

# Annual governance report

Adur District Council

Audit 2010/11



# Contents

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- Key messages.....3**
  - Audit opinion and financial statements.....3
  - Value for money .....3
- Before I complete my audit.....4**
- Financial statements .....5**
  - Opinion on the financial statements .....5
  - Errors in the financial statements .....5
- Value for money.....13**
- Appendix 1 – Draft audit report.....17**
- Appendix 2 – Amendments to the draft financial statements .....21**
- Appendix 3 – Unadjusted misstatements to the financial statements .....24**
- Appendix 4 – Action plan.....26**
- Appendix 5 – Draft letter of representation.....29**
- Appendix 6 – Glossary.....32**

**Traffic light explanation**

Red  Amber  Green 

# Key messages

**This report summarises the findings from the 2010/11 audit which is substantially complete. It includes the messages arising from my audit of your financial statements and the results of my work on your arrangements to secure value for money in your use of resources.**

	Our findings
Unqualified audit opinion	●
Proper arrangements to secure value for money	◆

## Audit opinion and financial statements

Audit work is almost complete and I expect to issue an unqualified opinion on your financial statements by 30 September 2011.

The quality of the draft statements has improved this year and you have implemented the requirements of the International Financial Reporting Standards (IFRS) successfully overall. Working papers to support the statements were better than last year.

I found some errors in the statements, most of which have been corrected and some weaknesses in accounting practices and internal control. I have made recommendations as to how these could be improved.

## Value for money

My work to inform my value for money conclusion is complete. I am satisfied that you have proper arrangements to secure economy, efficiency and effectiveness for the two criteria specified by the Audit Commission.

You have responded well to the need to make savings to achieve future financial stability. You have a record of good financial management, and you use partnership working with other councils to achieve savings and service improvements. You have sought views from service users in agreeing service priorities.

I am also required to report by exception on any other significant additional matters that come to my attention. I recommended last year that risks should be regularly reported to members. Although your officers agreed to do this, it has not been implemented this year.

# Before I complete my audit

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## I confirm to you

My report includes only matters of governance interest that have come to my attention in performing my audit. My audit is not designed to identify all matters that might be relevant to you.

### Independence

I can confirm that I have complied with the Auditing Practices Board's ethical standards for auditors, including ES 1 (revised) - Integrity, Objectivity and Independence. I can also confirm there were no relationships resulting in a threat to independence, objectivity and integrity.

The Audit Commission's Audit Practice has not undertaken any non-audit work for you during 2010/11.

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## I ask you to confirm to me

### I ask the Joint Governance & Audit Committee to:

- note the adjustments made to the financial statements since they were approved by the Executive Head of Financial Services on 30 June 2011 which are set out at Appendix 2;
  - note the unadjusted errors found in the statements since they were approved by the Executive Head of Financial Services on 30 June 2011 which are set out at Appendix 3;
  - note my recommendations in the action plan at Appendix 4; and
  - approve a letter of representation to me on behalf of the Council before I issue my audit report. A draft is attached at Appendix 5.
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# Financial statements

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## Unqualified audit opinion

### Opinion on the financial statements

Appendix 1 sets out my draft audit report on the statements. Subject to completing outstanding audit work shown below, I plan to issue an unqualified opinion on the financial statements on 30 September 2011:

- collection fund - outstanding queries to be cleared;
- cash flow statement – work is in progress;
- review of the statements in their final form - amendments are being checked;
- whole of government accounts audit – work has been delayed as officers' review of the return is not complete.

I will update the Joint Governance & Audit Committee at its meeting on 29 September 2011.

### Errors in the financial statements

Errors were found at audit and for most of these I have agreed amendments with officers. Those of significance that have been amended are shown at Appendix 2.

Significant errors that have not been amended by officers are shown at Appendix 3. I request that you agree to amend the statements or set out the reasons for not doing so in your letter of representation.

# Financial statements

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The Council's financial statements and annual governance statement are important means by which it accounts for its stewardship of public funds. As Council members you have final responsibility for these statements. It is important that you consider my findings before you adopt them.

