



## EXTERNAL AUDITOR'S DRAFT AUDIT COMPLETION REPORT 2023/24

### 1 PURPOSE OF REPORT

- 1.1 To draw the Audit & Governance Committee's attention to the draft 2023/24 Audit Completion Report for discussion.

### 2 LINKS TO COUNCIL'S PRIORITIES AND OBJECTIVES

- 2.1 This links to all of the Council's priorities and objectives.

### 3 RECOMMENDATION

- 3.1 It is proposed that the Committee **RESOLVES**

- (1) That the draft Audit Completion Report for the year ended 31 March 2024, as set out at Appendix A, be noted.
- (2) That if there are any significant changes to the draft report, the Section 151 Officer shall bring these to the attention of the Chair of the Committee and report these to the next available Committee meeting.

### 4 INTRODUCTION

- 4.1 The Council's external auditors, EY, are required to issue a report to the Council following completion of their audit procedures for the year ended 31 March 2024. This requirement is being met through the issue of a Completion Report.
- 4.2 The purpose of the Completion Report is to communicate to the Council and its external stakeholders the key issues arising from external audit work that should be brought to the attention of the Council.
- 4.3 The draft Audit Completion Report is attached as Appendix A. Review of this report is the first step in finalising the financial statements which been on hold whilst the audits of 2020/21, 2021/22 and 2022/23 were completed. Reasons for the delay to these have previously been reported to this Committee, the Staff Appointments and Review Panel and Full Council.

- 4.4 As with the recent prior years a disclaimed opinion is being issued. Part of the reason for this is due to the same issue as for previous years and is made due to the previous statutory officers still being in post until August 2023. However, the remainder of the period is also disclaimed as a result of wider issues within the national local audit system.

## **5 RISK IMPLICATIONS**

- 5.1 The role of external audit in finalising the Council's accounts is to provide unbiased, objective assessments of whether public resources are managed responsibly and effectively to achieve intended results. External auditors help public sector organisations achieve accountability and integrity, improve operations, and instil confidence among members and residents. Provision of the Completion Report is a statutory requirement and a fundamental part of finalising the Council's annual accounts.

## **6 CRIME AND DISORDER IMPLICATIONS**

- 6.1 None

## **7 ENVIRONMENTAL IMPLICATIONS**

- 7.1 None

## **8 FINANCIAL IMPLICATIONS**

- 8.1 An original scale fee of £157,688 for the 2023/24 audit was agreed by Public Sector Audit Appointments Limited (PSAA). As a full audit has not been undertaken PSAA will determine the final fees as noted in the Auditor's Completion Report

## **9 LEGAL IMPLICATIONS**

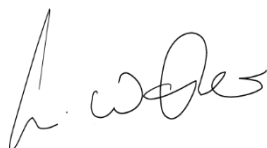
- 9.1 Regulation 20 of the Accounts and Audit Regulations 2015 requires that the Committee must meet to consider any audit letter issued by the auditor as soon as reasonably practicable. The appended Completion Report constitutes such an audit letter. For reasons which are set out in the draft Completion Report there has been a considerable lapse in time between the financial year end and the subsequent production of the 2023/24 financial statements and the conclusion of the related audit process.
- 9.2 Once EY produces a final Completion Report, the Council must publish (which must include publication on the Council's website) the report; and make copies available for purchase by any person on payment of such sum as the Council may reasonably require.

## **10 HUMAN RESOURCES IMPLICATIONS**

- 10.1 None

**11    EQUALITY AND DIVERSITY IMPLICATIONS**

11.1    An Equality Impact Assessment has not been completed as no decision is being made.



Lance Wosko

Assistant Director Finance & Procurement and Section 151 Officer

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**Background Papers:**

None.

For further information please contact Lance Wosko on:

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Castle Point Borough Council  
Audit Completion Report for Those  
Charged with Governance

Year ended 31 March 2024

Report issued - 18 February 2025





Audit & Governance Committee  
Castle Point Borough Council  
Kiln Rd, Thundersley  
Benfleet  
SS7 1TF

18 February 2025

Dear Audit & Governance Committee

### 2023/24 Audit Completion Report

Attached is our Audit Completion Report for Those Charged With Governance. The purpose of this report is to provide the Audit & Governance Committee of Castle Point Borough Council (the Council) with a detailed complete report covering our approach and outcome of the 2023/24 audit.

Given that Statutory Instrument (2024) No. 907 - "The Accounts and Audit (Amendment) Regulations 2024" (the SI) imposes a backstop date of 28 February 2025 by which date we are required to issue our opinion on the financial statements, we have considered whether the time constraints imposed by the backstop date mean that we cannot complete all necessary procedures to obtain sufficient, appropriate audit evidence to support the opinion and fulfil all the objectives of all relevant ISAs (UK). This decision is in line with ISA 200: Failure to Achieve an Objective 24.

If an objective in a relevant ISA (UK) cannot be achieved, the auditor shall evaluate whether this prevents the auditor from achieving the overall objectives of the auditor and thereby requires the auditor, in accordance with the ISAs (UK), to modify the auditor's opinion or withdraw from the engagement (where withdrawal is possible under applicable law or regulation). Failure to achieve an objective represents a significant matter requiring documentation in accordance with ISA (UK) 230 (Revised June 2016).4 (Ref: Para. A77&A78)

Also, as reported as part of our 2021/22 and 2022/23 Completion Report to Those Charged with Governance issued in November 2024, we issued a disclaimed opinion on the Council's 2021/22 and 2022/23 financial statements as we determined we were unable to conclude on the completeness, accuracy and reliability of information and representations received from senior management who were in post at the time of preparation of the financial statements. As the issue remains extant for the year ended 31 March 2024, we have determined that we are again unable to conclude on the completeness, accuracy and reliability of information and representations received from senior management who were in post at the time of preparation of the financial statements.

Taking the above into account, for the year ended 31 March 2024, we have determined that we cannot meet the objectives of the ISAs (UK) and we anticipate issuing a disclaimed audit report.

In completing our work for these audit years, we have taken into account the SI and Local Authority Reset and Recovery Implementation Guidance. We have also taken into account the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2024 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements.

The Audit & Governance Committee, as the Council's body charged with governance, has an essential role in ensuring that it has assurance over both the quality of the draft financial statements prepared by management and the Council's wider arrangements to support the delivery of a timely and efficient audit.

We consider and report on the adequacy of the Council's external financial reporting arrangements and the effectiveness of the Audit Committee in fulfilling its role in those arrangements as part of our assessment of Value for Money arrangements and consider the use of other statutory reporting powers to draw attention to weaknesses in those arrangements where we consider it necessary to do so.

We draw Audit & Governance Committee members and officers' attention to the Public Sector Audit Appointment Limited's Statement of Responsibilities (paragraphs 26-28) which clearly set out what is expected of audited bodies in preparing their financial statements (see Appendix G).

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

Yours faithfully

*MARK HODGSON*

Mark Hodgson

Partner

For and on behalf of Ernst & Young LLP

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Public Sector Audit Appointments Ltd (PSAA) issued the “Statement of responsibilities of auditors and audited bodies”. It is available from the PSAA website (<https://www.psa.co.uk/managing-audit-quality/statement-of-responsibilities-of-auditors-and-audited-bodies/statement-of-responsibilities-of-auditors-and-audited-bodies-from-2023-24-audits>). 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.

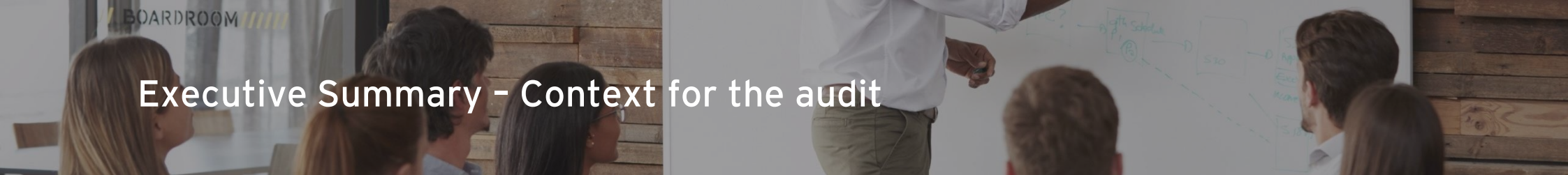
The “Terms of Appointment and further guidance (updated July 2021)” issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code), and in legislation, and covers matters of practice and procedure which are of a recurring nature.

This report is made solely to the Audit & Governance Committee and management of Castle Point Borough Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit & Governance Committee and management of Castle Point 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 & Governance Committee and management of Castle Point 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.



# 01 Executive Summary





# Executive Summary - Context for the audit

## Context for the audit - Department for Levelling-up, Housing and Communities (DLUHC) and Financial Reporting Council (FRC) measures to address local audit delays

Timely, high-quality financial reporting and audit of local bodies is a vital part of our democratic system. It supports good decision making by local bodies and ensures transparency and accountability to local taxpayers. There is general agreement that the backlog in the publication of audited financial statements by local bodies has grown to an unacceptable level and there is a clear recognition that all stakeholders in the sector need to work together to address this. Reasons for the backlog across the system have been widely reported and include:

- ▶ Lack of capacity within the local authority financial accounting profession
- ▶ Increased complexity of reporting requirements within the sector
- ▶ Lack of capacity within audit firms with public sector experience
- ▶ Increased regulatory pressure on auditors, which in turn has increased the scope and extent of audit procedures performed.

MHCLG (formerly DLUHC) has worked collaboratively with the FRC and other system partners, to develop and implement measures to clear the backlog. SI 2024/907, together with the updated National Audit Office Code of Audit Practice 2024 and the Local Authority Reset and Recovery Implementation Guidance, have all been developed to ensure auditor compliance with International Standards on Auditing (UK) (ISAs (UK)). The approach to addressing the backlog consists of three phases:

- ▶ Phase 1: Reset involving clearing the backlog of historic audit opinions up to and including financial year 2022/23 by 13 December 2024.
- ▶ Phase 2: Recovery from Phase 1, starting from 2023/24, in a way that does not cause a recurrence of the backlog by using backstop dates to allow assurance to be rebuilt over multiple audit cycles. The backstop date for audit of the 2023/24 financial statements is 28 February 2025.
- ▶ Phase 3: Reform involving addressing systemic challenges in the system and embedding timely financial reporting and audit.

EY's Head of UK Government and Public Sector Audit wrote to the Section 151 officer at the Council on 21 August 2024 to set out that we would be prioritising those 2023/24 audits that we considered met the following criteria:

- ▶ draft unaudited financial statements were published by 31 July 2024;
- ▶ there was evidence that finance teams could effectively and efficiently support the audit process; and
- ▶ have high-quality audit evidence and supporting information that is delivered in accordance with our agreed timetable and in advance of the commencement of the audit.

We concluded that the Council had not met the above criteria as the financial statements were only published on 16 January 2025. We therefore did not undertake our planned procedures on the 2023/24 financial statements and have not been able to start rebuilding assurance ahead of the planned backstop date of 28 February 2025.

Also, as reported in our 20 November 2024 Audit Completion Report to the Audit Committee we issued a disclaimed audit report on the Council's financial statements for 2021/22 and 2022/23 due to issues that are specific to Castle Point Borough Council rather than the local audit delays and reset noted above.

