

# Adur District Council

## Audit Committee Summary

For the year ended 31 March 2015

Audit Results Report – ISA (UK and Ireland) 260

September 2015



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**Section 1**

# **Executive summary**

# Executive summary – key findings

## **Audit results and other key matters**

The Audit Commission's Code of Audit Practice (the Code) requires us to report to those charged with governance – the Joint Governance Committee – on the work we have carried out to discharge our statutory audit responsibilities together with any governance issues identified. This report summarises the findings from the 2014/2015 audit which is substantially complete. It includes the messages arising from our audit of your financial statements and the results of the work we have undertaken to assess your arrangements to secure value for money in your use of resources.

### **Financial statements**

- ▶ As of 29 September 2015, we expect to issue an unqualified opinion on the financial statements. Our audit results demonstrate, through the few matters we have to communicate, that the Council has prepared its financial statements adequately.

### **Value for money**

- ▶ We expect to conclude that you have made appropriate arrangements to secure economy, efficiency and effectiveness in your use of resources.

### **Whole of Government Accounts**

- ▶ We expect to issue an unqualified confirmation to the National Audit Office (NAO) regarding the Whole of Government Accounts submission.

### **Audit certificate**

- ▶ The audit certificate is issued to demonstrate that the full requirements of the Audit Commission's Code of Audit Practice have been discharged for the relevant audit year. We expect to issue the audit certificate at the same time as the audit opinion.

**Section 2**

# **Extent and progress of our work**

# Extent and purpose of our work

## The Council's responsibilities

- ▶ The Council is responsible for preparing and publishing its Statement of Accounts, accompanied by the Annual Governance Statement. In the Annual Governance Statement, the Council reports publicly on the extent to which it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period.
- ▶ The Council is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

## Purpose of our work

- ▶ Our audit was designed to:
  - ▶ Express an opinion on the 2014/2015 financial statements and the consistency of other information published with them
  - ▶ Report on an exception basis on the Annual Governance Statement
  - ▶ Consider and report any matters that prevent us being satisfied that the Council had put in place proper arrangements for securing economy, efficiency and effectiveness in the use of resources (the Value for Money conclusion)
  - ▶ Discharge the powers and duties set out in the Audit Commission Act 1998 and the Code of Audit Practice

In addition, this report contains our findings related to the areas of audit emphasis and any views on significant deficiencies in internal control or the Council's accounting policies and key judgments.

As a component auditor, we also follow the NAO group instructions and report the results on completion of the WGA work through the Assurance Statement to the NAO and to the Council.

This report is intended solely for the information and use of the Council. It is not intended to be and should not be used by anyone other than the specified party.

**Section 3**

# **Addressing audit risks**

# Addressing audit risks – significant audit risks

We identified the following audit risks during the planning phase of our audit, and reported these to you in our Audit Plan. Here, we set out how we have gained audit assurance over those issues.

A significant audit risk in the context of the audit of the financial statements is an inherent risk with both a higher likelihood of occurrence and a higher magnitude of effect should it occur and which requires special audit consideration. For significant risks, we obtain an understanding of the entity's controls relevant to each risk and assess the design and implementation of the relevant controls.

Audit risk identified within our audit plan	Audit procedures performed	Assurance gained and issues arising
<p>Significant audit risks (including fraud risks)</p> <p>As identified in ISA (UK and Ireland) 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 otherwise appear to be operating effectively.</p>	<ul style="list-style-type: none"> <li>➤ Tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements;</li> <li>➤ Reviewed accounting estimates for evidence of management bias; and</li> <li>➤ Evaluated the business rationale for any significant unusual transactions.</li> </ul>	<p>We found no evidence that controls had been over-ridden by management, that estimates reflected any management bias, and we did not identify any unusual transactions.</p>



Section 4

# Financial statements audit – issues and findings

# Financial statements audit – issues and misstatements arising from the audit

## Progress of our audit

- ▶ The following areas of our work programme remain to be completed. We will provide an update of progress at the Joint Governance Committee meeting:
  - ▶ Receipt of a Letter of Representation
  - ▶ Receipt of bank confirmation from Lloyds Bank.
  - ▶ HRA Disclosures
  - ▶ Collection Fund Disclosures
  - ▶ Lease and Rent Contracts
  - ▶ Reserves
  - ▶ Payroll Analytical Procedures
  - ▶ Whole of Government Accounts
- ▶ Subject to the satisfactory resolution of the above items, we propose to issue an unqualified audit report on the financial statements.