In planning my audit I identified one significant risk that I have considered as part of my audit. I reported this risk in my opinion audit plan which I presented to the Constitution & Audit Committee on 28 March 2011. This risk and my findings are set out in below.

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## Key audit risk and my findings

Key audit risk	Findings
<p><b>1. Implementation of IFRS</b></p> <p>The 2010/11 financial statements will be produced in accordance with IFRS for the first time. This means that your officers must adjust both opening and closing balances from the 2009/10 accounts, as well developing revised accounting policies and including extensive additional disclosures.</p> <p>There are several areas where misinterpretation of the new accounting standards could lead to material misstatement of the accounts, so this is a significant risk.</p>	<p>The financial statements were approved by the Executive Head of Financial Services and provided to me on 30 June 2011.</p> <p>Officers have coped well with the challenge of IFRS implementation and the restatement of all areas affected by IFRS had been completed to a good standard overall.</p> <p>You engaged experts to ensure that complex areas were treated correctly and the output from their work was correctly included in the statements.</p> <p>Supporting working papers were clear and officers were responsive to my queries.</p>

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# Financial statements

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## Significant weaknesses in internal control

Under ISA (UK&I) 265 (communicating deficiencies in internal control to those charged with governance and management) I am required to report any significant deficiencies in any of your internal controls that I identify during the audit. I have identified a few weaknesses in internal control that, although not significant, I report here for completeness.

These weaknesses are only those identified during the audit that are relevant to preparing the financial statements. I am not expressing an opinion on the overall effectiveness of internal control.

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### Internal control issues and my findings

Description of weakness	Potential effect	Management action
<p><b>1. Review of in year journals</b></p> <p>In order to prevent accounting errors, senior finance officers review and approve a monthly log of in year journals posted to the general ledger. No record is kept of the in year journals selected for review, the reason for selection and the outcome.</p>	<p>An audit trail is not available to show the operation of an important management control.</p>	<p>The in year journals selected for review from the monthly log, the reason for selection and the outcome should be documented by senior finance officers.</p> <p><b>See recommendation 1</b></p>

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Description of weakness	Potential effect	Management action
<p><b>2. Delays to material financial system reconciliations</b></p> <p>My review of the reconciliations between material financial systems and the general ledger, both in year and at the year-end, found that their completion and review was not always done on a prompt and timely basis. Some reconciliations showed unidentified differences at year-end and work was ongoing to clear them.</p> <p>These weaknesses were found in the following financial systems:</p> <ul style="list-style-type: none"> <li>• national non-domestic rates (NNDR);</li> <li>• housing and council tax benefits;</li> <li>• council tax;</li> <li>• debtors; and</li> <li>• creditors.</li> </ul>	<p>Reconciliations of key financial systems confirm the completeness and accuracy of general ledger entries.</p> <p>Delayed reconciliations, and those with unreconciled differences, means that your management accounts used for budget monitoring might be wrong.</p>	<p>Regular and timely reconciliations should be completed for all key financial systems as should independent reviews.</p> <p>Unreconciled differences should be investigated promptly.</p> <p><b>See recommendation 2</b></p>
<p><b>3. Cash and bank reconciliation</b></p> <p>Monthly cash and bank reconciliations were not prepared on a prompt and timely basis in 2010/11. At 31 March 2011 the reconciliation showed a small unreconciled item.</p> <p>The Council's policy on cheques over six months old should be reviewed following notification that banks will honour cheques for three years.</p>	<p>Delays in cash and bank reconciliations mean that an important source of assurance over the integrity of the general ledger is not being obtained promptly.</p> <p>The number and value of older unrepresented cheques will increase and review of these will be needed to ensure that the reconciliation shows the Council's up to date bank position.</p>	<p>Regular and timely cash and bank reconciliations should be completed as should independent review. Unreconciled differences should be investigated and cleared promptly. The policy on older unrepresented cheques should be reviewed.</p> <p><b>See recommendation 3</b></p>



# Financial statements

## Quality of your financial statements

I raise the following issues after consideration of your accounting practices, accounting policies, accounting estimates and financial statements disclosures.