As a result of the issues outlined in this report, we anticipate issuing disclaimed audit opinions on the Council's 2023/24 financial statements.



# Executive Summary - Report structure and work completed

## Report structure and work completed

This report covers the work we have completed to meet the requirements of the International Standards on Auditing (UK&I), (ISAs) and the Local Audit Reset and Recovery Implementation Guidance (LARRIGs) along with the National Audit Office Value for Money Code (NAO VFM Code). It has been split into the following sections.

Section 1 - Executive Summary - this section, setting out the national and local context and the structure of our report.

Section 2 - Work Plan - we have completed the following planning tasks

- ▶ Completed required independence procedures.
- ▶ Set a level of materiality.
- ▶ Issued letters of inquiry to Management, Those Charged with Governance, the Head of Internal Audit and the Monitoring Officer.
- ▶ Updated our understanding of the business, including review of responses to inquiry letters, internal team meeting, minute review, etc.
- ▶ Identified significant, inherent and other areas of higher risk or focus.
- ▶ Considered any other matters that may require reporting to regulators, or which may result in a modification to the audit report e.g. Non-compliance with laws and regulations (NOCLAR), Objections, Significant weaknesses in arrangements for Value for Money, or any other matters that may result in the use of the auditor's powers etc.

Section 3 - Results and findings - Work completed to issue the disclaimer, findings and results:

- ▶ Review of the financial statements.
- ▶ Consideration of any matters that came to light during our planning and review procedures in relation to laws and regulations, fraud, related parties, litigation and claims, significant changes to contracts and systems, service organisations, and report as appropriate.
- ▶ Reporting on any other matters that may require the use of the auditor's powers, formal reporting or a modification to the auditor's report e.g. Non-compliance with laws and regulations, (NOCLAR), Objections, Significant weaknesses in arrangements for Value for Money, any matters that may result in the use of the etc.

Section 4 - Audit Report

Section 5 - Value for Money reporting

- ▶ The Value for Money report covering the 2023/24 audit year to 31 March 2024.

Section 6 - Appendices





# 02

## Work Plan



# Work Plan – Audit Scope

## Audit scope

This Completion report covers the work that we performed in relation to:

- ▶ Our audit opinion on whether the financial statements of the Council give a true and fair view of the financial position as at 31 March 2024 and of the income and expenditure for the year then ended; and
- ▶ Our commentary on your arrangements to secure value for money in your use of resources for the relevant period. We include further details on VFM in Section 5.

We will also review and report to the National Audit Office (NAO), to the extent and in the form required by them, on the Council's Whole of Government Accounts return.

Our audit will also include the mandatory procedures that we are required to perform in accordance with applicable laws and auditing standards.

When planning the audit we take into account several key inputs:

- ▶ Strategic, operational and financial risks relevant to the financial statements;
- ▶ Developments in financial reporting and auditing standards;
- ▶ The quality of systems and processes;
- ▶ Changes in the business and regulatory environment; and,
- ▶ Management's views on all of the above.

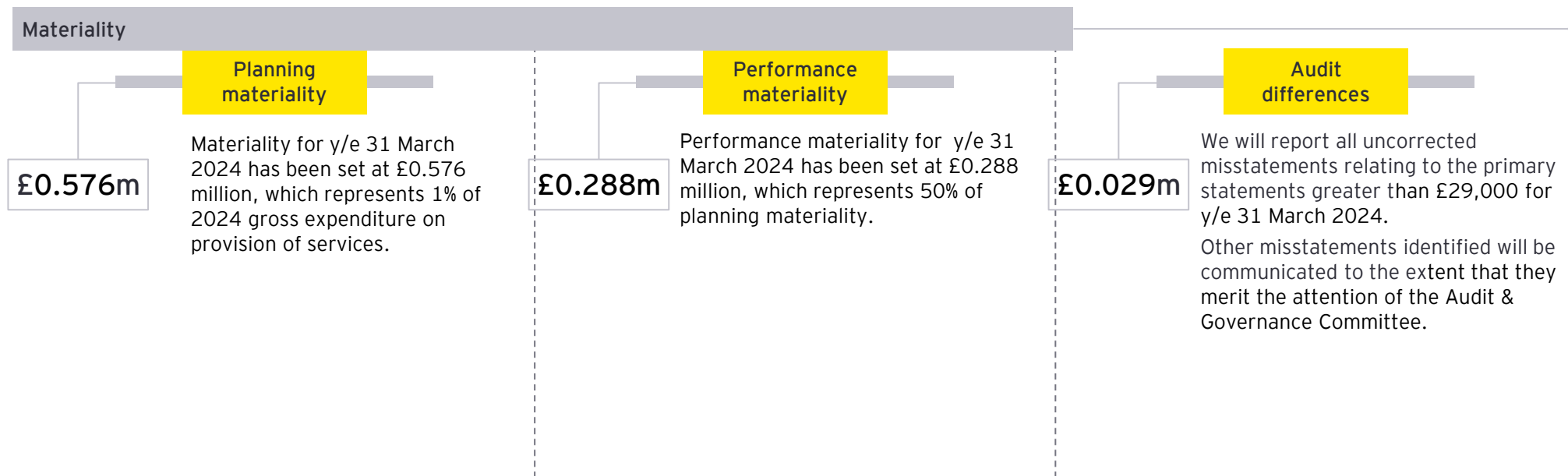
Given that SI 2024/907 imposes a backstop date of 28 February 2025 by which date we are required to issue our opinion on the financial statements, we have considered whether the time constraints imposed by the backstop date mean that we cannot complete all necessary procedures to obtain sufficient, appropriate audit evidence to support the opinion and fulfil all the objectives of all relevant ISAs (UK).

This decision is in line with ISA 200: Failure to Achieve an Objective 24.

If an objective in a relevant ISA (UK) cannot be achieved, the auditor shall evaluate whether this prevents the auditor from achieving the overall objectives of the auditor and thereby requires the auditor, in accordance with the ISAs (UK), to modify the auditor's opinion or withdraw from the engagement (where withdrawal is possible under applicable law or regulation). Failure to achieve an objective represents a significant matter requiring documentation in accordance with ISA (UK) 230 (Revised June 2016).4 (Ref: Para. A77&A78)

Taking the above into account, for the year ended 31 March 2024 we have determined that we cannot meet the objectives of the ISAs (UK) and we anticipate issuing a disclaimed audit report.

# Work Plan - Materiality



In order to ascertain the significance of issues in the draft financial statements we have set materiality based on the draft financial statements for 2023/24, taking into account the findings from the 2021/22 and 2022/23 audit year. We have considered updating this materiality for any key changes or known factors from that year. We determined that our audit procedures would be performed using a materiality set above. This level of materiality remains appropriate for the actual results for the financial year.



# Work Plan – Significant, inherent and other risk areas

The following ‘dashboard’ summarises the significant accounting and auditing matters identified as part of our planning work. It seeks to provide Those Charged with Governance with an overview of our initial risk identification for the year.

## Audit risks and areas of focus

Risk/area of focus	Risk identified	Change from PY	Details
Misstatements due to fraud or error - due to management integrity	Fraud risk	No change in risk or focus	As identified in ISA 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that would otherwise appear to be operating effectively.
Risk of incorrect capitalisation of revenue expenditure	Fraud risk	No change in risk or focus	In considering how the risk of management override may present itself, we concluded that this is primarily through management taking action to override controls and manipulate in year financial transactions that impact the medium to longer term projected financial position. A key way of improving the revenue position is through the inappropriate capitalisation of revenue expenditure. The Council has a significant fixed asset base and capital expenditure and therefore has the potential to materially impact the revenue position through inappropriate capitalisation.
Pension Liability valuation	Significant risk	Increase in risk	<p>The Council's Net Pension Fund balance has changed from £12.40 million liability as of 31 March 2022 to £18.43 million asset as of 31 March 2023 and back again to £1.30 million liability as of 31 March 2024.</p> <p>Accounting for this scheme is a sensitive item and involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.</p> <p>Due to the changes in net asset/liability position, the level of balances involved and the impact of potential errors in assumptions, we consider this as significant risk. We also need to consider if management has properly considered the impact of IFRIC 14 in the estimate.</p>
Valuation of Investment Properties and Other Land and Buildings valued at fair value	Inherent risk	Decrease in risk	<p>This was identified as significant risk in 2020/21 due to the uncertainty of impact of Covid-19 on Investment Property assets and assets valued at FV.</p> <p>Since two years have passed after the pandemic, the market has fully recovered and activity is back to pre-Covid level. Hence, we no longer consider this to be a significant risk. However, due to the complexity involved in estimating the values of Investment Properties and assets valued at FV remains as at year-end, we deemed it appropriate to recognise an inherent risk in this area.</p>

# Work Plan – Significant, inherent and other risk areas

The following 'dashboard' summarises the significant accounting and auditing matters identified as part of our planning work. It seeks to provide Those Charged with Governance with an overview of our initial risk identification for the year.

## Audit risks and areas of focus (continued)

Risk/area of focus	Risk identified	Change from PY	Details
Valuation of other land and buildings (not valued using FV)	Inherent risk	No change in risk or focus	The total value of other land and buildings as at 31 March 2024 was £59.0 million. Therefore, valuation of land and buildings represent a significant balance in the Council's accounts. Management is required to make material judgements and apply estimation techniques to calculate the year-end balances recorded in the balance sheet. There is therefore a risk fixed assets may be under/overstated or the associated accounting entries incorrectly posted.

# Work Plan - Independence

The FRC Ethical Standard 2019 and ISA (UK) 260 'Communication of audit matters with those charged with governance', requires us to communicate with you on a timely basis on all significant facts and matters that bear upon our integrity, objectivity and independence. The Ethical Standard, as revised in December 2019, requires that we communicate formally both at the planning stage and at the conclusion of the audit, as well as during the course of the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

## Required communications

### Planning stage

- ▶ The principal threats, if any, to objectivity and independence identified by Ernst & Young (EY) including consideration of all relationships between you, your affiliates and directors and us;
- ▶ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review;
- ▶ The overall assessment of threats and safeguards;
- ▶ Information about the general policies and process within EY to maintain objectivity and independence

[The IESBA Code requires EY to provide an independence assessment of any proposed non-audit service (NAS) to the PIE audit client and will need to obtain and document pre-concurrence from the audit committee/those charged with governance for the provision of all NAS prior to the commencement of the service (i.e., similar to obtaining a "pre-approval" to provide the service).

- ▶ All proposed NAS for PIE audit clients will be subject to a determination of whether the service might create a self-review threat (SRT), with no allowance for services related to amounts that are immaterial to the audited financial statements.

### Final stage

- ▶ In order for you to assess the integrity, objectivity and independence of the firm and each covered person, we are required to provide a written disclosure of relationships (including the provision of non-audit services) that may bear on our integrity, objectivity and independence. This is required to have regard to relationships with the entity, its directors and senior management, its affiliates, and its connected parties and the threats to integrity or objectivity, including those that could compromise independence that these create. We are also required to disclose any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed;
- ▶ Details of non-audit/additional services provided and the fees charged in relation thereto;
- ▶ Written confirmation that the firm and each covered person is independent and, if applicable, that any non-EY firms used in the group audit or external experts used have confirmed their independence to us;
- ▶ Details of any non-audit/additional services to a UK PIE audit client where there are differences of professional opinion concerning the engagement between the Ethics Partner and Engagement Partner and where the final conclusion differs from the professional opinion of the Ethics Partner
- ▶ Details of any inconsistencies between FRC Ethical Standard and your policy for the supply of non-audit services by EY and any apparent breach of that policy;
- ▶ Details of all breaches of the IESBA Code of Ethics, the FRC Ethical Standard and professional standards, and of any safeguards applied and actions taken by EY to address any threats to independence; and
- ▶ An opportunity to discuss auditor independence issues.

