



**Crawley Borough Council**

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

October 2022

**FIN/601**



**EY**

Building a better  
working world

# Contents

<b>Section</b>	<b>Page</b>
<b>01 - Executive Summary</b>	<b>2</b>
<b>02 - Purpose and responsibilities</b>	<b>6</b>
<b>03 - Financial statements audit</b>	<b>8</b>
<b>04 - Value for Money</b>	<b>14</b>
<b>05 – Other reporting issues</b>	<b>32</b>
<b>Appendix 1 – Fees</b>	<b>34</b>

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

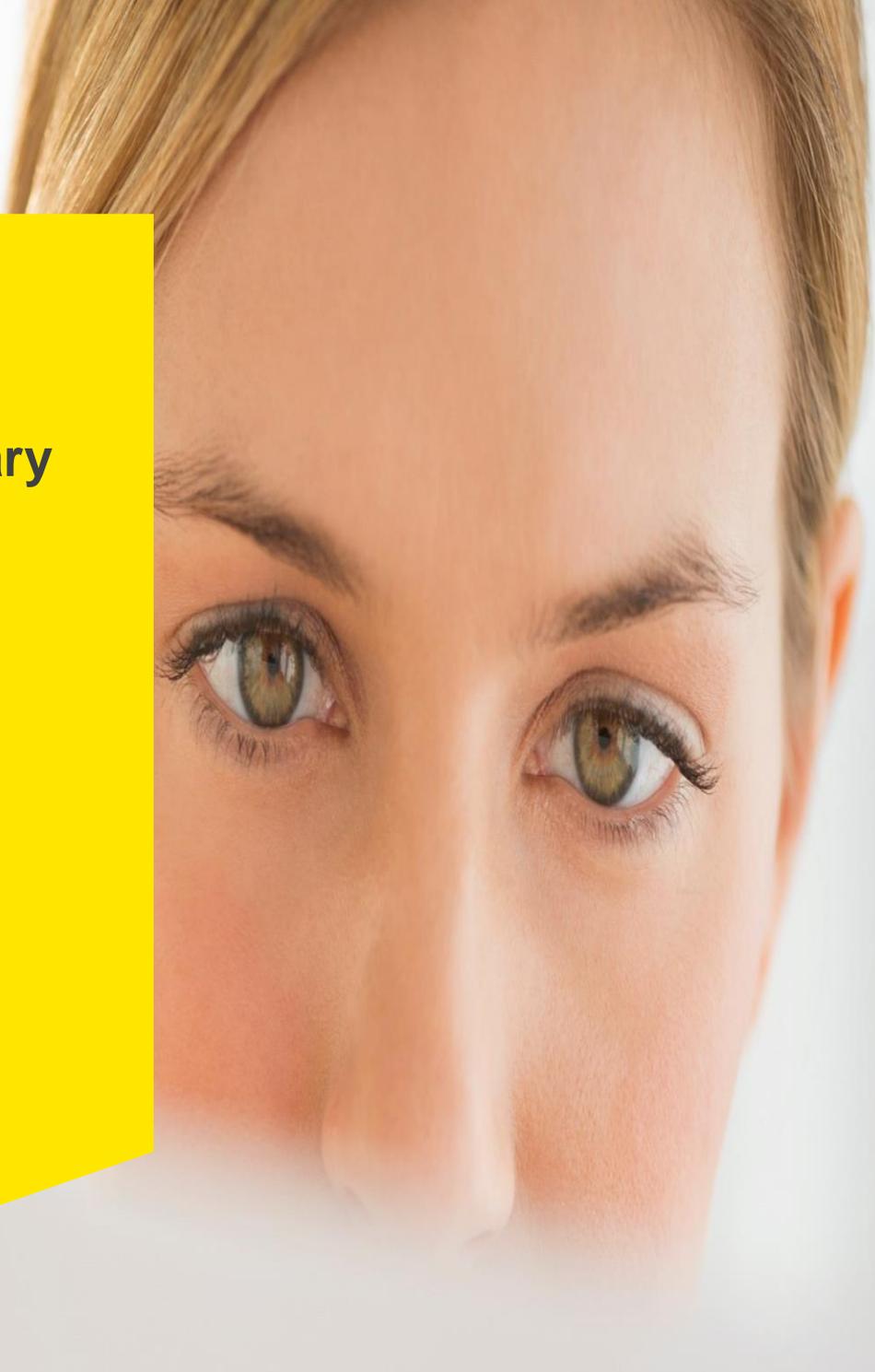
The “Terms of Appointment and further guidance (updated April 2018)” issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure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

This report is made solely to the Audit Committee and management of Crawley Borough Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit Committee and management of Crawley 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 Audit Committee and management of Crawley 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
<b>Opinion on the Council's:</b>	
Financial statements	<p>Unqualified – the financial statements give a true and fair view of the financial position of the Council as at 31 March 2021 and of its expenditure and income for the year then ended. The financial statements have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.</p> <p>We issued our auditor's report on 9 November 2022.</p>
Going concern	<p>We concluded that the Chief Financial Officer's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.</p>
Consistency of the Statement of Accounts 2020/21 and other information published with the financial statements	<p>Financial information in the Statement of Accounts 2020/21 and published with the financial statements was consistent with the audited accounts.</p>
<b>Area of work</b>	
<b>Conclusion</b>	
<b>Reports by exception:</b>	
Value for money (VFM)	<p>We had no matters to report by exception on the Council's VFM arrangements.</p> <p>We have included our VFM commentary in Section 04.</p>
Consistency of the annual governance statement	<p>We were satisfied that the annual governance statement was consistent with our understanding of the Council.</p>
Public interest report and other auditor powers	<p>We had no reason to use our auditor powers.</p>