### Accounting practices, policies, estimates and financial disclosures

Issue	Findings and recommendations
<p><b>1. Componentisation of assets</b></p> <p>Under IFRS, items of property, plant and equipment should be accounted for after separation into their significant component parts. This should ensure greater accuracy in the valuation and depreciation charges.</p> <p>You engaged the District Valuer to provide component values for all significant general fund properties. However, this was not done for your housing revenue account (HRA) properties.</p>	<p>As part of the Government's proposals for the major reform of the system of council housing finance, the subsidy system will change. A revised basis for the calculation of depreciation beyond 2011/12 is currently being developed by the Department of Communities and Local Government (DCLG). Also, further valuation guidance for HRA properties is expected.</p> <p>I am satisfied that your arrangements for 2010/11 are appropriate. However, you should ensure that you have all the information needed to comply with the future HRA requirements.</p> <p><b>See recommendation 4</b></p>
<p><b>2. Omission of year-end accruals</b></p> <p>My sample testing of March and April 2011 receipts and payments identified nine transactions that were not accrued for. I have extrapolated the results which show that the net cost of services line in the comprehensive income and expenditure statement (CIES) is understated by £24,850 as is the short term creditors figure on the balance sheet.</p>	<p>The extrapolated sum is not a material amount.</p> <p>Budget holders are required to inform financial services of expenditure incurred in one year which will not be paid until the next. Accruals should be raised to ensure that the annual financial statements reflect all transactions relating to that year.</p> <p><b>See recommendation 5</b></p>

### 3. Accounting for housing rents

Council tenants pay rent on a weekly basis. Where the financial year-end falls in the middle of a week, you do not make an adjustment to allocate rents to separate financial years.

It is estimated rent due is understated by £107,282 in 2010/11 with a corresponding reduction needed for any rents included in the first rent period of 2010/11 that related to 2009/10.

While this issue does not give rise to a material misstatement of the HRA, the rental income due would be more accurate if they were accounted for up to and including 31 March each year.

**See recommendation 6**

### 4. Exceptional items

Accounting standards require that significant one-off transactions are presented separately on the face of the CIES where relevant to gaining an understanding of a council's financial performance.

Two exceptional items should have been disclosed in the draft financial statements.

Two exceptional items have now been included in the CIES:

- annual pension increases are based on a measure of price inflation and there has been a change from retail price index (RPI) to the consumer price index (CPI) for future increases in 2010/11. This change affects the valuation of your pension liability because, in general, annual CPI increases have been lower and are anticipated to be lower than RPI increases. The impact of this change is a reduction to your pensions' liability by £18.3 million; and
- DCLG guidance for 2010/11 requires each HRA dwelling to be valued using vacant possession, adjusted to reflect the occupation by a secure tenant. The adjustment factors set out in the guidance are significantly lower than those in the 2005 Guidance.

Officers should be aware of the need to identify and disclose exceptional items.

**See recommendation 7**

### 5. Presentation and disclosure errors

While I concluded that the main financial statements were complete and were better than last year, many errors were noted. They consisted of significant ones, which are separately reported at Appendix 2, and numerous minor errors.

With better review, most presentation and disclosure errors could be found and corrected saving time for officers and auditors.

**See recommendation 8**

## Issue

## Findings and recommendations

### 6. Related party transactions

There have been delays in the receipt of some related party transactions.

The arrangements for the collection of returns from members have been improved since my comments at last year's audit although delays have again been experienced at this audit.

While officers sent an initial request to members in April 2011 and have taken follow up action on those outstanding, some were delayed.

Further changes to improve the collection speed of members' related party transaction returns are planned. These should be implemented for the 2011/12 financial year.

**See recommendation 9**

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# Financial statements

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## Letter of representation

Before I issue my opinion, auditing standards require me to ask you and management for written representations about your financial statements and governance arrangements. Appendix 5 contains a draft letter of representation for your approval before being signed by the Chair of the Joint Governance & Audit Committee and your Executive Head of Financial Services.

# Value for money

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**I am required to conclude whether the Council put in place proper corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money conclusion.**

I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against two criteria specified by the Audit Commission:

- financial resilience; and
- securing economy efficiency and effectiveness.