In addition, during the course of the audit, we are required to communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place, for example, when accepting an engagement to provide non-audit services.

We ensure that the total amount of fees that EY and our network firms have charged to you and your affiliates for the provision of services during the reporting period, analysed in appropriate categories, are disclosed.

We highlight the following significant facts and matters that may be reasonably considered to bear upon our objectivity and independence, including the principal threats, if any. We have adopted the safeguards noted below to mitigate these threats along with the reasons why they are considered to be effective. However, we will only perform non-audit services if the service has been pre-approved in accordance with your policy.

# Work Plan - Independence

## Overall Assessment

Overall, we consider that the safeguards that have been adopted appropriately mitigate the principal threats identified and we therefore confirm that EY is independent and the objectivity and independence of Mark Hodgson, your Audit Engagement Partner and the audit engagement team have not been compromised.

## Self interest threats

A self interest threat arises when EY has financial or other interests in your company. Examples include where we have an investment in your company; where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with you. At the time of writing, there are no long outstanding fees.

We believe that it is appropriate for us to undertake those permitted non-audit/additional services set out in Section 5.40 of the FRC Ethical Standard 2019 (FRC ES), and we will comply with the policies that you have approved.

None of the services are prohibited under the FRC's ES and the services have been approved in accordance with your policy on pre-approval. In addition, when the ratio of non-audit fees to audit fees exceeds 1:1, we are required to discuss this with our Ethics Partner, as set out by the FRC ES, and if necessary agree additional safeguards or not accept the non-audit engagement. We will also discuss this with you.

At the time of writing, the current ratio of non-audit fees to audit fees is approximately nil:nil. No additional safeguards are required.

## Self review threats

A self-interest threat may also arise if members of our audit engagement team have objectives or are rewarded in relation to sales of non-audit services to you. We confirm that no member of our audit engagement team, including those from other service lines, has objectives or is rewarded in relation to sales to you, in compliance with Ethical Standard part 4. There are no other self-interest threats at the date of this report.

## Management threats

Partners and employees of EY are prohibited from taking decisions on behalf of management of your company. Management threats may also arise during the provision of a non-audit service in relation to which management is required to make judgements or decision based on that work.

There are no management threats at the date of this report.

## Other threats

Other threats, such as advocacy, familiarity or intimidation, may arise.

There are no other threats at the date of this report.

## EY Transparency Report 2024

EY has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained. Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the period ended 30 June 2024 and can be found here: [EY UK 2024 Transparency Report | EY - UK](#).





## 03 Results and findings





# Results and findings

## Status of the audit

Our audit work in respect of the Council opinion is substantially complete and we only have our standard closing procedures to complete, as set out below:

Final Closing procedures:

- ▶ Completion of subsequent events procedures;
- ▶ Receipt of a signed management representation letter

Given that the Council published the draft Statement of Accounts on the 16 January 2025, the statutory inspection period for members of the public to inspect the accounts, raise questions or object to those accounts runs until the 27 February 2025. We cannot therefore conclude the audit until 28 February 2025.

Given that the audit process is still ongoing, we will continue to consider existing and new information which could influence our final audit opinion, a current draft of which is included later in this section.

## Value for Money

Our value for money (VFM) work is complete and reported in Section 5 of this report. We identified a risk of significant weakness in respect of the Council's governance arrangements.

Having updated and completed the planned procedures in these areas we did identify a significant weakness. See Section 5 of the report for further details. We will therefore be reporting 'Other Matters' within our Audit Opinion.

## Audit differences

We performed our work on the initial draft 2023/24 financial statements published for inspection. We identified differences which included:

- ▶ 8 instances of opening balance differences from the 2022/23 financial statements.

The Council should ensure that in approving the Statement of Accounts, all prior year comparatives agree to the final set of prior year Statement of Accounts, or explanations for prior year adjustments have been set out by the Section 151 Officer.

The Council should also ensure that the Statement of Accounts is compliant with the reporting requirements of CIPFA's Code of practice on Local Authority Accounting for the respective year.



# Results and findings

## Other Reporting Issues

We have reviewed the information presented in the Annual Governance Statement for consistency with our knowledge of the Council. We have no matters to report as a result of this work.

### Whole of Government Accounts

Alongside our work on the financial statements, we also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of our review, and the nature of our report, is specified by the National Audit Office. The Council is not above the HM Treasury's threshold for WGA reporting so only limited procedures are required. We have yet to be notified of whether the NAO require any additional procedures in respect of the 2023/24 WGA submission. We cannot issue our Audit Certificate until these procedures are complete, though this position may get updated prior to the backstop date.

### Non-Compliance with Laws and Regulations (NOCLAR)

During the course of the 2020/21 audit, we became aware of instances of potential non-compliance with laws and regulations which required us to complete extended procedures in order to assess the risk to the financial statements. Having completed these procedures, we concluded they do lead to a material impact on the financial statements and have issued a disclaimer audit opinion upon the financial statements and reported by exception in relation to significant governance weaknesses for each of the audit years 2020/21, 2021/22 and 2022/23.

As the circumstances which led to the disclaimers of opinion and VFM reporting of significant weakness above, were still present during a proportion of 2023/24, we are required to assess its impact on the financial statements for that period. However, due to the imposed backstop date, we have been unable to perform sufficient further audit work to determine whether this matter has any impact on the financial statements - so will set that out within the Audit Opinion.

We also noted that in December 2024, the Regulator of Social Housing published a regulatory judgment in relation to very serious failings of the Council in delivering the outcomes of the consumer standards. Due to the backstop date, we have not had sufficient time to undertake the planned procedures to be able to conclude on the impact of the NOCLAR matter on the 2023/24 Financial Statements.

## Other powers and duties

We have a duty under the Local Audit and Accountability Act 2014 to consider whether to report on any matter that comes to our attention in the course of the audit, either for the Council to consider it or to bring it to the attention of the public (i.e. "a report in the public interest").

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



# Results and findings

## Areas of audit focus

Based on the late publication of the Council's draft financial statements, we concluded we would disclaim the audit and therefore have not completed detailed audit testing on these areas but instead have reported any matters that came to light from the work we did complete, where relevant to do so.

We request that you review these and other matters set out in this report to ensure:

- ▶ There are no further considerations or matters that could impact these issues
- ▶ You concur with the resolution of the issue
- ▶ There are no further significant issues you are aware of to be considered before the financial report is finalised

There are no matters, other than those reported by management or disclosed in this report, which we believe should be brought to the attention of the Audit & Governance Committee.

## Control observations

During the prior years' audit, we identified the following significant deficiencies in internal control :

- ▶ There was evidence of deliberate circumvention of controls , which allowed the potentially unlawful transactions referred to in this report to occur, which calls into question the integrity of senior management of the Council and the adequacy of controls. We have been unable to determine whether or not controls in 2023/24 were also subject to circumvention.

## Independence

Further to our review of independence in section 2 of this report we have not identified any issues to bring to your attention.



# Results and findings

## Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we must tell you significant findings from the audit and other matters if they are significant to your oversight of the Authority's financial reporting process. They include the following:

- ▶ Significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures;
- ▶ Any significant difficulties encountered during the audit;
- ▶ Any significant matters arising from the audit that were discussed with management;
- ▶ Written representations we have requested;
- ▶ Expected modifications to the audit report;
- ▶ Any other matters significant to overseeing the financial reporting process;
- ▶ Findings and issues around the opening balance on initial audits (if applicable);
- ▶ Related parties;
- ▶ External confirmations;
- ▶ Going concern; and
- ▶ Consideration of laws and regulations.

We have no other matters to report.



# 04 Audit Report

**DRAFT**



# Audit Report

## Expected modification to the audit report

As reported in our 20 November 2024 Audit Completion Report to Those Charged with Governance, we issued a disclaimed audit report on the Council's financial statements for 2021/22 and 2022/23 due to issues identified in 2020/21 which call into question the integrity of members of senior management of the Council who remained in post during 2022/23.

As a result of the 2022/23 disclaimed audit report, we do not have assurance over the brought forward balances from 2022/23 (the opening balances). This means we do not have assurance over 2023/24 in-year movements and some closing balances. We also do not have assurance over the 2022/23 comparative amounts disclosed in the 2023/24 financial statements.

We have not been able to commence any work to rebuild assurance ahead of the 2023/24 backstop date, as the Council were unable to publish the draft financial statements in sufficient time to support the audit and provide audit evidence in line with agreed deadlines. We have therefore, not been able to obtain sufficient evidence to be able to conclude that the financial statements are free from material and pervasive misstatement.

Taken together with the requirement to conclude our work by the 2023/24 back stop date, the lack of evidence over these movements and balances mean we are unable to conclude that the 2023/24 financial statements are free from material and pervasive misstatements. We therefore anticipate issuing a disclaimed 2023/24 audit opinion.

We therefore anticipate issuing a disclaimed 2023/24 audit opinion.

The form and content of the Audit Report will be shared with the Section 151 officer to enable you to formally authorise the 2023/24 financial statements for issue.



# 05 Value for Money





# VFM - Executive Summary

## Purpose

Auditors are required to be satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We do not issue a 'conclusion' or 'opinion', but where significant weaknesses are identified we will report by exception in the auditor's opinion on the financial statements. In addition, auditor's provide an annual commentary on arrangements published as part of the Auditor's Annual Report. In doing so, we comply with the requirements of the 2020 Code of Audit Practice (the Code) and Auditor Guidance Note 3 (AGN 03).

The purpose of this commentary is to explain the work we have undertaken during the period 1 April 2023 to 31 March 2024 and highlight any significant weaknesses identified along with recommendations for improvement. As we have previously reported significant weaknesses in arrangements to you, this report also includes our views as to the status of the recommendations made and whether they have been satisfactorily implemented. The commentary covers our findings for audit year 2023/24. The NAO has confirmed that where VFM reporting is outstanding for more than one year, the auditor can issue one report covering all years.

The Department for Levelling Up, Housing and Communities (DLUHC) has worked collaboratively with the Financial Reporting Council (FRC), as incoming shadow system leader, and other system partners, to develop measures to address the delay in local audit. As part of the NAO consultation issued on 8 February 2024, there is a proposal to reduce the scope of the VFM reporting up to and including the 2023/24 financial year. However, the consultation states that where auditors have begun or already undertaken work that no longer falls under the reduced scope (if agreed once the consultation closes), they may still report on it in accordance with Schedule 4. We are continuing to report VFM in line with our existing responsibilities as set out in the 2020 Code to ensure a smooth transition to the 2023/24 audit year when auditors are required to meet the full Code reporting responsibilities.

The report sets out the following areas which have been assessed up to the point of issuing this interim report:

- ▶ Any identified risks of significant weakness, having regard to the three specified reporting criteria;
- ▶ An explanation of the planned responsive audit procedures to the significant risks identified;
- ▶ Findings to date from our planned procedures; and
- ▶ Summary of arrangements over the period covered by this report (Appendix E).