# Executive Summary: Key conclusions from our 2020/21 audit

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

Outcomes	Conclusion
Issued a report to those charged with governance of the Council communicating significant findings resulting from our audit.	We issued and presented our initial Audit Results Report to the Audit Committee on 3 March 2022. We updated the Audit Results Report provided a final version to the Committee on 8 November 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.	<p>We have performed the procedures required by the National Audit Office on the Whole of Government Accounts (WGA) submission. However, the rights and requirements of the NAO can extend beyond the revised thresholds of £2bn set by HM Treasury, which do not prejudice the rights of the NAO. As group auditor, the NAO WGA team will consider the revised HM Treasury thresholds alongside HM Treasury's developing analytical review controls and may require assurances from auditors of components who are below the HM Treasury thresholds.</p> <p>The change for 2020/21 is that in previous periods the existence of the HM Treasury thresholds has meant that in many instances the work that the NAO WGA team would have otherwise directed non-significant components to undertake in line with ISA 600 had already been carried out. The increase in HM Treasury's local government threshold means that there is a risk the NAO WGA team require some assurances from auditors of bodies below the new limit. Consequently, we cannot issue our certificate for 2020/21 until confirmation on the above-mentioned has been received from the NAO.</p>

## 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)". 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 previously assessed the recurrent cost of additional requirements to carry out our audit and communicated this rebasing fee to the Council in 2019-20. Furthermore, as outlined in the Audit Results Report we were required to carry out additional audit procedures to address audit risks in relation to the rents overcharging issue, valuation of properties in property, plant & equipment and investment properties including addressing valuation differences identified, determining the appropriateness of the actuarial model design, reviewing the appropriateness of the Council's accounting of Covid-19 grants and infrastructure assets and appropriate disclosure of going concern.

Consequently, we intend to agree the associated rebasing fee and additional fee with the Head of Corporate Finance, which will be presented to the Audit Committee and to PSAA for determination. We include details of the proposed final audit fees in Appendix 1.

# Executive Summary: Key conclusions from our 2020/21 audit

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

Elizabeth Jackson

Partner

For and on behalf of Ernst & Young LLP

Section 2

## Purpose and responsibilities



# Purpose and responsibilities

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

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## **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 and update that we issued on 19 July 2021 and 1 December 2021 respectively. 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

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

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## 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.

On 9 November 2022, we issued an unqualified opinion on the financial statements. We issued and presented our initial Audit Results Report to the Audit Committee in March 2022. We updated the report with our final conclusions; and provided a final version to the Committee on 8 November 2022.

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
<b>Misstatements due to fraud or error - management override of controls</b> 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.	We did not identify any material weaknesses in controls or evidence of material management override, instances of inappropriate judgements being applied; or any other transactions during our audit which appear unusual or outside the Council's normal course of business.
<b>Inappropriate capitalisation of expenditure</b> Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition. We have identified an opportunity and incentive to capitalise expenditure under the accounting framework, to remove it from the general fund.	<p>Our sample testing of additions to PPE:</p> <ul style="list-style-type: none"><li>• Found costs were correctly classified as capital and included at the correct value; and</li><li>• Did not identify any revenue items that were incorrectly classified as capital.</li></ul> <p>Our data analytical procedures also did not identify any journal entries that incorrectly moved expenditure into capital codes.</p>

Continued over.

## Financial Statement Audit (continued)

Significant Risk	Conclusion
<p><b>Overcharging of Housing Rents</b></p> <p>Crawley Borough Council disclosed to us in April 2021 that they had been overcharging rent to council housing tenants since April 2014 for all new tenancies since this date in properties that pre-dated April 2014. This was identified due to the Council performing a forensic investigation after being contacted by the Regulator for Social Housing following the first mandatory data return on the setting of target rents to the Regulator. The Council's return identified them as an outlier as the target rents were around 8% higher than the Government's formula rent and valuations suggested they should be. The Council came under the Regulator from April 2020.</p> <p>There was a risk of inappropriate accounting for the transactions based on the interpretation of the regulations.</p>	<p>We concluded that the error that caused the overcharging in rent was not deliberate and that there is no obligation to repay the overcharged rents prior to 1 April 2020.</p> <p>We concluded that the treatment of the overpayment of rents prior to 1 April 2020 as a post balance sheet event in the year ended 31 March 2021 is correct and that the Council should adjust the financial statements for the year ended 31 March 2021 for the impact on that year only (£688,000). The Council decided not to adjust for this and therefore it is treated as an unadjusted misstatement in the 2020/21 financial statements.</p>
<p><b>Valuation of land and buildings under Existing Use Value (EUV) and Investment Properties (IP) under Fair Value (FV)</b></p> <p>Land and buildings is the most significant balance in the Council's balance sheet. The valuation of land and buildings under EUV and IP under FV 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>The audit team reviewed the revaluation of 51 properties selected from PPE under EUV and IP under FV. We also employed the use of our own expert to support the work in relation to the valuation of 6 of these properties.</p> <p>From our work performed, we identified that investment properties were overstated by £1,120,000 and there was a minor understatement of PPE properties valued under EUV. These were all treated as unadjusted misstatements in the 2020/21 financial statements.</p> <p>We were satisfied that the valuation of land and buildings in PPE under EUV and IP under FV are fairly stated and appropriately disclosed.</p>

Continued over.