I have also assessed progress against the recommendations I made raised at the 2009/10 audit.

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## Value for money criteria and my findings

Criterion	Findings
<p><b>1. Financial resilience</b></p> <p>The organisation has proper arrangements in place to secure financial resilience.</p> <p>Focus for 2010/11: The organisation has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.</p>	<p>Your ongoing partnership working with Worthing Brough Council through Adur &amp; Worthing Joint Strategic Committee (AWJC) continues to produce annual cost savings and efficiency gains, and you have committed to a long term plan that secures its financial position. You have stated that the joint working has achieved savings of nearly £1 million since the joint arrangements started in 2007.</p> <p>There is a clear link between your strategic objectives and corporate priorities, which are shared with Worthing, and your finances. You have a medium term financial plan that is updated and your annual budgeting process is sound. You also have a record of good financial management which was again demonstrated in 2010/11 when you reported an underspend of £0.79 million.</p>

## Criterion

## Findings

### 2. Securing economy efficiency and effectiveness

The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

Focus for 2010/11: The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

You have reported no issues relating to poor debt collection, you do not have cash flow problems and overall reserve levels have remained stable over recent years. You have maintained a general fund working balance of £0.86 million as at 31 March 2011, a similar level to that held in recent years and it is in line with its stated policy.

The budget reports for 2010/11 and 2011/12 both show you are aware of the need to prepare budgets that recognise the need for future financial stability. Budgets have been prepared after making estimates of demands for services and assessing variables that could impact on your financial position, such as interest rates.

You have appropriate arrangements in place to secure economy, efficiency and effectiveness.

Members have set out clearly their aims and priorities and your senior officer team, which is shared with Worthing, shows clear leadership.

Most services, including those with the highest expenditure such as waste, are provided to through AWJC and you can demonstrate savings of nearly £1 million from this arrangement with Worthing. Revenues and benefits services are now provided through another partnership with two Sussex district councils, CenSus, which has led to further service improvements. Overall, the partnerships show your commitment to achieving good value for money.

You continue to review services delivered by AWJC to ensure that they are cost effective. You also review your joint management arrangements with Worthing and there is evidence of savings from this following the removal of an executive head post in 2011 with plans for further streamlining.

The decision to market the Civic Centre demonstrates consideration of your future asset needs. Plans are being made for a smaller replacement building that will be more cost effective and can be used by other public bodies and the community.

In July 2010, a report to members suggested that the 2011/12 financial shortfall would be almost £0.5 million. In setting its 2011/12 budget, you identified the need to continue a focus on its priorities and sought public views on where money should be spent. Efficiency savings to meet the shortfall were needed and a cross-section of members formed the budget advisory group to undertake a fundamental review of services and make recommendations.

Criterion	Findings
	<p>The 2011/12 budget report detailed the need for more savings in future years was also recognised and a prediction made of a cumulative shortfall in the five years to 2015/16 of £1.9 million. The areas for savings were set out in the budget report and included staffing reductions both at the Council and AWJC in 2011/12 and after. It also identified key risks to its finances such as inflation, the level of interest rates, falling income and higher demand for services, such as homelessness and noted the need to keep its medium term financial plan up to date.</p> <p>While the possibility of changing your policy of holding a general fund working balance between 6% and 10% of annual net revenue expenditure was available, this was not done on grounds of prudence.</p> <p>In year budget reports to members are produced on a timely basis and allow them to fulfil their responsibilities. The inclusion of performance data in the reports is an area for development. <b>Recommendation 10</b> on the action plan at Appendix 4 covers this.</p>

## Report by exception

The Audit Commission requires me to report by exception where significant matters come to my attention, which I consider to be relevant to proper arrangements to secure economy, efficiency and effectiveness in your use of resources.

I highlighted the need for an improvement in risk management reporting in my last annual governance report. While officers accepted my findings and completed an action plan stating that risk management would be reported to the Constitution & Audit Committee three times a year (September, November & March), this has not been done.