# VFM - Executive Summary (continued)

## Risks of Significant Weakness

In undertaking our procedures to understand the body's arrangements against the specified reporting criteria, we identify whether there are risks of significant weakness which require us to complete additional risk-based procedures. AGN 03 sets out considerations for auditors in completing and documenting their work and includes consideration of:

- ▶ our cumulative audit knowledge and experience as your auditor;
- ▶ reports from internal audit which may provide an indication of arrangements that are not operating effectively;
- ▶ our review of Council committee reports;
- ▶ meetings with key officers;
- ▶ information from external sources; and
- ▶ evaluation of associated documentation through our regular engagement with Council management and the finance team.

We completed our risk assessment procedures and as a result, we identified a significant risk in relation to the Council's governance arrangements—as part of our risk assessment procedures. We set out our planned response to address this risk in the table below.

Description of risk identified	Work planned to address the risk of significant weakness
<p>Criteria: Governance</p> <p>Risk of significant weakness identified: A serious and pervasive weakness in governance arrangements in relation to the effective operation of internal controls and oversight of financial transactions; and procedures regarding recruitment, promotion and pay and conditions approval leading to a disclaimed opinion on the financial statements.</p>	<p>This issue has been identified as part of the 2020/21 audit and we reported a significant weakness in arrangements as part of our reporting for 2020/21 to 2022/23 audits. Our risk assessment procedures revealed that the circumstances which resulted in the significant weakness was still present in part during 2023/24. On this basis, we have determined that this remains a significant weakness for the financial year and we will report on the same basis within our audit report.</p> <p>We also reviewed the actions that the Council have undertaken subsequent to the issuance of our reports in previous years.</p>
<p>Criteria: Governance</p> <p>Delayed preparation and publication of draft Statement of Accounts</p>	<p>Identify the reasons for delayed preparation and publication of the Statement of Accounts and assess if these are indicative of a weakness in governance arrangements,</p>
<p>Criteria: Improving economy, efficiency and effectiveness</p> <p>The Authority has been issued with a regulatory judgment by the Regulator of Social Housing regarding very serious failings by the Council in delivering the outcomes of the consumer standards</p>	<p>Review the findings of the Regulator of Social Housing and determine if this is indicative of weaknesses in arrangements of the Council</p>



# VFM - Executive Summary (continued)

## Reporting

Our final commentary for 2023/24 is set out over pages 29 to 37. The commentary on these pages summarises our understanding of the arrangements at the Council based on our evaluation of the evidence obtained in relation to the three reporting criteria (see table below) throughout 2023/24. We include within the VFM commentary below the associated recommendations we have agreed with the Council.

Appendix E includes the detailed arrangements and processes underpinning the reporting criteria. These were reported in our 2022/23 Completion Report and have been updated for 2023/24.

In accordance with the NAO's 2024 Code, we are required to report a commentary against the three specified reporting criteria. The table below sets out the three reporting criteria, whether we identified a risk of significant weakness as part of our planning procedures, and whether, at the time of this interim report, we have concluded that there is a significant weakness in the body's arrangements.

Reporting Criteria	Risks of significant weaknesses in arrangements identified?	Actual significant weaknesses in arrangements identified?
<b>Financial sustainability:</b> How the Council plans and manages its resources to ensure it can continue to deliver its services	No significant risks identified	No significant weakness identified
<b>Governance:</b> How the Council ensures that it makes informed decisions and properly manages its risks	A serious and pervasive weakness in governance arrangements in relation to the effective operation of internal controls and oversight of financial transactions; and procedures regarding recruitment, promotion and pay and conditions approval leading to a disclaimed opinion on the financial statements.	Significant weakness identified: Pervasive weaknesses across the Governance reporting criteria
<b>Improving economy, efficiency and effectiveness:</b> How the Council uses information about its costs and performance to improve the way it manages and delivers its services	The Authority has been issued with a regulatory judgment by the Regulator of Social Housing regarding very serious failings by the Council in delivering the outcomes of the consumer standards	Significant weakness identified: Pervasive weaknesses across the Governance reporting criteria

# Value for Money Commentary

**Financial Sustainability: How the Council plans and manages its resources to ensure it can continue to deliver its services**

**No significant weakness identified**

The Council is required to have arrangements in place to ensure proper resource management and the primary responsibility for these arrangements and reporting on the design and operation of these arrangements via the annual governance statement, rests with management. In accordance with the NAO's Code of Audit Practice, the focus of our work should be on the arrangements that the Council is expected to have in place during the year ended 31 March 2024. Our risk assessment did not identify a risk of significant weakness in arrangements in respect of securing financial sustainability.

We reviewed Management's policy framework and budget setting for 2024/25 that was finalised within 2023/24. We noted that the budget appropriately considered the impact of previous years' actual expenditure on the budget for future periods. Inflation was also considered where applicable and adjustments have been made for changes to spending levels expected or known to occur over the life of the forecast including the impact of the capital programme on revenue.

The report dated February 2024 also considers the budget gap noted within the budget for 2025/26 and 2026/27 and notes potential solutions to address this. The budget was balanced for 2024/25 but shows a gap for 2025/26 of £0.285 million and £0.852 million for 2026/27.

The Council's General Reserves remain relatively healthy and comfortably exceed the minimum level of £2.5 million as recommended by the Council's S151 Officer, with £5.3 million at 31 March 2024. In addition, the Council holds Earmarked Reserves to the value of £21.6 million at 31 March 2024, with forecasted balance of £18.4 million by 31 March 2026. The forecast is until the end of 2025/26 which is at least 12 months from our expected issuance of audit report which is 28 February 2025.

General reserves appear relatively healthy short term, and the Council has been successful in establishing a range of earmarked reserves to support spending programmes such as asset maintenance, the effective cap on council tax increases, uncertainty around the future of local government funding, rising costs and limitations on the ability to raise fees and charges mean that the Council will shortly be "living beyond its means" and must adjust.

A number of initiatives have been identified by the Council in order to generate additional income such as:

- Digitalisation and automation of functions both internal to the organisation and externally facing for the benefit of our customers.
- Service and organisation restructuring to refocus resources to improve delivery of services.
- Engagement of specialists and consultants to supplement internal resources and skills and support the implementation of new ways of working.
- Investing in our assets to serve an alternative purpose perhaps in order to generate additional income, reduce costs or improve customer experience.

The Council's under/overspends for 2023/24 was also not significant based on the outturn report, with General Fund showing a £16,000 underspend, the HRA an £0.107 million overspend and the capital programme a £0.379 million underspend.

**Conclusion: Based on the work performed, the Council had proper arrangements in place in 2023/24 to enable it to plan and manage its resources to ensure that it can continue to deliver its services.**

# Value for Money Commentary (continued)

Governance: How the Council ensures that it makes informed decisions and properly manages its risks

## Significant weakness identified

**A serious and pervasive weakness in governance arrangements in relation to the effective operation of internal controls and oversight of financial transactions; and procedures regarding recruitment, promotion and pay and conditions approval leading to a disclaimed opinion on the financial statements.**

Weaknesses have previously been identified in the financial statements processes and procedures regarding recruitment, promotion and pay arrangements for senior management, which led to potentially unlawful payments and a disclaimed opinion on the financial statement. This section sets out Management's actions in response to those weaknesses and highlights further issues within the governance arrangements during 2022 and 2023, which we will report by exception in our VFM arrangements reporting.

In March 2022, the Head of Internal Audit shared with us details of issues identified in relation to Senior Management Pay and Conditions. The issues included areas such as recruitment, promotion and pay approval for senior officers. At that time, the Internal Audit work was ongoing. We raised a number of questions with management throughout the process and engaged our EY Forensics Investigation Services to support us in our assessment of the impact of the issues identified. The Internal Audit report was finalised in July 2022.

Following the finalisation of the Internal Audit report, we requested that Management establish the full facts and circumstances of each element of the payments that have been made, including consideration of whether senior officers had knowledge of, or involvement in, the decisions taken to make the payments and to consider whether there were further matters or payments that have not currently been identified. We noted that we would expect such an investigation to consider various sources of evidence, including interviews with relevant Council individuals and review of electronic and hard copy records, including but not limited to emails and any instant messaging on the Council's IT systems.

Management engaged an external reviewer in December 2022 to complete further work in relation to the issue and our review of the proposed scope of work concluded that this should be sufficient to address the issues we had noted. However, when the reviewer's work was concluded in August 2023, we were not satisfied that the initial scope of the work was followed. Instead, the reviewer had simply confirmed the conclusions in the Internal Audit report. This report therefore provided no assurance regarding the question of whether senior officers had knowledge of or involvement in the payments and whether there were further matters or payments that had not been identified. Subsequent to the receipt of the report, however, management have implemented a restructure that removed the senior officers in question from post. This was effective in August 2023.

Management also engaged a legal firm (Bevan Brittan) to obtain advice as to the lawfulness of the key payments included in the Internal Audit report and suggest potential courses of action. We also engaged our own legal advisers to comment on the advice provided by Bevan Brittan.

We identified this as a pervasive weaknesses in relation to the governance VFM reporting criteria. This is because the weakness has:

- Led to financial loss due to potentially unlawful payments made, recovery of which are not certain;
- Adverse press articles have been published in relation to the issues which taint the Council's reputation; and
- Led to potential breach of laws.

The results of our review of the reports noted above and the weaknesses in Councils value for money arrangements are summarised in the following slides.

# Value for Money Commentary (continued)

Governance: How the Council ensures that it makes informed decisions and properly manages its risks

Significant weakness identified (continued)

**The Council's arrangements regarding recruitment, promotion and pay approval and management were inadequate, as evidenced by the following circumstances and resulting transactions:**

1. A scheme was established but not formally approved for senior management who were members of the Executive Management Team called 'Annual Leave Exchange Scheme for Senior Managers (Flexible Retirement)' which was a means of obtaining the services of flexibly retired part-time staff over and above their contracted hours. Under the scheme, Senior Managers who had a flexible retirement contract of employment had their 'annual leave entitlement and reduction in contracted hours consolidated and converted into hours so that they could be taken in a more flexible manner throughout the year'. This allowed the Senior Managers to accumulate leave credits of more than three times their original leave entitlement. Those eligible to the scheme could then receive payment for any untaken annual leave or carry any untaken annual leave over into the next year without limit.

Senior managers received annual leave payments in line with the above scheme from 2016/17 to 2021/22 totalling £263,351, out of which, £52,072 relates to 2020/21. The Council also had to pay £542,925 in 2015/16 as financial strain to the pension fund when those senior managers opted to be part of the scheme. This was due to the fact that those senior managers were 'retiring' early, but with a full pension that they had not yet contributed enough to the pension scheme to warrant.

These arrangements directly contravene the Council's policy for Annual Leave and Bank Holiday Entitlement which states that staff can carry over a maximum of five days leave to the following year, and payment will not be made in lieu of outstanding leave.

2. The senior management scheme is not published on the Council's intranet and there is nothing to indicate that the scheme, which was a change in policy for senior managers, was agreed by Members. The lack of transparency of the scheme suggests it had been deliberately withheld from those who were not party to it and the lack of formal agreement or oversight raises questions over its legitimacy.