## Financial Statement Audit (continued)

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

Other area of audit focus	Conclusion
<p><b>Valuation of Land &amp; Buildings in PPE under Depreciated Replacement Cost (DRC) and Housing Revenue Account (HRA) properties</b></p> <p>Land and buildings is the most significant balance in the Council's balance sheet. The valuation of land and buildings under DRC and HRA requires a lesser degree of material judgemental inputs and apply estimation techniques to calculate these balances held in the balance sheet and HRA notes. Although there is still risk in the valuation of these assets, we believe it to be less than for the properties under EUV and FV as listed above.</p>	<p>The audit team reviewed the revaluation of 8 properties selected from PPE under DRC and 13 properties selected from HRA properties.</p> <p>From our work, we were satisfied that the valuation of land and buildings in PPE under DRC and HRA properties are fairly stated and appropriately disclosed.</p>
<p><b>Pension Asset and Liability valuation</b></p> <p>The Pension Fund asset and 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 modified our planned approach to address the requirements of the revised auditing standard on accounting estimates by testing the method of measurement of accounting estimates to determine whether the model is appropriately designed, consistently applied and mathematically accurate, and that the integrity of the assumptions and the data has been maintained in applying the model.</p> <p>From our work, we identified a judgemental difference in the pension fund assets of £1,025,000 which was not corrected by management. We were however satisfied that the pension liability and asset valuation is fairly stated and appropriately disclosed.</p>
<p><b>Going concern disclosures</b></p> <p>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.</p>	<p>We reviewed management's going concern assessment and confirmed their conclusion that the Council remains a going concern was based on reasonable and supportable assumptions.</p> <p>We also reviewed management's going concern disclosure and confirmed it was sufficiently detailed, transparent and accurately reflects management's underlying going concern assessment.</p>

Continued over.

## Financial Statement Audit (continued)

Other area of audit focus	Conclusion
<p><b>Accounting for Covid-19 related grant funding</b></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>We were satisfied that the accounting treatment adopted for Covid-19 related government grants accorded with the Council's assessment of whether it was acting as agent or principal, the underlying conditions of the grant and whether those conditions had been met.</p>
<p><b>Valuation of NNDR Appeals Provision</b></p> <p>Crawley Borough Council's NNDR Appeal Provision was valued at £4.1m at 31 March 2021. This is a high value estimate driven by internal calculations and judgement.</p>	<p>We were satisfied that the accounting treatment adopted for provisions is appropriate and the calculations are accurate. However, from our work we identified a judgemental difference of £245,000 where we disagreed with the percentage used by the Council to estimate the provision required for successful appeals from the latest valuation listing.</p>
<p><b>Accounting treatment for infrastructure assets</b></p> <p>The value of infrastructure non-current assets is material in the financial statements. Once an item of PPE has been recognised and capitalized, the Council may incur further costs on that asset at a later date. The accounting treatment requires such subsequent expenditure to be capitalized to the value of the asset where these costs meet the recognition criteria. Where the subsequent expenditure represents the replacement of a component, the old component must be written out of the balance sheet. There is a need for the Council to ensure that it has recognised and accounted for such subsequent expenditure appropriately.</p>	<p>We were satisfied that the Council has sufficient information available and was compliant with the CIPFA Code. Our testing identified that the Council had not depreciated all of its infrastructure assets in line with its accounting policy and an adjustment of £759,000 was made to the accumulated depreciation to bring the historic depreciation in line with the policy.</p>

## Financial Statement Audit (continued)

### Audit differences

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

We furthermore identified one misstatement greater than £132,000 which was corrected by management. This pertained to depreciation in respect of infrastructure assets totalling £759,000.

We also identified differences of £1,025,000 in the valuation of pension fund assets; £342,000 in the valuation of properties valued using EUV and an overstatement of £1,120,000 in the valuation of investment properties; a turnaround impact of £1,905,000 in the valuation of investment properties in the prior year; an understatement of the shared equity debtor of £331,000; an overstatement in the NDR appeals provision of £245,000; omission of £688,000 in relation to the 2020/21 impact of the overcharging of housing rents and an extrapolated overstatement of the gross book value and accumulated depreciation of intangible assets of £326,000 with nil net book value impact. These differences were not corrected by management as they are immaterial and are mostly judgemental in nature.

### 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
<b>Planning materiality</b>	We determined planning materiality to be £2.65m 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.
<b>Reporting threshold</b>	We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £132,000.

Section 4

## Value for Money



# Value for Money (VFM)

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

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## 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 Audit Committee in December 2021, which was based on a combination of our cumulative audit knowledge and experience, our review of Council and committee reports, meetings with the senior officers and evaluation of associated documentation through our regular engagement with management and the finance team. We reported that we had identified one risk of significant weaknesses in the Council's VFM arrangements for 2020/21 in relation to the overcharging of housing rents.

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

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## Reporting

We completed our planned VFM arrangements work, including our work in relation to the risk of significant weakness and reported this in our Audit Results Report taken to the 8 November 2022 Audit Committee. We concluded that we had not identified 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.

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

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## 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.

We have previously reported the VFM work we have undertaken during the year including our risk assessment. The commentary below aims to provide a clear narrative that explains our judgements in relation to our findings and any associated local context.

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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.