## Uncorrected misstatements

- ▶ We have not identified any uncorrected misstatements.

## Corrected misstatements

- ▶ Our audit identified a number of further misstatements which our team have highlighted to management for amendment. These have been corrected during the course of our work and further details are provided at Appendix A.

## Other matters

- ▶ As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we are required to communicate to you significant findings from the audit and other matters that are significant to your oversight of the Authority's financial reporting process including the following:
  - ▶ Qualitative aspects of your accounting practices; estimates and disclosures;
  - ▶ Matters specifically required by other auditing standards to be communicated to those charged with governance. For example, issues about fraud, compliance with laws and regulations, external confirmations and related party transactions;
  - ▶ Any significant difficulties encountered during the audit; and
  - ▶ Other audit matters of governance interest

Throughout the course of the audit, we found the officers to be slow to respond to our queries, resulting in testing taking significantly longer to complete than expected. While we maintained a log of outstanding queries, which was shared and discussed with officers on a weekly basis, staff shortages and sickness meant these could not be resolved in a timely manner.

The authority also re-stated the CIES late in the audit process, requiring us to revisit several areas of testing.

This resulted in additional fee being charged, as reflected in the fee table below.

# Financial statements audit – application of materiality

## Our application of materiality

- ▶ When establishing our overall audit strategy, we determined a magnitude of uncorrected misstatements that we judged would be material for the financial statements as a whole.

Item	
<p>Planning Materiality and Tolerable error</p>	<p>We determined planning materiality to be £1.075 million (2014: £0.999 million), which is 2% of gross expenditure reported in the accounts of £47.8 million adjusted certain items within other operating expenditure and financing and investment expenditure.</p> <p>We consider gross expenditure to be one of the principal considerations for stakeholders in assessing the financial performance of the Council.</p> <p>We set a tolerable error for the audit. Tolerable error is the application of planning materiality at the individual account or balance level. It is set to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds planning materiality. The level of tolerable error drives the extent of detailed audit testing required to support our opinion.</p> <p>We have set tolerable error at the upper level of the available range because there were no corrected significant errors in the Council's 2013/2014 financial statements and no uncorrected errors.</p>
<p>Reporting Threshold</p>	<p>We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £53.8 thousand (2014: £50 thousand).</p>

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations.

# Financial statements audit – internal control, written representations and whole of government accounts

## Internal control

- ▶ It is the responsibility of the Council to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility as your auditor is to consider whether the Council has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.
- ▶ We have tested the controls of the Council only to the extent necessary for us to complete our audit. We are not expressing an opinion on the overall effectiveness of internal control.
- ▶ We have reviewed the Annual Governance Statement and can confirm that:
  - ▶ It complies with the requirements of CIPFA/SOLACE Delivering Good Governance in Local Government Framework; and
  - ▶ It is consistent with other information that we are aware of from our audit of the financial statements.
- ▶ We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements of which you are not aware.

## Request for written representations

- ▶ We have requested a management representation letter to gain management's confirmation in relation to a number of matters.
- ▶ **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 are specified by the National Audit Office.
- ▶ We are currently concluding our work in this area and will report any matters that arise to the Audit Committee.

**Section 5**

# **Arrangements to secure economy, efficiency and effectiveness**

# Arrangements to secure economy, efficiency and effectiveness

The Code of Audit Practice (2010) sets out our responsibility to satisfy ourselves that Adur District Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. In examining the Council's corporate performance management and financial management arrangements, we have regard to the following criteria and focus specified by the Audit Commission.