The application of the above scheme to the then Chief Executive was approved through a special Cabinet Meeting on 20th June 2012. This decision was unlawful in that authority to grant retirement did not lie with Cabinet but with Council or a (politically balanced) committee of the Council. The Council paid £60,085 to the pension fund as financial strain for the Chief Executive's retirement.

The former Chief Executive authorised his own annual leave payments which aggregated to £59,240 from 2012/13 to 2019/20.

When the former Chief Executive passed away in March 2021, he held a cumulative annual leave balance of 1,542 hours. A sum of £142,726 was paid to his estate in respect of this. The payment was authorised by the then S151 Officer.



# Value for Money Commentary (continued)

Governance: How the Council ensures that it makes informed decisions and properly manages its risks

## Significant weakness identified (continued)

3. The Council's Pay Policy Statement makes no reference to the Council's position regarding making payments to an employee's estate upon their death whilst employed. The Statement does however require severance packages of £100,000 and above for staff leaving the Council to be approved by full Council. Although the annual leave payment to the former Chief Executive's estate of £142,726 was not a severance package, in the circumstances of a payment to an individual at this level we consider that it would be reasonable for the same expectation regarding required approvals to apply to ensure that payments are appropriate and duly authorised, particularly considering that the payment was made due to discontinuance of employment.

There is no evidence that in determining to make the payment, the then Section 151 officer gave any such consideration to what would be an appropriate governance and approval process. In addition, the then Section 151 officer held no authority to make a payment to the late Chief Executive's estate in respect of either performance pay or the annual leave exchange scheme.

There was also lack of evidence of any challenge posed by the then Section 151 Officer and the then Monitoring Officer on the legality and regularity of payments made relating to annual leave and performance payments before approval. In our view, this calls into question their objectivity and integrity to pursue the interests of the Council and resulted in the potentially unlawful payment to the estate of the former Chief Executive.

4. The former Chief Executive authorised performance payments to himself from 2012/13 to 2019/20 totalling £79,189. Following the former Chief Executive's death in April 2021, the then Section 151 Officer authorised performance payments to herself for 2020/21 amounting to £5,812.

The then Section 151 Officer also authorised performance payments to four Heads of Service and one Strategic Director totalling £30,641. The then Section 151 Officer had no line management responsibility for any of these individuals and the Internal Audit report shows that nothing has been identified in the course of their work to demonstrate any assessment of adequate performance, performance against set objectives, or to show a performance review took place for any of the individuals receiving payment.

Segregation of duties require that review processes be in place before making payments to individuals, and that the preparer of the calculation, reviewer and recipient of the amount be different individuals. Approval of payments by the individual who is receiving the payment questions the integrity of the individual approving the payment.

Considering that the individuals approving such payments were two of the most senior statutory officers responsible for ensuring the accuracy of the statement of accounts, this calls into question management integrity and the reliability of the financial statements they have prepared. We consider that the impact on the financial statements could be pervasive considering that the officers involved in the unlawful transactions remained in the Council's employ throughout 2020/21 and therefore had access to systems and financial records. The then Section 151 Officer retained her position until August 2023.

# Value for Money Commentary (continued)

Governance: How the Council ensures that it makes informed decisions and properly manages its risks

## Significant weakness identified (continued)

5. Management failed to implement controls and policies in relation to recruitment and promotion and granting of flexible retirement packages. There is also no documentation available to show that the Council had policies and procedures in place to ensure that market supplements, retention pay and performance payments as scheme are used properly and reasonably.
6. Since the issues relating to Senior Manager Pay and Conditions were initially brought to our attention in late March 2022, Internal Audit have concluded their review of these arrangements. The scope of this work was to 'assess the adequacy of arrangements to ensure that senior management are effectively recruited, pay and conditions are properly governed, applied consistently and administered appropriately.' As at July 2023, although the Internal Audit work had been complete for some time, findings were still only being discussed internally by current management and the final Internal Audit report was not presented to Members of The Council until August 2023.

Although we understand that it is important that the Council follows due process in considering this issue, it was over 15 months after the issue was first highlighted by Internal Audit before the issue was formally reported to Members. We reported our concerns regarding this delay in a letter to the Audit Committee in July 2023 and highlighted the slow progress of the Council in terms of the impact on:

- The current Chief Executive's time and attention to resolve the issue;
- Potential delays to implementation of the Council's Transformation agenda, and
- Distraction from day to day operations of the Council.

For 2023/24, we obtained an understanding of the different activities that the Council are doing to address the issue such as:

### LGA Corporate Health Check:

- In December 2023, the Council invited the Local Government Association (LGA) to undertake a Corporate Health Check in preparation for a more comprehensive Corporate Peer Challenge in 2024/25. The Health Check involved a review of a position statement and other supporting documents in advance of a one-day site visit, during which interviews and workshops were undertaken with a range of members and officers.
- In summary, the health check concluded that "It is clear to the peer team that significant progress has been made and that plans are in place to address future challenges. There are some risks ahead with the report into Senior Manager Pay and Conditions and planning performance, that could derail this positive progress and the LGA will continue to support and work alongside Castle Point Borough Council to support its improvement through the LGA's Principal Adviser." The health check made a number of recommendations, against which good progress has been made against. The LGA undertook a Corporate Peer Challenge in September 2024.

# Value for Money Commentary (continued)

Governance: How the Council ensures that it makes informed decisions and properly manages its risks

Significant weakness identified (continued)

## LGA Corporate Peer Challenge - September 2024:

- The report specifically states that 'under the leadership of the chief executive, the council embarked upon a change programme entitled 'Transforming Together'. This has delivered a major restructure at both director and assistant director level and this is important both as a means and a symbol of change. Staff at various levels described an organisation in which "the walls have broken down", with more engagement across the organisation and joint working between teams. They also talked about an organisation that is increasingly keen to learn and in which ideas are now welcomed.'
- In summary, the corporate peer challenge results were positive and recognises the significant change in the functions and culture of the Council, but also that there is still a lot to do to restore the Council to 'good health'.

## Monitoring through Council meetings:

- In the October 2024 Council meeting, the Council expressed that consideration had to be given to whether it was prudent to invest further resources in pursuit of recovery of the sums paid to senior officers considered to be potentially unlawful and which claims had the best chance of success. It was resolved that the current Monitoring Officer be given authority to issue and settle court proceedings in respect of the £0.281 million paid to the late Chief Executive estate and write down all other monies identified as potentially unlawful as discussed above.

As a result of the issue, the council experienced reputational damage within the Council.

## Impact on the Council:

As a result of the issue, the council experienced reputational damage within the Council.

There were financial impacts as the potentially unlawful payments totalling £1.153 million that the Council made in 2012/13 to 2021/22 was significant. Note that in addition to this, there could be other payments that are of the same nature in 2023/24 as the officers involved remained in post until August 2023 that we were not able to discover due to lack of time and resource to perform the procedures required to address this.

Finally, as noted in the previous point, the Council agreed to write off all other monies that were considered potentially unlawful apart from the £0.281 million payment to the late Chief Executive estate.

Note that the current Monitoring Officer was given the authority to issue and settle court proceedings in respect of the £0.281 million paid to the late Chief Executive estate.

# Value for Money Commentary (continued)

Governance: How the Council ensures that it makes informed decisions and properly manages its risks

Significant weakness identified (continued)

Other Governance issues:

As noted on previously, the Statement of Accounts of the Council was published on 16 January 2025 which is 8 months after the deadline of publication of 31 May 2024. We considered if the delayed publication of the accounts constitute a significant weakness in governance arrangements. We recognise that with capacity issues within the finance team, changes in key finance personnel within 2023/24 and a focus on other corporate priorities, such as budget setting and dealing with the non-compliance matter, did result in the delayed preparation and publication of the Statement of Accounts. However, on balance, we do not believe that this was a significant weakness in the underlying arrangements because of those factors. However, we would like to emphasise to Management and those charged with governance the importance of accurate and timely information to users of financial information.

We have not identified any other issues identified for reporting.

**Conclusion: Based on the work performed, the we have identified a significant weakness in the arrangements that we will be reporting by exception in relation to the Council's governance arrangements**

Recommendations:

We recommend that Management:

- Continue to progress the transformation programme and report the monitoring of actions for the same to the Audit Committee;
- Monitor and address the recommendations raised by the LGA in their Corporate Peer Challenge; and
- Ensure that there are arrangements in place to be able to prepare and publish the financial statements for subsequent years within the deadline set by the legislation.



# Value for Money Commentary (continued)

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

No significant weakness identified

The Council is required to have arrangements in place to ensure economy, efficiency and effectiveness, and the responsibility for these arrangements and reporting on the design and operation of these arrangements via the annual governance statement, rests with management. In accordance with the NAO's Code, the focus of our work should be on the arrangements that the Council is expected to have in place during the year ended 31 March 2024. Our risk assessment identified one risk of significant weakness in arrangements in respect to Improving economy, efficiency and effectiveness.

The Authority has been issued with a regulatory judgment by the Regulator of Social Housing regarding very serious failings by the Council in delivering the outcomes of the consumer standards:

The Regulator of Social Housing ("the Regulator") published a regulatory judgment for Castle Point Borough Council following an inspection completed in December 2024. The inspection was carried out by the Regulator as planned inspection programme to assess how well the Council is delivering the Outcomes of the consumer standards. The inspection highlighted the following issues:

- Health and safety assessments: the Council could not provide assurance that its information was accurate and that all required actions arising from the assessments had been carried out within appropriate timescales. The Council provided inconsistent health and safety information, and its accuracy could not be evidenced.
- Fire safety: the Council could not demonstrate that it is effectively managing and mitigating fire safety risks in its homes.
- Electrical safety: the Council reported that over 40% of its communal areas did not have an up to date electrical condition test however, as identified above, the inspection raised significant concerns over the accuracy of the data provided.
- The Council has significant gaps in the information it holds on the condition of its homes, as more than 99% of homes have not been surveyed within the last five years. They were also unable to provide evidence that the previous surveys included an assessment of hazards using the Housing Health and Safety Rating System and it does not have full access to the survey information. The Regulator do not have assurance that the Council has a sufficient understanding of its homes to deliver the relevant outcomes in the Safety and Quality Standard.
- The Council did not take tenants' views into account in its decision-making and there were no meaningful opportunities for tenants to influence and scrutinise landlord services or hold their landlord to account. The Council could not evidence that complaints are addressed fairly, effectively, and promptly.
- In September 2024, the Regulator learned that the Council had failed to collect and report Tenant Satisfaction Measures (TSM) data in relation to tenant perception information for 2023-2024. The Transparency, Influence and Accountability Standard requires landlords to collect and report annually on their performance using a core set of defined TSMs in order to support effective scrutiny by tenants. The Regulator were also unable to gain assurance that the Council had remedied this matter for its 2024-25 TSM collection, and there remains a risk that tenants will not be supported to scrutinise their landlord's services on an ongoing basis.
- The Council was unable to demonstrate how it responds to reports of hate crime or provides support to victims of hate crime.
- The Council has been unable to provide evidence that it has a domestic abuse policy in place and was unable to demonstrate how it recognised and responded to cases of domestic abuse.
- The Regulator saw limited evidence that the Council offers tenancies or terms of occupation that are compatible with the purpose of its accommodation, the needs of individual households, the sustainability of the community, and the efficient use of its housing stock.