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

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*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 has set out its strategic direction within the 'Corporate Priorities 2018-2022'. The corporate priorities consist of six key headline priority objectives which are underpinned by 24 objectives, projects and initiatives and these inform its service delivery objectives for the short-term and forms the basis of its strategic planning, including its short-term and medium-term financial plans.

Crawley's six priorities set out within this are:

- Delivering value for money and modernising the way we work
- Delivering affordable homes for Crawley and reducing homelessness
- Improving job opportunities and developing the local Economy
- Creating stronger communities
- Providing high quality leisure and culture facilities and supporting health and wellbeing services
- Protecting the environment

As part of this, the Council has a transformation plan (Transformation Plan 2020-2022) 'embracing new ways of working, providing easily accessible and more

## Financial sustainability (continued)

efficient services for their customers, delivering value for money and creating a more commercial culture in order to be financially stable.’

### Setting of the 2020-21 Revenue Budget:

The Council prepares an annual revenue budget as part of its short-term financial planning. The 2020-21 Revenue Budget was set as a balanced budget and compiled within the context of the Government’s Comprehensive Spending Review, the Chancellor’s Budget, and the local government settlement. This was approved at full Council on 26 February 2020. There has been a significant decline in overall government income in recent years with increasing amounts of income being generated locally through Council Tax, Business Rates, fees and charges, and income from commercial property, for example the Revenue Support Grant has declined significantly over the past four years.

During 2020/21, the Council has planned and set the budget for 2021/22, approving this at Full Council on 24 February 2021.

The 2021/22 Budget reflects the policy objectives set out in the Budget Strategy 2021/22 to 2025/26. The key elements of the 2021/22 Budget are:

- A Council Tax increase of £4.95 a year for a Band D property (2.37%)
- Savings, efficiencies and increased income of £1,819,450
- A transfer from reserves of £155,606.

In addition to the national context, the Council’s budget strategy also takes account of pressures and risks such as:

- inflation (the largest source of cost pressure)
- income generated by the Council which may be affected by lack of demand
- impact of increasing demand for such services as homelessness
- withdrawal of funding by partners, potentially losing funding for key priorities

The Council holds a general fund reserve and other earmarked reserves to help mitigate these risks. At 31 March 2021, these totalled £15.1 million, which is greater than the £3 million minimum level of reserves set by the Council.

The Council also continues to pursue savings through efficiency reviews, procurement, and base budget reviews. These initiatives have resulted in underspending of £1.3 million as part of the 2020/21 budget round and ensured that service delivery was protected from any significant cuts.

### Setting of the Medium-Term Financial Plan - 2021/22 to 2025/26:

The Council prepares a five-year revenue budget as part of its medium-term financial planning. The budget strategy for 2021/22 to 2025/26 was prepared with the aim to deliver the Council’s service delivery objectives outlined in its

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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.

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## Financial sustainability (continued)

‘Corporate Priorities’ and ‘Transformation Plan’.

These forecasts are updated throughout the year to give the Council a clear view of the forthcoming financial challenges. They then feed into the setting of the medium term financial plan and the 2021/22 budget taking into account the impact of Covid-19 on the finances of the Council and setting the strategic direction to address the significant challenges for 2021/22 onwards.

These forecasts considered the fall in government funding combined with the impact of the pandemic of the Council’s budgets. The financial impact of Covid has required the development of new approaches to budget and efficiency savings. A combination of the use of reserve, efficiencies and temporary divisional savings is on track to address the in-year savings needed.

Permanent savings are also required to be made to meet the long term budget gap with any future waves of Covid increasing the level of savings required as this will impact on Council tax and business rates income.

The savings strategy developed by the Council has three strands:

1. Identify potential for permanent savings within the in-year savings identified.
2. Work to bring forward larger savings items identified by officers, the ones that are public facing formed part of public consultation in October 2020.
3. Undertake a number of thematic and service reviews to improve services and drive future efficiencies, these reviews are in early stages and will be reported to future Cabinet meetings.

### In-year Budget Monitoring:

Revenue and capital budgets are monitored throughout the financial year by the Head of Corporate Finance and reported on a quarterly basis to the Overview and Scrutiny Commission. These reports culminate into the revenue and capital outturn report that is approved by the Overview and Scrutiny Commission.

Any areas of concern are subject to detailed scrutiny by the relevant Portfolio holder at separate management meetings. The Overview and Scrutiny Commission can also add areas of concern to their work programme.

The 2020/21 Outturn Report reflects the efficiency of these in-year monitoring measures as the Council has again contained expenditure within the original budget levels despite facing a range of additional costs that were not part of the original budget. In 2020/21 Crawley Borough Council reported an underspend of £1.3 million against a budget of £15.8 million, which was largely due to the substantial additional Government Grant received to offset the impact of COVID 19.

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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.

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## **Financial sustainability (continued)**

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

Due to the financial pressures the Council is facing, it needs to identify significant savings or deliver income growth over the next 5 - 10 years to balance the budget, particularly if it wants to deliver on its service delivery objectives detailed in its 'Corporate Priorities' and 'Transformation Plan'.

The savings process to be followed for the development of the budget has the following stages:

1. Savings achieved through the challenge process led by the Corporate Management Team and any agreed savings that have been identified by officers
2. Savings are identified by each Head of Service meeting with the Chief Executive and finance officers to identify savings in their service
3. Public consultation period
4. A meeting is then held with members, where officers present the options for savings which would involve a cut to services currently provided to ensure governance oversight of the decisions being taken.