In July 2011, internal audit issued a report on the risk management in 2010/11. It set out 14 recommendations and gave a limited assurance rating (on an assurance scale of full, satisfactory, limited and no). Included in the agreed recommendations were the need:

- to update risk management documentation to guide officers;
- to define members' responsibilities for risk management clearly,
- to provide risk management training to members and officers including as part of induction;
- for your management team to receive and consider up to date risk management reports in year (this was not done in 2010/11);
- for regular reviews and updates of individual risks to be done by all officers that are risk owners; and
- to submit a risk management annual report to members.

Having considered internal audit's findings and the lack of action on my recommendation, I have concluded that I should report by exception that risk management procedures were ineffective in 2010/11. **Recommendation 11** at Appendix 4 refers to the need to improve your arrangements.

I also reported on two other areas in my last annual governance report:

- the effectiveness of the Constitution and Audit Committee; and
- your management of the natural resources you use.

In June 2011 you replaced the Constitution & Audit Committee with the Joint Governance & Audit Committee which now operates in conjunction with Worthing. This change seeks improve the quality of governance and save administrative costs.

You have made good progress in how you manage the use of natural resources to support the delivery of your services. You appointed a dedicated officer to promote and implement your sustainability strategy. This has resulted in good progress, including raising staff awareness and preparing a costed programme of energy saving measures, which includes expected payback periods. Evidence of implemented schemes includes automated hibernation of desk top computers when not in use.



# Appendix 1 – Draft audit report

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## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ADUR DISTRICT COUNCIL

### Opinion on the Authority accounting statements

I have audited the accounting statements of Adur District Council for the year ended 31 March 2011 under the Audit Commission Act 1998. The accounting statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account, the Movement on the Housing Revenue Account Statement and Collection Fund and the related notes. These accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of Adur District Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

### Respective responsibilities of the Executive Head of Financial Services and auditor

As explained more fully in the Statement of Responsibilities for the Statement of Accounts, the Executive Head of Financial Services is responsible for the preparation of the Authority's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom. My responsibility is to audit the accounting statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the accounting statements sufficient to give reasonable assurance that the accounting statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Authority; and the overall presentation of the accounting statements. I read all the information in the

explanatory foreword to identify material inconsistencies with the audited accounting statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

### **Opinion on accounting statements**

In my opinion the accounting statements:

- give a true and fair view of the state of Adur District Council's affairs as at 31 March 2011 and of its income and expenditure for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

### **Opinion on other matters**

In my opinion, the information given in the explanatory foreword for the financial year for which the accounting statements are prepared is consistent with the accounting statements.

### **Matters on which I report by exception**

I have nothing to report in respect of the governance statement on which I report to you if, in my opinion the governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007.

### **Conclusion on Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources**

#### **Authority's responsibilities**

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

#### **Auditor's responsibilities**

I am required under Section 5 of the Audit Commission Act 1998 to satisfy myself that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

I report if significant matters have come to my attention which prevent me from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. I am not required to consider, nor have I considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

## **Basis of conclusion**

I have undertaken my audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2010, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for me to consider under the Code of Audit Practice in satisfying myself whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2011.

I planned my work in accordance with the Code of Audit Practice. Based on my risk assessment, I undertook such work as I considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

## **Conclusion**

On the basis of my work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2010, I am satisfied that in all significant respects, Adur District Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2011.

## **Report by exception**

The Audit Commission's guidance also requires me to report by exception on any other significant additional matters that come to my attention and which I consider to be relevant to proper arrangements to secure economy, efficiency and effectiveness in the use of resources. Such a matter has come to my attention relating to a significant weakness in the Authority's arrangements for managing risks and maintaining a sound system of internal control. I identified that the Constitution & Audit Committee had not received regular reports on the Authority's strategic risks during the year and that Internal Audit had concluded that the risk management arrangements needed improvement in several areas. Effective risk management assists the Authority's members and officers in making decisions, including those that affect the Authority's priorities. Without up to date risk management information, these priorities might not be achieved.