# Value for Money Commentary (continued)

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

No significant weakness identified

The Regulator recognised that the Council has engaged with them throughout the inspection and has indicated a willingness to address this situation. However, no evidence seen yet to sufficiently assure them of the Council's ability to put matters right. The Regulator also expects the Council to develop a comprehensive plan that will drive significant change across all the areas identified and to share this with the tenants.

Other arrangements:

The Council has in place a Good Governance Group, comprising senior managers - Assistant Directors alongside the Head of Internal Audit - responsible for the implementation and monitoring of key business processes. The group provides a challenge to the operation of the processes and a sense check of individual assessments in the Manager Assurance Statements of core governance processes for which they are responsible.

The Council monitors the actual spend compared to the budget and continuously finds sources of efficiencies in operations. The actuals for general fund in 2023/24 was an underspend of £16k.

The Authority partners with a range of external organisations to consult on and deliver services to the local area. The Council is an active member of ASELA (Association of South Essex Local Authorities). It has also entered into a formal partnership with Growth and Recovery Prospectus as part of the Asset Delivery Programme. Regular board meetings are held to manage this programme, which is significant to the Council in terms of strategic importance.

The Council has clear procurement policies and procedures and provides training for all officers. Compliance is regularly reported at the Leadership Team meetings. The Council also produces an annual contract monitoring report which reviews high value contracts.

**Conclusion:** Based on the work performed, we have identified a significant weakness in the arrangements that we will be reporting by exception in relation to the regulatory judgment issued by the Regulator of Social Housing in December 2024 citing very serious failings by the Council in delivering the outcomes of the consumer standards. The Council did not have proper arrangements in place in 2023/24 to make informed decisions and properly manage its risks.

**Recommendation:** We recommend that the Council develop a comprehensive plan that will drive significant change across all the areas identified by the Regulator of Social Housing and to share this with the tenants.





# 06 Appendices

# Appendix A – Management representation letter

## Management Representation letter

[To be prepared on the entity's letterhead]

[Date]

**Ernst & Young**

[Address]

This letter of representations is provided in connection with your audit of the financial statements of Castle Point Borough Council (“the Authority”) for the year ended 31 March 2024. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the Authority financial position of Castle Point Borough Council as of 31 March 2024 and of its income and expenditure for the year then ended in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2023/24.

We understand that the purpose of your audit of our financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing (UK), which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose - all fraud, shortages, errors and other irregularities, should any exist.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

### A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2023/24.

2. We acknowledge, as members of management of the Authority, our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position, financial performance (or results of operations) and cash flows of the Authority in accordance with [the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2023/24], and are free of material misstatements, including omissions. We have approved the financial statements.
3. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.
4. As members of management of the Authority, we believe that the Authority has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with [the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2023/24], that are free from material misstatement, whether due to fraud or error.
5. There are no unadjusted audit differences identified during the current audit and pertaining to the latest period presented.
6. We confirm the Authority does not have securities (debt or equity) listed on a recognized exchange.

### B. Non-compliance with law and regulations, including fraud

1. **We acknowledge that we are responsible to determine that the Authority's activities are conducted in accordance with laws and regulations and that we are responsible to identify and address any non-compliance with applicable laws and regulations, including fraud.**
2. We acknowledge that we are responsible for the design, implementation and maintenance of a system of internal control to prevent and detect fraud and that we believe we have appropriately fulfilled those responsibilities.
3. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.



# Appendix A – Management representation letter

## Management Representation letter

4. We have disclosed to you, and provided you full access to information and any internal investigations relating to, all instances of identified or suspected non-compliance with law and regulations, including fraud, known to us that may have affected the Authority (regardless of the source or form and including, without limitation, allegations by “whistleblowers”) including non-compliance matters:

- involving financial improprieties;
- related to laws and regulations that have a direct effect on the determination of material amounts and disclosures in the Authority’s financial statements;
- related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Authority’s activities, its ability to continue to operate, or to avoid material penalties;
- involving management, or employees who have significant roles in internal controls, or others; or
- in relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.

### C. Information Provided and Completeness of Information and Transactions

1. We have provided you with:

- Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
- Additional information that you have requested from us for the purpose of the audit; and
- Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

2. All material transactions have been recorded in the accounting records and are reflected in the financial statements.

3. We have disclosed to you the use of all applications or tools using artificial intelligence, including generative artificial intelligence, that are reasonably likely to have a direct or indirect material effect in the financial statements.

4. We have made available to you all minutes of the meetings of the Authority and committees including the Audit and Governance Committee, Council and Cabinet (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the period to the most recent meeting on the following date: 27 February 2025.

5. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Authority’s related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the [period] end. These transactions have been appropriately accounted for and disclosed in the financial statements.

6. We believe that the methods, significant assumptions and the data we used in making accounting estimates and related disclosures are appropriate and consistently applied to achieve recognition, measurement and disclosure that is in accordance with applicable financial reporting framework.

7. We have disclosed to you, and the Authority has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

# Appendix A – Management representation letter

## Management Representation letter

8. From 10 December 2024 through the date of this letter we have disclosed to you, to the extent that we are aware, any (1) unauthorized access to our information technology systems that either occurred or to the best of our knowledge is reasonably likely to have occurred based on our investigation, including of reports submitted to us by third parties (including regulatory agencies, law enforcement agencies and security consultants) , to the extent that such unauthorized access to our information technology systems is reasonably likely to have a material impact to the financial statements, in each case or in the aggregate, and (2) ransomware attacks when we paid or are contemplating paying a ransom, regardless of the amount

### D. Liabilities and Contingencies

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements.
2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.
3. We have recorded and/or disclosed, as appropriate, all liabilities related to litigation and claims, both actual and contingent, and have disclosed in Note [21] to the financial statements all guarantees that we have given to third parties (of which there are none).
4. No other claims in connection with litigation have been or are expected to be received.

### E. Going Concern

1. Note [ ] to the financial statements discloses all the matters of which we are aware that are relevant to the Authority's ability to continue as a going concern, including significant conditions and events, our plans for future action, and the feasibility of those plans.

### F. Subsequent Events

1. Other than those described in Note [20] to the financial statements, there have been no events subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

### G. Other information

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises the Narrative Report, the Annual Governance Statement and Addendum to the Annual Governance Statement.
2. We confirm that the content contained within the other information is consistent with the financial statements.
3. We confirm that the Annual Governance Statement for 2023/24 is a true reflection, in all material respects, of the governance arrangements and the effectiveness of those arrangements in 2023/24 and includes disclosure of all significant governance issues and findings relating to that financial year, through to the date of this letter

### H. Climate-related matters

1. We confirm that to the best of our knowledge all information that is relevant to the recognition, measurement, presentation and disclosure of climate-related matters has been considered and reflected in the consolidated and Council financial statements.

### I. Ownership of Assets

1. Except for assets capitalised under finance leases, the Council has satisfactory title to all assets appearing in the balance sheet(s), and there are no liens or encumbrances on the Council's assets, nor has any asset been pledged as collateral, other than those that are disclosed in Note [X] to the financial statements. All assets to which the Council has satisfactory title appear in the balance sheet(s).

# Appendix A – Management representation letter

## Management Representation letter

1. All agreements and options to buy back assets previously sold have been properly recorded and adequately disclosed in the financial statements.
3. We have no plans to abandon lines of product or other plans or intentions that will result in any excess or obsolete inventory, and no inventory is stated at an amount in excess of net realisable value.
4. There are no formal or informal compensating balance arrangements with any of our cash and investment accounts. Except as disclosed in Note [X] to the financial statements, we have no other line of credit arrangements.

### J. Use of the Work of a Specialist

1. We agree with the findings of the specialists that we engaged to evaluate the valuation of land and buildings, investment property and IAS19 pension liabilities and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the consolidated and Council financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

### K. Estimates

#### Valuation of Property, Plant & Equipment

1. We confirm that the significant judgments made in making the valuation Property, Plant & Equipment estimate have taken into account all relevant information of which we are aware.
2. We believe that the selection or application of the methods, assumptions and data used by us have been consistently and appropriately applied or used in making the valuation of Property, Plant & Equipment estimate.

3. We confirm that the significant assumptions used in making the valuation of Property, Plant & Equipment estimate appropriately reflect our intent and ability to continue to use the assets in the provision of services or generation of income behalf of the Group and Council on behalf of the entity.

4. We confirm that the disclosures made in the consolidated and Council financial statements with respect to the accounting estimate(s), including those describing estimation uncertainty are complete and are reasonable in the context of CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2023/24.

5. We confirm that appropriate specialized skills or expertise has been applied in making the valuation of Property, Plant & Equipment estimate.

6. We confirm that no adjustments are required to the accounting estimate(s) and disclosures in the consolidated and Council financial statements.

#### Accounting for Pension Asset/Liability

1. We confirm that the significant judgments made in making the IAS 19 pensions asset/liability estimate have taken into account all relevant information of which we are aware.
2. We believe that the selection or application of the methods, assumptions and data used by us have been consistently and appropriately applied or used in making the IAS 19 pensions asset/liability estimate.
3. We confirm that the significant assumptions used in making the IAS 19 pensions asset/liability estimate appropriately reflect our intent and ability to continue to participate in the Essex Pension Fund.

# Appendix A – Management representation letter

## Management Representation letter

4. We confirm that the disclosures made in the consolidated and Council entity financial statements with respect to the accounting estimates, including those describing estimation uncertainty and the effects of the COVID-19 pandemic, are complete and are reasonable in the context of the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2023/24.

5. We confirm that appropriate specialized skills or expertise has been applied in making the IAS 19 Pensions asset/liability estimate.

6. We confirm that no adjustments are required to the accounting estimates and disclosures in the consolidated and Council financial statements.

### Retirement benefits

1. On the basis of the process established by us and having made appropriate enquiries, we are satisfied that the actuarial assumptions underlying the scheme liabilities are consistent with our knowledge of the business. All significant retirement benefits and all settlements and curtailments have been identified and properly accounted for.

### M. Reserves

1. We have properly recorded or disclosed in the financial statements the useable and unusable reserves.

2. closures in the consolidated and Council financial statements.

### N. Contingent Liabilities

1. We are unaware of any violations or possible violations of laws or regulations the effects of which should be considered for disclosure in the financial statements or as the basis of recording a contingent loss (other than those disclosed or accrued in the financial statements).

2. We are unaware of any known or probable instances of non-compliance with the requirements of regulatory or governmental authorities, including their financial reporting requirements, and there have been no communications from regulatory agencies or government representatives concerning investigations or allegations of non-compliance.

### O. Other Representations

1. To our knowledge, the total amount of potentially unlawful transactions that occurred between 2012/13 and 2021/22 are £1,153,328. No other transactions that are potentially unlawful have transpired within 1 April 2022 to 31 March 2024.

*Yours faithfully,*

\_\_\_\_\_  
Assistant Director, Finance & Procurement (s151 officer)

\_\_\_\_\_  
Chairman of the Audit & Governance Committee



# Appendix B – Fees

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

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

A breakdown of our fees is shown in the table to the right.