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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.

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Once the budget has been set and approved, it is monitored throughout the financial year by Corporate Management Team and reported on a quarterly basis to the Overview and Scrutiny Committee.

The medium term financial plan, which went to Cabinet in November 2020, identified significant budget gaps over the medium term with several options to be considered at the time for budgeting them.

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

The Council has detailed its service delivery objectives detailed in its 'Corporate Priorities' and 'Transformation Plan', which cover the 2020-2022 period. This forms the basis for its strategic and statutory priorities on which its short-term and medium-term financial plans are developed.

Progress towards achieving these objectives are monitored by the Corporate Management Team throughout the year and through review of the quarterly finance reports, which are presented to the Overview and Scrutiny Commission, with remedial actions discussed and subsequently actioned, where necessary.

Short-term and medium-term financial plans detail the likely costs associated with the Council's strategic and statutory priorities; identifies any budget gaps that may arise from reduction in government funding; and planned savings

## **Financial sustainability (continued)**

strategies to bridge any gaps between available funding from taxation and the cost of services.

Any new service investment made must meet either objectives within the corporate priorities or be a new statutory obligation.

### *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*

As part of the Council's short-term and medium-term financial planning process (which include their capital budgets), it develops an annual Treasury Management Strategy, which includes their capital investment strategy which is approved by the Council alongside its Revenue Budget. This Strategy is also aligned to the Council's Corporate Priorities and Transformation plans and identifies the capital investments required to achieve set service delivery objectives.

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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.

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This capital plan determines the cost of financing the required capital along with any other financial impact. The Revenue Budget is also updated to reflect the latest information regarding the delivery of the capital programme.

Members are also involved in the budget setting process, through a Budget Advisory Group or all Member Seminar and special meetings, to ensure that knowledge is brought into the process from all aspects of the Council.

### Capital expenditure for the 2020/21 financial year:

The 2020/21 Budget and Treasury Management Strategy identified the capital expenditure planned over the medium term and their sources of financing which is also aligned to the 2020/21 revenue budget.

Subsequent approvals and reprofiling of budgets to and from the 2021/22 budget resulted in a final capital budget of £50.1 million for 2020/21. The 2020/21 Capital Outturn Report reflected actual capital expenditure of £42.2 million which is reprofiling of 16% of the capital budget in the year.

### Capital expenditure for the 2021-22 financial year:

Similar to the above, the 2021/22 Treasury Management Strategy identified the capital expenditure planned over the medium term and their sources of financing which is also aligned to its 2021/22 revenue budget. Any shortfall of resources will result in a funding borrowing need.

## Financial sustainability (continued)

### 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 Council manages its financial resilience risk through the following implemented measures:

- The Council publishes detailed short-term and medium-term financial plans that are aligned to its Corporate Priorities and Transformation plans and includes actions to ensure financial sustainability
- In-year monitoring of these financial plans to identify and incorporate any unplanned changes in underlying assumptions going forward
- Reporting of financial performance against above set financial plans on a quarterly basis to the Overview and Scrutiny Commission and Cabinet
- Risk management processes to identify, monitor and address risks.

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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.

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The high level risks to the 2021/22 Budget and how they will be managed are shown in the Appendix 5 to the Budget report. Risks on the Town Hall project are reported to the Audit Committee. Risks are highlighted throughout the budget report including the impacts of the pandemic on the current and unknown impacts of this on future years for both service costs and income but especially business rates, interest rates, the impact of the economic climate, ensuring planned savings are achieved, and the availability of capital resources in future years and the need to take out borrowing.

The Council also have in place mitigations, so when a meeting is cancelled, the reports are still shared with members through the Councillor information bulletin.

## 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 Constitution sets out how the Council operates, how decisions are made and the procedures which are followed to ensure that decisions are efficient, transparent and accountable to local people. Areas of potential change are identified, and the Constitution is amended accordingly, which has been evidenced by the recent updating of its constitution in November 2021.

The Council operates an Overview and Scrutiny Committee which has its own terms of reference, as outlined in the Council's Constitution. This Committee supports the work of the Cabinet and the Council as a whole. It allows citizens to have a greater say in Council matters by holding public inquiries into matters of local concern. These lead to reports and recommendations which advise the Cabinet and the Council as a whole on its policies, budget and service delivery. The Overview and Scrutiny Commission also monitors the decisions of the Cabinet. This enables them to consider whether the decision is appropriate. They may recommend that the Cabinet reconsider or amend the decision. They may also be consulted by the Cabinet or the Council on forthcoming decisions and the development of policy.

All significant (strategic) risks are discussed regularly by the Corporate Management Team and are reported to the Audit Committee on a quarterly basis. These include the New Town Hall, District Heat Network, LEP Infrastructure – Crawley Growth Programme, Delivering Affordable Housing, the Transformation Programme, Public Health and Council No Overall Control. Operational risks are managed at departmental level.

This aids the achievement of the Council's strategic priorities, supports its decision-making processes, and protect its reputation and other assets and is compliant with statutory and regulatory obligations. These risks are identified as a routine process of all services and these are regularly reviewed and updated. Strategic risks are those risks defined as something that may result in failure in service delivery, significant financial loss, non-achievement of key objectives, damage to health, legal action or reputational damage, and mitigating measures/assurances must be put in place.

