accountability Act 2014, if auditors think that an item of account is contrary to law, they may apply to the court for a declaration to that effect.

We have not made an application to the Courts.

Advisory notice

Under Section 29 of the Local Audit and Accountability Act 2014, auditors may issue an advisory notice if the auditor thinks that the authority or an officer of the authority:

- is about to make or has made a decision which involves or would involve the authority incurring unlawful expenditure,
- is about to take or has begun to take a course of action which, if followed to its conclusion, would be unlawful and likely to cause a loss or deficiency, or
- is about to enter an item of account, the entry of which is unlawful.

We have not issued any advisory notices.

Judicial review

Under Section 31 of the Local Audit and Accountability Act 2014, auditors may make an application for judicial review of a decision of an authority, or of a failure by an authority to act, which it is reasonable to believe would have an effect on the accounts of that body.

We have not applied for a judicial review.