## Criteria 1 – arrangements for securing financial resilience

- ▶ 'Whether the Authority has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future'
- ▶ We identified one risk in our audit plan in relation to this criterion. The Council faces a significant financial management challenge over the coming years, including managing:
  - ▶ the implications of the current economic climate;
  - ▶ the significant reductions in the level of future central government funding;
  - ▶ the impact of the funding changes set out in the Local Government Finance Act 2012 and elsewhere; and
  - ▶ increases in demand for services linked to significant demographic changes such as the ageing population and rising birth rate.

## Findings

The 2014/15 outturn showed an overspend against budget of £399k (4.1%), reducing already low levels of reserves.

We considered the Council's arrangements for setting the 2015/16 budget were appropriate. Budget papers clearly identified the financial pressures faced and the Council has identified savings needed to deliver a balanced budget.

We also considered medium term financial planning and note that it recognises the on-going uncertainty caused by changes to funding and makes sensible assumptions about their impact. However, we note that considerable savings, additional income is required over the medium term to ensure a balanced budget. While 2015/16 plans are in place, and production of 2016/17 plans is underway, there is still much work to do to identify the savings required in the medium term.

## Conclusion

- We have yet to conclude our assessment of whether the Council has proper arrangements to ensure it is financially resilient for the foreseeable future. We will update the Committee at the 29 September meeting.

# Arrangements to secure economy, efficiency and effectiveness

The Code of Audit Practice (2010) sets out our responsibility to satisfy ourselves that Adur District Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. In examining the Council's corporate performance management and financial management arrangements, we have regard to the following criteria and focus specified by the Audit Commission.

## Criteria 2 – arrangements for securing economy, efficiency and effectiveness

- ▶ 'Whether the Authority is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity'
- ▶ We did not identify any significant risks in relation to this criteria.

Our work did not identify any other matters relating to aspects of your corporate performance and financial management framework which are not covered by the scope of the two specified criteria.

**Section 6**

# **Independence and audit fees**



# Independence and audit fees

## Independence

- ▶ We confirm there are no changes in our assessment of independence since our confirmation in our Audit Plan dated May 2015.
- ▶ We complied with the Auditing Practices Board's Ethical Standards for Auditors and the requirements of the Audit Commission's Code and Standing Guidance. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.
- ▶ We confirm that we are not aware of any relationships that may affect the independence and objectivity of the firm that we are required by auditing and ethical standards to report to you.
- ▶ We consider that our independence in this context is a matter that should be reviewed by both you and ourselves. It is therefore important that you consider the facts of which you are aware and come to a view. If you wish to discuss any matters concerning our independence, we will be pleased to do so at the forthcoming meeting of the Joint Governance Committee on 29 September 2015.

- ▶ We confirm that we have met the reporting requirements to the Joint Governance Committee, as 'those charged with governance' under International Standards on Auditing (UK and Ireland) 260 – Communication with those charged with governance. Our communication plan to meet these requirements were set out in our Audit Plan of May 2015.

## Audit fees

- ▶ The table below sets out the scale fee and our final proposed audit fees.

	Proposed final fee 2014/2015	Scale fee 2014/2015	Variation comments
	£	£	
Audit Fee: Code work	TBC	64,163	Slow response to queries, restatement of CIES, VFM Significant Risk.
Certification of claims and returns	13,480	13,480	N/A
Non-Audit work	0	0	N/A

- ▶ Our proposed final fee differs from the scale fee as a result of slow responses from officers in relation to our queries, resulting from staff sickness and shortages. Significant additional time was spent discussing and reviewing these queries which led to delay in completion of audit procedures. A late adjustment to the CIES was also processed by finance staff, requiring us to revisit several areas of testing to ensure sufficient work had been done. Additional work was also required in relation to the Value for Money significant risk identified in our Audit Plan.
- ▶ We confirm that we have not undertaken any non-audit work outside of the Audit Commission's Audit Code requirements.