The Council also has an internal audit service in place which provides the Council with information regarding the effectiveness of the internal control environment and its arrangements to prevent and detect fraud. Regular in-year reporting at each meeting by internal audit to the Audit Committee is also in place which ensures that efficient and effective assurance arrangements are in place to assist in the management of risk and performance.

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

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## **Governance (continued)**

The Council has a Fraud and Investigations Team with responsibility for investigating fraud and carrying out verification work on issues such as Council Tax discount and investigations into NFI matches. This team acts to minimise the risk of fraud, bribery, corruption and dishonesty and recommends procedures for dealing with actual or expected fraud to the Council. The team also prosecutes where appropriate and is involved in fraud training and awareness.

We note that an issue was identified during the year regarding historic overcharging of housing rents. Our review concluded that there is no 'detect' control gap at the Council. The original error was made when the future target rent was not updated due to an oversight when the Council moved from a 48 week to 52 week rental year. The target rent is a figure that is only updated once a year when the Council apply any prescribed uplift or decrease is required by the regulations, government instruction or guidance. Internal Audit verified that all required uplifts and decreases required each year had been applied accurately and in line with the guidance for each given year. Without performing the review performed by the Regulator, checking the formula calculation, the error in not adjusting the target rent would not have been identified and the Council had no reason to perform such a check as they were confident that they had applied the correct adjustment to the target rent each year.

We have not identified any wider implications or indications of poor management through our review of this issue or our wider audit work.

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

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

The Annual Budget process including the responsibilities and procedures in the annual budget process is set out in Part 2: Financial and Budget Procedure Rules within the Constitution of the Council.

As mentioned above, the Annual Budgeting process of the Council seeks to reconcile corporate and business plans and strategies with the relevant resources which includes the finance department. This process starts with a series of strategic initiatives with inputs from the various stakeholders, for example, the establishment of the Council's Medium-Term Financial Plan and Medium-Term Capital Strategy. The Council has an implemented budgeting system that allows for the alignment of its annual budget to the priorities and commitments in its 'Corporate Priorities' and 'Transformation Plan'. The Council refreshes the medium term financial plan and agrees the budget strategy in advance of the forthcoming year in November. Budget holders meet with finance officers and update their budgets in the Collaborative Planning (CP) module in the finance system. CP is updated before this to incorporate any known changes that are in the Medium Term Financial Strategy, including inflation.

## **Governance (continued)**

Subsequently, the overall savings plan is checked and consulted on prior to initial consideration by the Corporate Management Team and the Overview and Scrutiny Commission in February.

The savings are then put to 'All Members seminars' with the proposals that resulted in a public consultation and the results, which then go through to Cabinet for approval. The Council will then consider the overall budget and options for Council Tax setting which is then subject to approval by the respective Councils in February.

*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.*

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

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The processes and systems in place to ensure budgetary control are set out in Constitution of the Council.

Furthermore, each cost centre has an assigned budget manager. There are monthly meetings with budget managers, but unless there is a major variation, the reporting is only done quarterly.

The finance team prepare fortnightly budget monitoring reports for the Corporate Management Team on the financial performance of the Council which identifies emerging issues. This feeds into the quarterly reporting of the revenue and capital budgets to the Overview and Scrutiny Committee.

This budget management process is also subject to regular internal audit review to ensure that the system is fit for purpose.

The efficiency of these controls is evidenced by the overall outturn position of £1.3 million underspent for the 2020/21 financial year.

*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.*

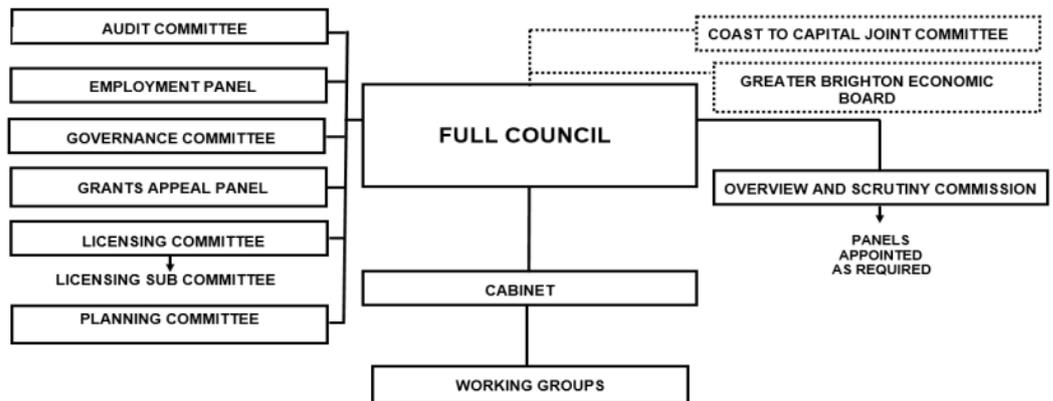
Primary oversight is the responsibility of the Full Council. There are certain decisions which are reserved for the Full Council, either by legislation or through its own choice, and as such these will only be taken by the Full Council.

The Full Council has established Committees to discharge the majority of its remaining functions. These Committees delegate operational day-to-day decisions relating to the management of service areas to the Chief Executive

## Governance (continued)

who may delegate them further throughout the Council. The Constitution sets out the different levels of decisions and what can and what cannot be delegated.

The Council operates under the following committee structure:



All decisions of the Council are accompanied by a detailed report which details the rationale for the decision, the options considered, legal advice and financial advice. Under the constitution, all decisions may be called in by members for review prior to implementation on specific grounds. These reviews are the purview of the Overview and Scrutiny Commission.