## **Certificate**

I certify that I have completed the audit of the accounts of Adur District Council in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Helen Thompson  
Officer of the Audit Commission

Bicentennial House, Southern Gate, Chichester, West Sussex, PO19 8EZ

xx September 2011

# Appendix 2 – Amendments to the draft financial statements

I identified the following misstatements during my audit and management have adjusted the financial statements. I bring them to your attention to aid you in fulfilling your governance responsibilities.

		Comprehensive income and expenditure statement (CIES)		Balance sheet	
Adjusted misstatement	Nature of adjustment	Dr £000s	Cr £000s	Dr £000s	Cr £000s
CIES - finance and investment income	Finance and investment income was overstated on the CIES and at note 11. The net cost of services was understated on the CIES.	2,764	2,764	Nil	Nil
CIES - exceptional items	Two exceptional items have now been disclosed separately on the CIES: <ul style="list-style-type: none"> <li>pension negative past service</li> <li>impairment of council dwellings</li> </ul>	6,880 50,540	6,880 50,540	Nil	Nil
CIES - misallocation of pension current service costs	Apportionment of current service costs over service headings shown in the CIES were revised in line with accounting guidance. There was no impact on the net cost of services.	Various – no effect on net cost of services	Various – no effect on net cost of services	Nil	Nil

		Comprehensive income and expenditure statement (CIES)		Balance sheet	
Adjusted misstatement	Nature of adjustment	Dr £000s	Cr £000s	Dr £000s	Cr £000s
CIES – termination benefits	Benefits of £9000 were shown in individual service headings rather than in non-distributed costs because of incorrect coding.	Various – no effect on net cost of services	Various – no effect on net cost of services	Nil	Nil
Note 13 – income and expenditure from investment properties	This note was originally prepared on the wrong basis. Officers have now amended the note to ensure it agrees to transaction details in the general ledger.	Nil	Nil	Nil	Nil
Note 28 – amounts reported for resource allocation decisions	The 2009/10 and 2010/11 tables were not prepared on the same basis. They have now been amended so that they are directly comparable.	Nil	Nil	Nil	Nil
Note 2 to the HRA – total balance sheet value of land, houses and other property within the HRA	The value disclosed for council dwellings was incorrect.	Nil	Nil	Nil	Nil

In addition to the items listed above, numerous narrative and typographical errors were noted during the course of the audit. Your officers have agreed to amend for these errors, and this has led to changes to written disclosures in the following parts of the financial statements:

- statement of accounting policies;
- cashflow statement;
- note 12 – narrative information about revaluations;
- note 15 – financial instruments;
- note 17 – construction contracts;
- note 30 – trading operations;
- note 33 – pooled budgets (title now changed to “joint budgets”);
- note 47 – defined benefit pension plan;

		Comprehensive income and expenditure statement (CIES)		Balance sheet	
Adjusted misstatement	Nature of adjustment	Dr £000s	Cr £000s	Dr £000s	Cr £000s

- note 1 to the Housing Revenue Account; and
- notes 2, 4 and 5 to the Collection Fund.

# Appendix 3 – Unadjusted misstatements to the financial statements

I identified the following misstatements during my financial statements audit and management has not adjusted for them. I bring them to your attention to help you in fulfilling your governance responsibilities and ask you to ask officers to correct these misstatements.

If you decide not to amend, please tell me why in the letter of representation to me. If you believe the effect of the uncorrected errors, individually and collectively, is immaterial, please reflect this in the letter. Please attach a schedule of the uncorrected errors to the representation letter.

Unadjusted misstatement	Nature of required adjustment	Comprehensive income and expenditure statement		Balance sheet	
		Dr £000s	Cr £000s	Dr £000s	Cr £000s
Missed year-end expenditure accruals	The cost of services line on the CIES is understated by £24,850, as is the short term creditors figure on the balance sheet.	25	Nil	Nil	25



		Comprehensive income and expenditure statement		Balance sheet	
Unadjusted misstatement	Nature of required adjustment	Dr £000s	Cr £000s	Dr £000s	Cr £000s
Investment properties	One property has been incorrectly classified as an investment property and does not meet the relevant criteria. It should instead be held within PPE.	16	Nil	290	306
Housing revenue account – dwelling rent income	You should adjust the rental income line to improve the accuracy of the statement where rent weeks span the year-end.	27 (maximum)	Nil	Nil	27 (maximum)
Collection fund - income from NNDR payers and contribution to national NNDR pool	Both figures are understated by approximately £12,000. This is because of a late decision by DCLG to end the moratorium on assessments at Shoreham Harbour.	Nil	Nil	Nil	Nil

# Appendix 4 – Action plan

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I make recommendations based on the findings of my audit work. Implementing them will:

- improve your overall internal control environment;
- ensure that accounting policies and practices support the production of robust financial statements; and,
- strengthen arrangements to secure value for money.