**Section 7**

# **Appendix**

# Appendix A – corrected audit misstatements

- ▶ The following misstatements, greater than £53.8 thousand, have been identified during the course of our audit and in our professional judgement warrant communicating to you.
- ▶ These items have been corrected by management within the revised financial statements

## Disclosures

Disclosure	Description of misstatement
1. Disclosure errors	<p>We identified the following disclosure misstatements within the accounts:</p> <ul style="list-style-type: none"><li>- The Explanatory Foreword and Movement in Reserves Statement referred to a Prior Year Adjustment, and a third balance sheet has been included in the accounts disclosing restated balances. No such prior period adjustment has been made. The reference and third balance sheet has therefore been removed.</li><li>- The signage in the Movement in Reserves statement was inconsistent with the CIES and Balance Sheet. The statement was amended to ensure consistency.</li><li>- A number of minor adjustments were made to Accounting Policies and disclosure notes.</li></ul>
2. Debtors	<p>We identified a credit balance within debtors which, upon review should have been disclosed as a Creditor. An adjustment of £602,222 was therefore made. As this was a credit balance in debtors, both debtors and creditors increase by this amount.</p>

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# Adur & Worthing Joint Committee

Audit Committee Summary

For the year ended 31 March 2015

Audit Results Report – ISA (UK and Ireland) 260

September 2015



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**Section 1**

# **Executive summary**

# Executive summary – key findings

## Audit results and other key matters

The Audit Commission's Code of Audit Practice (the Code) requires us to report to those charged with governance – the Joint Governance Committee – on the work we have carried out to discharge our statutory audit responsibilities together with any governance issues identified. This report summarises the findings from the 2014/15 audit which is substantially complete. It includes the messages arising from our audit of your financial statements and the results of the work we have undertaken to assess your arrangements to secure value for money in your use of resources.

### Financial statements

- ▶ As of 29 September 2015, we expect to issue an unqualified opinion on the financial statements. We identified a number of errors this year which management have amended.

### Value for money

- ▶ We expect to conclude that you have made appropriate arrangements to secure economy, efficiency and effectiveness in your use of resources.

### Audit certificate

- ▶ The audit certificate is issued to demonstrate that the full requirements of the Audit Commission's Code of Audit Practice have been discharged for the relevant audit year. We expect to issue the audit certificate at the same time as the audit opinion.



**Section 2**

# **Extent and progress of our work**

# Extent and purpose of our work

## The Joint Committee's responsibilities

- ▶ The Joint Committee is responsible for preparing and publishing its Statement of Accounts, accompanied by the Annual Governance Statement. In the Annual Governance Statement, the Joint Committee reports publicly on the extent to which it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period.
- ▶ The Joint Committee is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

## Purpose of our work

- ▶ Our audit was designed to:
  - ▶ Express an opinion on the 2014/15 financial statements and the consistency of other information published with them
  - ▶ Report on an exception basis on the Annual Governance Statement
  - ▶ Consider and report any matters that prevent us being satisfied that the Joint Committee had put in place proper arrangements for securing economy, efficiency and effectiveness in the use of resources (the Value for Money conclusion)
  - ▶ Discharge the powers and duties set out in the Audit Commission Act 1998 and the Code of Audit Practice

In addition, this report contains our findings related to the areas of audit emphasis and any views on significant deficiencies in internal control or the Joint Committee's accounting policies and key judgments.

This report is intended solely for the information and use of the Joint Committee. It is not intended to be and should not be used by anyone other than the specified party.

**Section 3**

# **Addressing audit risks**

# Addressing audit risks – significant audit risks

We identified the following audit risks during the planning phase of our audit, and reported these to you in our Audit Plan. Here, we set out how we have gained audit assurance over those issues.

A significant audit risk in the context of the audit of the financial statements is an inherent risk with both a higher likelihood of occurrence and a higher magnitude of effect should it occur and which requires special audit consideration. For significant risks, we obtain an understanding of the entity's controls relevant to each risk and assess the design and implementation of the relevant controls.