These committees meet on a regular basis during which key issues are raised and addressed with effective challenge from members. We have evidenced this through our review of the meetings of these committees.

To allow for transparency, the Council also ensures that it:

- Publishes relevant information relating to salaries, business interests and performance data on its website
- Has a Procurement team who provide advice and issue clear guidelines for procuring goods and services
- Publishes information to the Council and its Committees as part of established accountability mechanisms
- Prepares an Annual Governance Statement
- Prepares a Corporate Priorities Plan as discussed above.

The Authority is furthermore committed to the publication of transparent performance information on its website, which includes:

- Budget reports
- Operational performance reports

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

## **Governance (continued)**

- Medium-Term Financial Plan
- Corporate Plan
- Statement of Accounts including the Annual Governance Statement
- Information as required under the Local Government Transparency Code.

There is also evidence of good arrangements in place to monitor the implementation of internal audit recommendations by the Audit Committee. Internal audit progress reports are presented on a regular basis throughout the year to monitor implementation of recommendations by internal audit and to implement corrective actions where necessary.

We noted that once the issue regarding the overcharging of housing rents was identified, the Council acted swiftly to identify the root cause of the issue and discussed how to resolve this, taking decisions in consultation with the Leader of the Council, the Cabinet Member for Housing and the Leader of the Opposition, including a timeline for further communication and decisions that members needed to make to support the process being undertaken.

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

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### *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 both members and officers of the Council are outlined in the Code of Conduct included within its Constitution.

If any member or officer breaches the Code of Conduct, there is a resolution and complaints process administered by the council's Monitoring Officer and potentially involving a hearing of the Council's Governance Committee.

The Council is transparent about how decisions are taken and recorded by:

- Ensuring that decisions are made in public and recorded. Those decisions and relevant information are publicly available (except where that information is exempt under the provisions of the Local Government Act or determined as being confidential by Government)
- Having rules and procedures which govern how decisions are made.

The Council has implemented systems to ensure conflicts of interest are identified, recorded and acted upon accordingly, excluding anyone from decision-making where a conflict arises, and making public declaration of interests through its Register of Councillors' financial and other interests which is published on the Council's website and covers employees, governing body members and members of committees.

## **Governance (continued)**

Regular training is provided to members on standards issues, so all members are aware of the requirements. Each member and officer are expected to complete a return on any gifts of hospitality.

The Council has published the Whistleblowing Policy which sets out how the Council will provide protection to individuals raising concerns. This policy is periodically reviewed in line with guidance.

The Council also ensures that effective, transparent and accessible arrangements are in place for dealing with complaints. The website contains guidance for submitting complaints against the Council by the public and processes are in place to progress any complaints that are made.

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

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## **Governance: Response to risk of significant weakness in arrangements**

### ***Risk: Governance arrangements over the historic overcharging of housing rents***

The Council disclosed to us that it came to their attention in April 2021 that they had been overcharging rent to council housing tenants since April 2014 for all new tenancies post April 2014 in properties that pre-date April 2014. This was identified due to the Council performing a forensic investigation after being contacted by the Regulator for Social Housing, who had identified that the Council was identified as being an outlier in that its target rents were around 8% higher than the Governments formula rent and valuations suggested they should be, following a first mandatory data return about the setting of target rents. The Council came under the Regulator from April 2020.

This is a breach of laws and regulations, therefore there is a risk that the Council's arrangements led to this breach being enabled.

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**Risk of significant weakness conclusion: The Council had the arrangements we would expect to see to enable to make informed decisions and properly manage its risks.**

**The risk did not lead to a weakness in the governance arrangements in 2020/21.**

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We carried out an extensive review of the Council's own investigation and the internal audit review to determine whether there had been any weakness in the arrangements in place that led to the overcharging occurring.

### **Conclusion**

The Council acted swiftly on receipt of the information from the Regulator to identify the overpayment of rents issue and resolve it. It has taken time to ensure that the refunds to tenants had been calculated correctly and this delayed the Council in informing the tenants. However, this is due to the nature of the calculations rather than any weakness in the arrangements at the Council. The Council took appropriate advice, and kept members of the Council informed as appropriate and involved the Leader of the Council, the Cabinet Member for Housing and the Leader of the Opposition in key decisions during the process leading up to the public notification of the issue and resolution.

We reviewed the breach in laws and regulations as part of our Non-Compliance with Laws and Regulations (NOCLAR) procedures. Our work concluded that although there was a breach, this was not material to the Council's financial statements and the overcharging of rent was not a deliberate act by the Council.

We have not identified any significant weaknesses in the Council's arrangements.

## Improving economy, efficiency and effectiveness

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

The Transformation Plan was revised in 2020, following a report to the Overview and Scrutiny Committee, with six key themes and activities to deliver against the corporate priorities.

The Transformation Board at Corporate Management Team level has been established to provide oversight at a high level to ensure coherence, manage interdependencies and change, allocate resources and ensure delivery of the 'Transformation Plan'.

The Transformation Board meets monthly and monitors progress at regular intervals. The Board reports in a variety of ways across the Council - through Portfolio Briefings, Chief Executive Inform and Q&A sessions, team briefings, via the intranet and at the annual update to the Overview and Scrutiny Committee.

Furthermore, any issues identified by internal audit are monitored and reported to the Audit Committee regularly. Officers not taking sufficient action on these service improvements may be requested to report to the Committee.