Page No.	Recommendation	Responsibility	Agreed	Comments	Date
7	<b>Recommendation 1</b>  The in year journals selected for review from the monthly log, the reason for selection and the outcome should be documented by senior finance officers.				October 2011
8	<b>Recommendation 2</b>  Regular and timely reconciliations should be completed for all key financial systems as should independent reviews. Unreconciled differences should be investigated promptly.				October 2011

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8	<b>Recommendation 3</b>	October 2011
Regular and timely cash and bank reconciliations should be completed as should independent review. Unreconciled differences should be investigated and cleared promptly. The policy on older unrepresented cheques should be reviewed.		
9	<b>Recommendation 4</b>	March 2012
Ensure that all the information needed is available to comply with the future HRA requirements.		
9	<b>Recommendation 5</b>	March 2012
Accruals should be raised to ensure that the annual financial statements reflect all transactions relating to that year.		
10	<b>Recommendation 6</b>	March 2012
Improve the accuracy of the Housing Revenue Account by apportioning rent for the first and last weeks of the year between the two annual reporting periods.		
10	<b>Recommendation 7</b>	June 2012
Exceptional items should be identified and disclosed on the face of the CIES.		
10	<b>Recommendation 8</b>	June 2012
With better review, most presentation and disclosure errors could be found and corrected saving time for officers and auditors.		

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11	<b>Recommendation 9</b>	March 2012
	Further changes to improve the collection speed of members' related party transaction returns are planned. These should be implemented.	
15	<b>Recommendation 10</b>	December 2011
	Performance information relevant to members' decision making responsibilities should be provided.	
16	<b>Recommendation 11</b>	December 2011
	Risk management arrangements should be improved by taking action on internal audit's findings and implementing the recommendation made in the 2009/10 annual governance report relating to providing regular risk management updates to members.	

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# Appendix 5 – Draft letter of representation

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**To:**

Helen Thompson  
District Auditor  
Audit Commission  
Bicentennial House  
Southern Gate  
Chichester  
West Sussex PO19 8EZ

**Adur District Council - audit for the year ended 31 March 2011**

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other members and officers of Adur District Council, the following representations given to you in connection with your audit of the council's financial statements for the year ended 31 March 2011.

**Compliance with the statutory authorities**

I have fulfilled my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with International Financial Reporting Standards as adopted for the local government in the Code of Practice for Local Authority Accounting in the United Kingdom which give a true and fair view of the financial position and financial performance of the council, for the completeness of the information provided to you, and for making accurate representations to you.

## Uncorrected misstatements

The effects of uncorrected financial statements misstatements summarised in the attached schedule are not material to the financial statements, either individually or in aggregate.

*[Optional - These misstatements have been discussed with members of the council's Joint Governance and Audit Committee and the reasons for not correcting these items are as follows:...]*

## Supporting records

All relevant information and access to persons within the entity has been made available to you for the purpose of your audit, and all the transactions undertaken by the council have been properly reflected and recorded in the financial statements.

## Irregularities

I acknowledge my responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud or error. I also confirm that I have disclosed:

- my knowledge of fraud, or suspected fraud, involving either management, employees who have significant roles in internal control or others where fraud could have a material effect on the financial statements;
- my knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others; and
- the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

## Law, regulations, contractual arrangements and codes of practice

I have disclosed to you all known instances of non-compliance, or suspected non-compliance with laws, regulations and codes of practice, whose effects should be considered when preparing financial statements.

Transactions and events have been carried out in accordance with law, regulation or other authority. The council has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance.