Audit risk identified within our audit plan	Audit procedures performed	Assurance gained and issues arising
<p>Significant audit risks (including fraud risks)</p> <p>As identified in ISA (UK and Ireland) 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 otherwise appear to be operating effectively.</p>	<ul style="list-style-type: none"> <li>➤ Tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements;</li> <li>➤ Reviewed accounting estimates for evidence of management bias; and</li> <li>➤ Evaluated the business rationale for any significant unusual transactions.</li> </ul>	<p>We found no evidence that controls had been over-ridden by management or that estimates reflected any management bias, and we did not identify any unusual transactions.</p>

Section 4

# Financial statements audit – issues and findings

# Financial statements audit – issues and misstatements arising from the audit

## Progress of our audit

- ▶ The following areas of our work programme remain to be completed. We will provide an update of progress at the Joint Governance Committee meeting:
  - ▶ Receipt of a Letter of Representation
  - ▶ Receipt of bank confirmation from Lloyds Bank.
- ▶ Subject to the satisfactory resolution of the above items, we propose to issue an unqualified audit report on the financial statements.

## Uncorrected misstatements

- ▶ We have not identified any uncorrected misstatements.

## Corrected misstatements

- ▶ Our audit identified a number of misstatements which our team have highlighted to management for amendment. These have been corrected during the course of our work and further details are provided at Appendix 1.

## Other matters

- ▶ As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we are required to communicate to you significant findings from the audit and other matters that are significant to your oversight of the Authority's financial reporting process including the following:
  - ▶ Qualitative aspects of your accounting practices; estimates and disclosures;
  - ▶ Matters specifically required by other auditing standards to be communicated to those charged with governance. For example, issues about fraud, compliance with laws and regulations, external confirmations and related party transactions;
  - ▶ Any significant difficulties encountered during the audit; and
  - ▶ Other audit matters of governance interest

Throughout the course of the audit, we found the officers to be slow to respond to our queries, resulting in testing taking significantly longer to complete than expected. While we maintained a log of outstanding queries, which was shared and discussed with officers on a weekly basis, staff shortages and sickness meant these could not be resolved in a timely manner.

This resulted in a proposed an additional fee being charged, as reflected in the fee table below.

# Financial statements audit – application of materiality

## Our application of materiality

- ▶ When establishing our overall audit strategy, we determined a magnitude of uncorrected misstatements that we judged would be material for the financial statements as a whole.

Item	
<p>Planning Materiality and Tolerable error</p>	<p>We determined planning materiality to be £641,000 (2014: £503,000, which is 2% of gross expenditure reported in the accounts of £29.2 million adjusted for certain items within other operating expenditure and financing and investment expenditure.</p> <p>We consider gross expenditure to be one of the principal considerations for stakeholders in assessing the financial performance of the Joint Committee.</p> <p>We set a tolerable error for the audit. Tolerable error is the application of planning materiality at the individual account or balance level. It is set to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds planning materiality. The level of tolerable error drives the extent of detailed audit testing required to support our opinion.</p> <p>We have set tolerable error at the upper level of the available range because there were no corrected significant errors in the Joint Committee's 2013/14 financial statements and no uncorrected errors.</p>
<p>Reporting Threshold</p>	<p>We agreed with the Audit Committee that we would report to the Committee all uncorrected audit differences in excess of £32,000 (2014: £25,000).</p>

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations.

# Financial statements audit – internal control, written representations and whole of government accounts

## Internal control

- ▶ It is the responsibility of the Joint Committee to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility as your auditor is to consider whether the Joint Committee has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.
- ▶ We have tested the controls of the Joint Committee only to the extent necessary for us to complete our audit. We are not expressing an opinion on the overall effectiveness of internal control.
- ▶ We have reviewed the Annual Governance Statement and can confirm that:
  - ▶ It complies with the requirements of CIPFA/SOLACE Delivering Good Governance in Local Government Framework; and
  - ▶ It is consistent with other information that we are aware of from our audit of the financial statements.
- ▶ We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements of which you are not aware.

## Request for written representations

- ▶ We have requested a management representation letter to gain management's confirmation in relation to a number of matters.



**Section 5**

# **Arrangements to secure economy, efficiency and effectiveness**

# Arrangements to secure economy, efficiency and effectiveness

The Code of Audit Practice (2010) sets out our responsibility to satisfy ourselves that Adur & Worthing Joint Committee has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. In examining the Joint Committee's corporate performance management and financial management arrangements, we have regard to the following criteria and focus specified by the Audit Commission.