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

The Council's service delivery objectives are detailed in the 'Corporate Priorities' and 'Transformation Plan'. Overview of the delivery of the 'Transformation Plan' is the responsibility of the Transformation Board.

Most services have performance information and standards used to compare and assess performance with other Councils or with national recognised performance frameworks.

Internal audit and customer feedback are also used to inform which services require improvement. This service would be considered for inclusion within the 'Transformation Plan' if significant support was needed to improve the service.

### 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

A senior management group – Corporate Project Assurance Group - ensures appropriate governance of projects and that key projects beyond the transformation programme are not adversely impacted from the constraint of capacity and resources.

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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.

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## **Improving economy, efficiency and effectiveness (continued)**

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

The 'Transformation Plan' is the key driver for action to be taken when a project has been identified that generally lies outside of a single service or required additional resource and focus in order to deliver and embed that change.

### Consultation and engagement

The Council has a consultation section on its website, which enables the public to get involved with helping the Council to make good, informed decisions and provide the best service to the town. The public can sign up to notifications to keep them informed of new consultations.

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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.

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The Council consult on their budget each year, especially in areas impacting service delivery and use the feedback to inform decision making for the final approved budget.

### Complaints

There is also a clear and transparent complaints procedure for dealing with complaints. Complaints are included in performance monitoring report to the Corporate Management Team.

### Partnership working

Performance monitoring of major partnerships is carried out at Corporate Management Team quarterly. This includes the major contracts such as waste and leisure.

The Council has a successful capital programme with the Local Enterprise Partnership and West Sussex County Council on the Crawley Growth Programme. The Council also has a shared procurement service with two local district councils and are part of the Greater Brighton Economic Board, Gatwick Diamond, and development management partnership with Westrock .

*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.*

As set out in the Constitution, the Council's Procurement Code governs the way officers acquire goods, works and services, and ensure that their processes are consistent, transparent, legally compliant, and that they treat suppliers fairly. The Code can be found via the Council's website so is accessible to the public and its partners.

## **Improving economy, efficiency and effectiveness (continued)**

The Council has published its procurement thresholds and contract register on its website. The Council is party to a shared procurement service with Horsham District Council and Mid Sussex District Council as part of its procurement processes, with Crawley Borough Council being the lead authority.

In line with the above-mentioned standing procedures, any procurement over £20,000 must be referred to the shared procurement team to ensure that the proposed procurement will deliver the expected outcome, and to ensure that the Council is complying with relevant legislation. All contracts are referred to legal, who will ensure that the procurement process has been complied with prior to approving the form of contract. Furthermore, the council will commission external expert advice where a proposed procurement is particularly complex or difficult.

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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.

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Section 5

## Other Reporting Issues

## Other Reporting Issues

### **Governance Statement**

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

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

### **Whole of Government Accounts**

We have performed the procedures required by the National Audit Office on the Whole of Government Accounts submission. However, the NAO WGA team will consider the revised HM Treasury thresholds alongside HM Treasury's developing analytical review controls and may determine assurances from auditors of components who are below these revised HM Treasury thresholds.

### **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.

### **Control Themes and Observations**

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

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

We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements.

Appendix A

## Audit Fees



## Audit Fees

Our final proposed fees for 2020/21 are set out in the table below:

Description	Final Proposed Fee 2020/21 £	Planned Fee 2020/21 £	Final Fee 2019/20 £
PSAA scale fee	50,291	50,291	50,291
Scale fee rebasing (Note 1)	34,248	27,398	14,200
<b>Revised proposed scale fee</b>	<b>84,539</b>	<b>77,689</b>	<b>64,491</b>
In-year scale fee variation:			
▶ Scale fee variation – Additional audit work (Note 2)	16,423	Nil	8.434
▶ Scale fee variation - PSAA pre-approved additional fee for VFM and ISA540 (Note 4):	8,500	TBC	Nil
<b>Total audit related fees</b>	<b>109,462*</b>	<b>77,689</b>	<b>72,925</b>
Housing benefit subsidy claim	TBC	22,530	44,559
<b>Total fees</b>	<b>109,462</b>	<b>100,219</b>	<b>117,484</b>

\* this is our proposed figure that is to be submitted to the PSAA

Note 1 – This relates to our scale fee rebasing for the audit, to take into account changes in professional and regulatory requirements to that date. This was previously raised in the 2019/20 audit year and as these are related to ongoing requirements, we have included the impact again in our 2020/21 requested fees. This is the same request that has been submitted in the prior year and has been adjusted for the increase in PSAA rates.

Note 2 – This figure includes a variation to the scale fee for items specific to the 2020/21 audit year where additional audit work was undertaken by the audit team. We will be submitting a request for this additional work undertaken on:

- Work of EY expert to calculate an auditors estimate of the pension liability and the valuation of assets;
- Work on the over charging of housing rents for financial statements and value for money

Note 3 – For 2019/20, PSAA determined the total of the categories in notes 1 and 2 above at £23,634 and has accordingly been shown as a single comparative figure.

Note 4 – The fee impacts of the NAO's 2020 Code of Audit Practice, and the revised ISA540 on estimates were new during 2020/21. The PSAA communicated fee ranges for each type of auditee, and our assessed impact for the Council is that both ISA540 and VFM Commentary is at the bottom of the ranges.

We will discuss the additional fee proposal with management and submit to the PSAA, providing an update to the Audit Committee when the final fee is determined.

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