The original fees for these years were based on the following assumptions:

- ▶ Officers meeting the agreed timetable of deliverables;
- ▶ Our financial statement opinion and value for money conclusion being unqualified;
- ▶ Appropriate quality of documentation is provided by the Authority; and
- ▶ The Authority has an effective control environment
- ▶ The Authority complies with PSAA's Statement of Responsibilities of auditors and audited bodies. See <https://www.psa.co.uk/managing-audit-quality/statement-of-responsibilities-of-auditors-and-audited-bodies/statement-of-responsibilities-of-auditors-and-audited-bodies-from-2023-24-audits/>. In particular the Authority should have regard to paragraphs 26 - 28 of the Statement of Responsibilities which clearly sets out what is expected of audited bodies in preparing their financial statements.

Due to the reset, the above clearly will not be achieved and we will be liaising with PSAA Ltd to discuss and agree fees.

	2023/24	2022/23	2021/22
	£'s	£'s	£'s
PSAA Scale fee	157,688	52,324	43,324
Other - determined by PSAA	TBC	TBC	TBC
<b>Total fees</b>	<b>TBC</b>	<b>TBC</b>	<b>TBC</b>

*All fees exclude VAT*

Note 1 - PSAA Ltd, in line with the joint statement issued, DLUHC (as at that date) and the FRC is responsible for the determination of the final audit fee in respect of 2023/24.

In doing so, PSAA Ltd will apply the principles that where auditors have worked in good faith to meet the requirements of the Code of Audit Practice in place at the time the work was conducted (and have reported on work that is no longer required), then they are due the appropriate fee for the work done, including where their procedures were necessary to conclude the audit by the legislatively imposed backstop date by way of a modified or disclaimed opinion and the body is due to pay the applicable fee.

# Appendix C – Required communications with the Audit Committee

We have detailed the communications that we must provide to the audit committee.

## Our Reporting to you

Required communications	What is reported?	When and where
Terms of engagement	Confirmation by the audit committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Planning and audit approach	<p>Communication of:</p> <ul style="list-style-type: none"> <li>▶ The planned scope and timing of the audit</li> <li>▶ Any limitations on the planned work to be undertaken</li> <li>▶ The planned use of internal audit</li> <li>▶ The significant risks identified</li> </ul> <p>When communicating key audit matters this includes the most significant risks of material misstatement (whether or not due to fraud) including those that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team</p>	This Audit Completion report for Those Charged with Governance
Significant findings from the audit	<ul style="list-style-type: none"> <li>▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures</li> <li>▶ Significant difficulties, if any, encountered during the audit</li> <li>▶ Significant matters, if any, arising from the audit that were discussed with management</li> <li>▶ Written representations that we are seeking</li> <li>▶ Expected modifications to the audit report</li> <li>▶ Other matters if any, significant to the oversight of the financial reporting process</li> </ul>	This Audit Completion report for Those Charged with Governance

# Appendix C – Required communications with the Audit Committee (cont'd)

## Our Reporting to you

Required communications	What is reported?	When and where
Going concern	<p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> <li>▶ Whether the events or conditions constitute a material uncertainty</li> <li>▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements</li> <li>▶ The adequacy of related disclosures in the financial statements</li> </ul>	This Audit Completion report for Those Charged with Governance
Misstatements	<ul style="list-style-type: none"> <li>▶ Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation</li> <li>▶ The effect of uncorrected misstatements related to prior periods</li> <li>▶ A request that any uncorrected misstatement be corrected</li> <li>▶ Material misstatements corrected by management</li> </ul>	This Audit Completion report for Those Charged with Governance
Fraud	<ul style="list-style-type: none"> <li>▶ Enquiries of the audit committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity</li> <li>▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist</li> <li>▶ Unless all of those charged with governance are involved in managing the entity, any identified or suspected fraud involving:               <ol style="list-style-type: none"> <li>a. Management;</li> <li>b. Employees who have significant roles in internal control; or</li> <li>c. Others where the fraud results in a material misstatement in the financial statements</li> </ol> </li> <li>▶ The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected</li> <li>▶ Matters, if any, to communicate regarding management's process for identifying and responding to the risks of fraud in the entity and our assessment of the risks of material misstatement due to fraud</li> <li>▶ Any other matters related to fraud, relevant to Audit Committee responsibility</li> </ul>	This Audit Completion report for Those Charged with Governance

# Appendix C – Required communications with the Audit Committee (cont'd)

## Our Reporting to you

Required communications	What is reported?	When and where
Related parties	<p>Significant matters arising during the audit in connection with the entity's related parties including, when applicable:</p> <ul style="list-style-type: none"> <li>▶ Non-disclosure by management</li> <li>▶ Inappropriate authorisation and approval of transactions</li> <li>▶ Disagreement over disclosures</li> <li>▶ Non-compliance with laws and regulations</li> <li>▶ Difficulty in identifying the party that ultimately controls the entity</li> </ul>	This Audit Completion report for Those Charged with Governance
Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, integrity, objectivity and independence</p> <ul style="list-style-type: none"> <li>▶ Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:                             <ul style="list-style-type: none"> <li>▶ The principal threats</li> <li>▶ Safeguards adopted and their effectiveness</li> <li>▶ An overall assessment of threats and safeguards</li> <li>▶ Information about the general policies and process within the firm to maintain objectivity and independence</li> </ul> </li> </ul> <p>Communication whenever significant judgements are made about threats to integrity, objectivity and independence and the appropriateness of safeguards put in place.</p>	This Audit Completion report for Those Charged with Governance
External confirmations	<ul style="list-style-type: none"> <li>▶ Management's refusal for us to request confirmations</li> <li>▶ Inability to obtain relevant and reliable audit evidence from other procedures</li> </ul>	This Audit Completion report for Those Charged with Governance
Consideration of laws and regulations	<ul style="list-style-type: none"> <li>▶ Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur</li> <li>▶ Enquiry of the audit committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the audit committee may be aware of</li> </ul>	This Audit Completion report for Those Charged with Governance



# Appendix C – Required communications with the Audit Committee (cont'd)

## Our Reporting to you

Required communications	What is reported?	When and where
Internal controls	<ul style="list-style-type: none"> <li>▶ Significant deficiencies in internal controls identified during the audit</li> </ul>	This Audit Completion report for Those Charged with Governance
Representations	Written representations we are requesting from management and/or those charged with governance	This Audit Completion report for Those Charged with Governance
System of quality management	How the system of quality management (SQM) supports the consistent performance of a quality audit	This Audit Completion report for Those Charged with Governance
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	This Audit Completion report for Those Charged with Governance
Auditors report	<ul style="list-style-type: none"> <li>▶ Key audit matters that we will include in our auditor's report</li> <li>▶ Any circumstances identified that affect the form and content of our auditor's report</li> </ul>	This Audit Completion report for Those Charged with Governance
Value of Money	<ul style="list-style-type: none"> <li>▶ Conclusion on Value for Money</li> </ul>	This Audit Completion report for Those Charged with Governance

Auditor's Annual Report - Due March / April 2025

# Appendix D - Non-Compliance with Laws and Regulations (NOCLAR)

## Non-Compliance with Laws and Regulations includes:

Any act or suspected act of omission or commission (intentional or otherwise) by the entity (including any third parties under the control of the entity such as subsidiaries, those charged with governance or management or an employee acting on behalf of the company), either intentional or unintentional, which are contrary to the prevailing laws or regulations

### Management Responsibilities:

"It is the responsibility of management, with the oversight of those charged with governance, to ensure that the entity's operations are conducted in accordance with the provisions of laws and regulations, including compliance with the provisions of laws and regulations that determine the reported amounts and disclosures in an entity's financial statements."

ISA 250A, para 3

"The directors' report must contain a statement to the effect that... so far as the director is aware, there is no relevant audit information of which the company's auditor is unaware, and he has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditor is aware of that information."

ISA 250A, para 3

"Management is responsible for communicating to us on a timely basis, to the extent that management or those charged with governance are aware, all instances of identified or suspected non-compliance with laws and regulations ..."

Audit Engagement Letter

Management's responsibilities are also set out in the International Ethics Standard Board of Accountants' International Code of Ethics (IESBA Code) Para 360.08

### Auditor Responsibilities

[The International Ethics Standard Board of Accountants' International Code of Ethics \(IESBA Code\)](#) section 360 sets out the scope and procedures in relation to responding to actual or suspected non-compliance with laws and regulations.

Professional accountancy organisations who are members of the International Federation of Accountants (IFAC), such as the Institute of Chartered Accountants in England and Wales (ICAEW) are required to adopt the IESBA Code of Ethics.

We as your auditor are required to comply with the Code by virtue of our registration with ICAEW.

"If the auditor becomes aware of information concerning an instance of non-compliance or suspected non-compliance with laws and regulations, the auditor shall obtain:

An understanding of the nature of the act and the circumstances in which it has occurred; and Further information to evaluate the possible effect on the financial statements

The auditor shall evaluate the implications of the identified or suspected non-compliance in relation to other aspects of the audit, including the auditor's risk assessment and the reliability of written representations, and take appropriate action."

ISA 250A, paras 19 and 22

### Examples of Non-Compliance with Laws and Regulations (NOCLAR)

#### Matter

- ▶ Suspected or known fraud or bribery
- ▶ Health and Safety incident
- ▶ Payment of an unlawful dividend
- ▶ Loss of personal data
- ▶ Allegation of discrimination in dismissal
- ▶ HMRC or other regulatory investigation
- ▶ Deliberate journal mis-posting or allegations of financial impropriety
- ▶ Transacting business with sanctioned individuals

#### Implication

- ▶ Potential fraud/breach of anti-bribery legislation
- ▶ Potential breach of section 2 of the Health and Safety at Work Act 1974
- ▶ Potential breach of Companies Act 2006
- ▶ Potential GDPR breach
- ▶ Potential non-compliance with employment laws
- ▶ Suspicion of non-compliance with laws/regulations
- ▶ Potential fraud / breach of Companies Act 2006
- ▶ Potential breach of sanctions regulations

# Appendix D - Non-Compliance with Laws and Regulations (NOCLAR) (cont'd)

## What are the implications of NOCLAR matters arising?

Depending on the nature and significance of the NOCLAR matter the following steps are likely to be required, involving additional input from both management and audit.

This can have an impact on overall achievability of audit timeline and fees.

Across our portfolio of audits we have seen a steady increase in NOCLAR matters that need to be addressed as part of the audit over the past 3 years



### Management response:

Timely communication of the matter to auditors (within a couple of days)

Determine who will carry out any investigation into the matter - in-house or external specialists or mix of both

Scope the investigation, in discussion with the auditors

Evaluate findings and agree next steps

Determine effect on financial statements including disclosures

Prepare a paper, summarising the outcome of the investigation and management's conclusions

Communicate the outcome to Those Charged With Governance (TCWG) and to us as your auditors. Report to regulators where required.

### Key Reminders:

- ▶ Make sure that all areas of the business are aware of what constitutes actual or potential non-compliance and associated requirements
- ▶ Communicate with us as your auditors on a timely basis - do not wait for scheduled audit catch-ups
- ▶ Engage external specialists where needed
- ▶ Ensure that your investigation assesses any wider potential impacts arising from the matter, not just the matter itself.
- ▶ Plan upfront and consider any impact on overall accounts preparation and audit timeline - discuss the implications with us as your auditor

### Audit response:

Initial assessment of the NOCLAR matter and its potential impact

Initial consultation with risk team to determine responsive procedures and the involvement of specialists

Understand and agree scope of management's investigation with support from specialists as needed

Evaluate findings and undertake appropriate audit procedures

Determine audit related impact including accounting and disclosure and audit opinion implications

Document and consult on the outcome of our procedures

Communicate the outcome with management, TCWG and where necessary other auditors within the group or regulators

# Appendix E – VFM - Summary of arrangements

## Financial Sustainability

We set out below the arrangements for the financial sustainability criteria covering the year 2023/24.