## Approach

- ▶ 'Our work was limited to reviewing:
  - ▶ the Annual Governance Statement, and
  - ▶ reviewing the results of any work undertaken by the Audit Commission and other regulatory bodies or inspectorates to consider whether it impacts on our audit responsibilities.
  - ▶ undertaking other local risk-based work, as appropriate, or any work mandated by the Commission.
  
- ▶ To update our understanding of the Joint Committee's arrangements in respect of the above key areas, we:
  - ▶ reviewed relevant minutes and documents; and
  - ▶ discussed the underpinning arrangements and outcomes with officers.

## Findings

- As reported on a previous slide, the Annual Governance Statement was consistent with our understanding of the design and operation of the Joint Committee's internal control framework throughout the year.
- There were no relevant findings from other regulators or inspections.
- We did not identify the need to undertake any further work.

## Conclusion

We have concluded that there are no matter arising from our work that we need to report and we plan to issue an unqualified VFM conclusion.

**Section 6**

# **Independence and audit fees**

# Independence and audit fees

## Independence

- ▶ We confirm there are no changes in our assessment of independence since our confirmation in our **Audit Plan dated May 2015**.
- ▶ We complied with the Auditing Practices Board's Ethical Standards for Auditors and the requirements of the Audit Commission's Code and Standing Guidance. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.
- ▶ We confirm that we are not aware of any relationships that may affect the independence and objectivity of the firm that we are required by auditing and ethical standards to report to you.
- ▶ We consider that our independence in this context is a matter that should be reviewed by both you and ourselves. It is therefore important that you consider the facts of which you are aware and come to a view. If you wish to discuss any matters concerning our independence, we will be pleased to do so at the forthcoming meeting of the Joint Governance Committee on 29 September 2015.

- ▶ We confirm that we have met the reporting requirements to the Joint Governance Committee, as 'those charged with governance' under International Standards on Auditing (UK and Ireland) 260 – Communication with those charged with governance. Our communication plan to meet these requirements were set out in our Audit Plan of May 2015.

## Audit fees

- ▶ The table below sets out the scale fee and our final proposed audit fees.

	Proposed final fee 2014/2015	Scale fee 2014/2015	Variation comments
	£	£	
Audit Fee: Code work	TBC	22,547	Slow response to queries.
Non-Audit work	0	0	N/A

- ▶ Our proposed final fee differs from the scale fee as a result of slow responses from officers in relation to our queries, resulting from staff sickness and shortages. Significant additional time was spent discussing and reviewing these queries which led to delay in completion of audit procedures.
- ▶ We confirm that we have not undertaken any non-audit work outside of the Audit Commission's Audit Code requirements.

**Section 7**

# **Appendix**

# Appendix A – corrected audit misstatements

- ▶ As we found significantly more errors this year, we consider it appropriate to report all misstatements greater than £32,000 that we have identified during the course of our audit or which, in our professional judgement warrant communicating to you.
- ▶ These items have been corrected by management within the revised financial statements

## Disclosures

Disclosure	Description of misstatement
1. Comprehensive Income & Expenditure Statement – Cultural & Related Services	We found both gross income and gross expenditure balances to be overstated by £1.197m, due to incorrect treatment of internal recharges. This had no impact on the net expenditure figure disclosed.
2. Balance Sheet – Creditors	We found a grant which should have been classified as a Receipt in Advance had been incorrectly recorded as a Creditor. Grant Receipts in Advance was therefore understated by £74,560 while Creditors was overstated by the same amount.
3. Related Party Transactions	<p>We identified a Worthing Councillor had an interest in a company to which £19,215 had been paid in year. IAS24 requires this to be disclosed. We therefore requested the Related Party Transaction note to be updated.</p> <p>In addition, declarations of interest had not been received from three members.</p>
4. Disclosure Errors	<p>We identified a number of disclosure errors throughout the financial statements. These have all been amended by the Joint Committee, and include:</p> <ul style="list-style-type: none"> <li>- A third balance sheet has been included for the year ended 31/3/13 these figures have been brought forward into the movement in reserves statement and are disclosed as 'Restated' in the draft accounts. These figures have not been restated. The note has therefore been updated.</li> <li>- Draft statements omitted a disclosure note analysing the Adjustments between Accounting and Funding Basis Under Regulation. This has been added to the final version.</li> <li>- Finance &amp; Investment Income &amp; Expenditure on the face of the CIES is a material balance, yet no supporting note had been disclosed. A note has been added to the final version of the statements.</li> <li>- We requested a small number of amendments to accounting policies.</li> <li>- Additional disclosure was added to the Financial Instruments note to show how it reconciles to the Trade &amp; Other Payables note.</li> </ul>