All known actual or possible litigation and claims, whose effects should be considered when preparing the financial statements, have been disclosed to the auditor and accounted for and disclosed in accordance with the applicable financial reporting framework.

## Accounting estimates including fair values

I confirm the reasonableness of the significant assumptions used in making the accounting estimates, including those measured at fair value.

## **Related party transactions**

I confirm that I have disclosed the identity of Adur District Council's related parties and all the related party relationships and transactions of which I am aware. I have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirements of the financial reporting framework.

## **Subsequent events**

All events subsequent to the date of the financial statements, which would require additional adjustment or disclosure in the financial statements, have been adjusted or disclosed.

## **Signed on behalf of Adur District Council**

I confirm that the this letter has been discussed and agreed by members of the council's Joint Governance and Audit Committee on [date].

[Signature]

Councillor Rod Hotton

Chair of the Joint Governance & Audit Committee

(Date)

Sarah Gobey

Executive Head of Financial Services

(Date)

# Appendix 6 – Glossary

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## Annual governance statement

A statement of internal control prepared by an audited body and published with the financial statements.

## Audit closure certificate

A certificate that I have completed the audit following statutory requirements. This marks the point when I have completed my responsibilities for the audit of the period covered by the financial statements.

## Audit opinion

On completion of the audit of the financial statements, I must give my opinion on the financial statements, including:

- whether they give a true and fair view of the financial position of the audited body and its spending and income for the year in question; and
- whether they have been prepared properly, following the relevant accounting rules.

If I agree that the financial statements give a true and fair view, I issue an unqualified opinion. I issue a qualified opinion if:

- I find the statements do not give a true and fair view; or
- I cannot confirm that the statements give a true and fair view.

## Materiality and significance

The Auditing Practices Board (APB) defines this concept as ‘an expression of the relative significance or importance of a particular matter for the financial statements as a whole. A matter is material if its omission would reasonably influence users of the financial statements, such as the addressees of the auditor’s report; also a misstatement is material if it would have a similar influence. Materiality may also be considered for any individual primary statement within the financial statements or of individual items included in them. We cannot define materiality mathematically, as it has both numerical and non-numerical aspects’.



The term 'materiality' applies only to the financial statements. Auditors appointed by the Commission have responsibilities and duties under statute, as well as their responsibility to give an opinion on the financial statements, which do not necessarily affect their opinion on the financial statements.

'Significance' applies to these wider responsibilities and auditors adopt a level of significance that may differ from the materiality level applied to their audit in relation to the financial statements. Significance has both qualitative and quantitative aspects.

## Weaknesses in internal control

A weakness in internal control exists when:

- a control is designed, set up or used in such a way that it is unable to prevent, or detect and correct, misstatements in the financial statements quickly; or
- a control necessary to prevent, or detect and correct, misstatements in the financial statements quickly is missing.

An important weakness in internal control is a weakness, or a combination of weaknesses that, in my professional judgement, are important enough that I should report them to you.

## Value for money conclusion

The auditor's conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources based on criteria specified by the Audit Commission.

The Code of Audit Practice defines proper arrangements as corporate performance management and financial management arrangements that form a key part of the system of internal control. These comprise the arrangements for:

- planning finances effectively to deliver strategic priorities and secure sound financial health;
- having a sound understanding of costs and performance and achieving efficiencies in activities;
- reliable and timely financial reporting that meets the needs of internal users, stakeholders and local people;
- commissioning and buying quality services and supplies that are tailored to local needs and deliver sustainable outcomes and value for money;
- producing relevant and reliable data and information to support decision making and manage performance;
- promoting and displaying the principles and values of good governance;
- managing risks and maintaining a sound system of internal control;
- making effective use of natural resources;
- managing assets effectively to help deliver strategic priorities and service needs; and
- planning, organising and developing the workforce effectively to support the achievement of strategic priorities.

If I find that the audited body had adequate arrangements, I issue an unqualified conclusion. If I find that it did not, I issue a qualified conclusion.

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**0844 798 7070**

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- any director/member or officer in their individual capacity; or
- any third party.