Reporting criteria considerations	Arrangements in place
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	Detailed service planning is undertaken alongside the budget process. The Financial Services team consult with service areas throughout the budget process. Cost pressures and/or savings items are identified on an ongoing basis. The Leadership Team also involves itself in budget process and oversees it. Monthly meetings between Service Accountants and Service Managers in which forecasts are discussed. These discussions feed into monthly budget monitoring reports which are presented to Executive Management Team for review.
How the body plans to bridge its funding gaps and identifies achievable savings	The Council had a programme of savings items which it had been working to deliver throughout the preceding financial years to 2022/23. These were delivered in full before being incorporated into the budget (the council does not set in-year budget savings targets). Items included generation of additional income, policy changes on contribution into earmarked reserves, changes to delivery of functions, spend to save initiatives and re-procurement. Idea generation is service led, using service manager expertise and experience. To supplement this, finance staff seek to learn from other authorities in terms of what they have been doing and what has worked for them. Savings are not built into the budget until there is a high degree of certainty they can be delivered, meaning that the likelihood of in year pressures being created and replacement savings being required is minimal.
How the body plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities	In setting the 2023/24 budget, the Council did not require an increase in council tax levels, having previously set them at the highest permissible level. The Council has also established earmarked reserves to assist in smoothing the impact of fluctuating spend thus controlling as far as possible these cost pressures. Any decisions taken by Cabinet or Council are required to detail the financial implications. Where these implications are longer term, the decision paper should set out how the Council expects to fund them.



# Appendix E - VFM - Summary of arrangements (continued)

## Financial Sustainability (continued)

We set out below the arrangements for the financial sustainability criteria covering the year 2023/24.

### Reporting criteria considerations

### Arrangements in place

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

All plans are linked and refreshed as required. Service plans bring workforce, assets and operational plans together. Furthermore, Service managers have the opportunity during the budget setting process to feed in the impact of other plans.

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

This is achieved via various means, mainly through understanding of the Council's core business, awareness of external potential impacts and communication across all services.  
Regular financial planning and budget updates are presented for review to the Leadership Team and Cabinet.  
Furthermore, earmarked reserves are maintained for some specific risks.

# Appendix E - VFM - Summary of arrangements (continued)

## Governance

We set out below the arrangements for the governance criteria covering the year 2023/24

### Reporting criteria considerations

### Arrangements in place

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

The Council has an established Internal Audit department and work programme. Internal Audit prepare annual plans to conduct different internal audit programs to ensure compliance with established procedures.

The Annual Governance Statement considers a range of key business processes, including financial monitoring and value for money, as well as arrangements in place to prevent and detect fraud (see later criteria for more on the AGS).

[This section is impacted by VFM issues 1, 2, 3, 4 and 5 noted in Section 04 of this report.](#)

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

Detailed service planning is undertaken alongside the budget process. The Financial Services team consult with service areas throughout the budget process. Cost pressures and/or savings items are identified on an ongoing basis. Executive Management Team also involves itself in budget process and oversees it. Monthly meetings between Service Accountants and Service Managers are held in which forecasts are discussed. These discussions feed into monthly budget monitoring reports which are presented to Executive Management Team for review.

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

The Council presents a policy framework and budget setting report annually which talks around financial planning strategy and talks about financial reporting and monitoring. See also financial update reports to Cabinet available on the Council's website.

# Appendix E - VFM - Summary of arrangements (continued)

## Governance (continued)

We set out below the arrangements for the governance criteria covering the year 2023/24

### Reporting criteria considerations

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

### Arrangements in place

This is achieved by ensuring compliance with standard report format, use of business case approach for service change proposals. Also, there is a regular budget monitoring throughout the year. Service accountants work with services to facilitate the process.

We also noted that the preparation and publication of the statement of accounts for 23/24 was delayed.

[This section is also impacted by VFM issues 1, 2, 3, 4, 5 and 6 noted in Section 05 of this report.](#)

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)

This is ensured by an ongoing process with reminders to members and staff as appropriate. e.g. the HR Manager issues an annual reminder to all staff regarding gifts and hospitality just before Christmas each year.

Members are frequently asked to declare interests prior to all meetings.

Such arrangements (and compliance with these arrangements) are reported in the Annual Governance Statement

[This section is impacted by VFM issue 2, 4 and 5 noted in Section 05 of this report.](#)

# Appendix E - VFM - Summary of arrangements (continued)

## Improving economy, efficiency and effectiveness

We set out below the arrangements for improving economy, efficiency and effectiveness criteria covering the year 2023/24

Reporting criteria considerations	Arrangements in place
How financial and performance information has been used to assess performance to identify areas for improvement	The Council has a performance database which is updated by services and used to track performance against a range of measures covering Business Processes, People, Customers and Finance. A Corporate Performance Scorecard is agreed annually by Cabinet and is reported to Cabinet each quarter. Also, see below regarding how financial aspects are benchmarked.
How the body evaluates the services it provides to assess performance and identify areas for improvement	<p>The Council has a set of KPIs, and current and prior year performance is presented in Narrative Report.</p> <p>The Corporate performance reporting framework is supported by local performance monitoring of key indicators such as housing performance updates, revenue &amp; benefits performance reports,, fraud and compliance reporting. These KPIs are reviewed by the Cabinet throughout the year. Several detailed reviews of service performance were undertaken to understand the potential impact on performance.</p> <p>We noted, however, that a regulatory judgment was issued by the Regulator of Social Housing citing very serious failings by the Council in delivering the outcomes of the consumer standards. This was included in the discussion within our VFM commentary.</p>
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	<p>The Council is an active member of South Essex Council (SEC). It has also entered into a formal partnership with Growth and Recovery Prospectus as part of the Asset Delivery Programme. Regular board meetings are held to manage this programme, which is significant to the Council in terms of strategic importance.</p> <p>The Council is also an active member of Rochford and Castlepoint Health and Wellbeing Board Partnership and is consulting on a new strategy which sets out the three-year plan to improve the health and wellbeing of residents in Castle Point and Rochford . The strategy outlines the work that the Council and partnership will do and the key areas it will be focused on, as well as the principles and approach they plan to take. The Council is also working together at a grass-roots level to make the biggest difference in our communities.</p>



# Appendix E - VFM - Summary of arrangements (continued)

## Improving economy, efficiency and effectiveness (continued)

We set out below the arrangements for improving economy, efficiency and effectiveness criteria covering the year 2023/24

### Reporting criteria considerations

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

### Arrangements in place

The Council has clear procurement policies and procedures and provides training for all officers. Compliance is regularly reported at the Leadership Team meetings. The Council also produces an annual contract monitoring report which reviews high value contracts.

As an example, in the procurement of an ICT contract the following procedures were adopted;

- Engaged services of Essex procurement hub supplemented by in-house procurement expertise.
- Development of specification with procurement specialists and consultation with in-house Legal Services. Financials assessed by the s151 Officer.
- Scoring criteria set in advance of process.
- Internal Audit undertook an assessment of process to ensure compliance with best practice.
- Regular Management meetings to update and remind all Managers of their responsibilities.

# Appendix F – VFM – Summary of recommendations

## Recommendations

The table below sets out the recommendations arising from the value for money work in the year covered in this report, 2023/24.

All recommendations have been agreed by management.

Issue	Recommendation	Management response
Governance: A serious and pervasive weakness in governance arrangements in relation to the effective operation of internal controls and oversight of financial transactions; and procedures regarding recruitment, promotion and pay and conditions approval leading to a disclaimed opinion on the financial statements.	We recommend that management continue to progress the transformation programme and report the monitoring of actions for the same to the Audit Committee;	
Governance: A serious and pervasive weakness in governance arrangements in relation to the effective operation of internal controls and oversight of financial transactions; and procedures regarding recruitment, promotion and pay and conditions approval leading to a disclaimed opinion on the financial statements.	Monitor and address the recommendations raised by the LGA in their Corporate Peer Challenge.	
Governance: Delayed preparation and publication of Statement of Accounts	Ensure that there are arrangements in place to be able to prepare and publish the financial statements for subsequent years within the deadline set by the legislation.	
Economy, efficiency and effectiveness: The Authority has been issued with a regulatory judgment by the Regulator of Social Housing regarding very serious failings by the Council in delivering the outcomes of the consumer standards	Develop a comprehensive plan that will drive significant change across all the areas identified by the Regulator of Social Housing and to share this with the tenants.	

# Appendix F – VFM – Summary of recommendations

## Recommendations brought forward from 2021/22 and 2022/23

The table below sets out the recommendations arising from the value for money work in 2021/22 and 2022/23, and progress made in 2023/24.

All recommendations have been agreed by management.

Issue	Recommendation	EY Comment
<b>Governance: Pervasive weakness identified in relation to the Council's governance arrangements</b>	We recommend that the Council continues to advance their Transformation Programme	We incorporated the results of our review, findings and subsequent recommendations in our VFM commentary in Section 5.
<b>Governance: Pervasive weakness identified in relation to the Council's governance arrangements</b>	We recommend that the Council determines what action to take in relation to the potentially unlawful amounts paid	We incorporated the results of our review, findings and subsequent recommendations in our VFM commentary in Section 5.

# Appendix G – PSAA Statement of Responsibilities

As set out in Appendix A, our fee is based on the assumption that the Council complies with PSAA's Statement of Responsibilities of auditors and audited bodies. In particular the Council should have regard to paragraphs 26-28 of the Statement of Responsibilities which clearly set out what is expected of audited bodies in preparing their financial statements. We set out these paragraphs in full below:

## ***Preparation of the statement of accounts***

*26. Audited bodies are expected to follow Good Industry Practice and applicable recommendations and guidance from CIPFA and, as applicable, other relevant organisations as to proper accounting procedures and controls, including in the preparation and review of working papers and financial statements.*

*27. In preparing their statement of accounts, audited bodies are expected to:*

- prepare realistic plans that include clear targets and achievable timetables for the production of the financial statements;*
- ensure that finance staff have access to appropriate resources to enable compliance with the requirements of the applicable financial framework, including having access to the current copy of the CIPFA/LASAAC Code, applicable disclosure checklists, and any other relevant CIPFA Codes.*
- assign responsibilities clearly to staff with the appropriate expertise and experience;*
- provide necessary resources to enable delivery of the plan;*
- maintain adequate documentation in support of the financial statements and, at the start of the audit, providing a complete set of working papers that provide an adequate explanation of the entries in those financial statements including the appropriateness of the accounting policies used and the judgements and estimates made by management;*
- ensure that senior management monitors, supervises and reviews work to meet agreed standards and deadlines;*
- ensure that a senior individual at top management level personally reviews and approves the financial statements before presentation to the auditor; and*
- during the course of the audit provide responses to auditor queries on a timely basis.*

*28. If draft financial statements and supporting working papers of appropriate quality are not available at the agreed start date of the audit, the auditor may be unable to meet the planned audit timetable and the start date of the audit will be delayed.*



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