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# Worthing Borough Council

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**Section 1**

# **Executive summary**

# Executive summary – key findings

## **Audit results and other key matters**

The Audit Commission's Code of Audit Practice (the Code) requires us to report to those charged with governance – the **Joint Governance Committee** – on the work we have carried out to discharge our statutory audit responsibilities together with any governance issues identified. This report summarises the findings from the 2014/15 audit which is substantially complete. It includes the messages arising from our audit of your financial statements and the results of the work we have undertaken to assess your arrangements to secure value for money in your use of resources.

### **Financial statements**

- ▶ As of 21 September 2015, we expect to issue an unqualified opinion on the financial statements. We identified a number of errors this year which management have amended. The Joint Committee needs to improve the financial statement production process to reduce these errors in future years.

### **Value for money**

- ▶ We have yet to conclude our work on your arrangements to secure economy, efficiency and effectiveness in your use of resources and will update you at the 29 September Committee meeting.

### **Whole of Government Accounts**

- ▶ We do not expect to report any significant matters to the National Audit Office (NAO) regarding the Whole of Government Accounts submission.

### **Audit certificate**

- ▶ The audit certificate is issued to demonstrate that the full requirements of the Audit Commission's Code of Audit Practice have been discharged for the relevant audit year. We expect to issue the audit certificate at the same time as the audit opinion.

**Section 2**

# **Extent and progress of our work**

# Extent and purpose of our work

## The Council's responsibilities

- ▶ The Council is responsible for preparing and publishing its Statement of Accounts, accompanied by the Annual Governance Statement. In the Annual Governance Statement, the Council reports publicly on the extent to which it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period.
- ▶ The Council is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

## Purpose of our work

- ▶ Our audit was designed to:
  - ▶ Express an opinion on the 2014/15 financial statements and the consistency of other information published with them
  - ▶ Report on an exception basis on the Annual Governance Statement
  - ▶ Consider and report any matters that prevent us being satisfied that the Council had put in place proper arrangements for securing economy, efficiency and effectiveness in the use of resources (the Value for Money conclusion)
  - ▶ Discharge the powers and duties set out in the Audit Commission Act 1998 and the Code of Audit Practice

In addition, this report contains our findings related to the areas of audit emphasis and any views on significant deficiencies in internal control or the Council's accounting policies and key judgments.

As a component auditor, we also follow the NAO group instructions and report the results on completion of the WGA work through the Assurance Statement to the NAO and to the Council.

This report is intended solely for the information and use of the Council. It is not intended to be and should not be used by anyone other than the specified party.

**Section 3**

# **Addressing audit risks**

# Addressing audit risks – significant audit risks

We identified the following audit risks during the planning phase of our audit, and reported these to you in our Audit Plan. Here, we set out how we have gained audit assurance over those issues.

A significant audit risk in the context of the audit of the financial statements is an inherent risk with both a higher likelihood of occurrence and a higher magnitude of effect should it occur and which requires special audit consideration. For significant risks, we obtain an understanding of the entity's controls relevant to each risk and assess the design and implementation of the relevant controls.

Audit risk identified within our audit plan	Audit procedures performed	Assurance gained and issues arising
<p>Significant audit risks (including fraud risks)</p> <p>As identified in ISA (UK and Ireland) 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 otherwise appear to be operating effectively.</p>	<ul style="list-style-type: none"> <li>➤ Tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements;</li> <li>➤ Reviewed accounting estimates for evidence of management bias; and</li> <li>➤ Evaluated the business rationale for any significant unusual transactions.</li> </ul>	<p>We found no evidence that controls had been over-ridden by management or that estimates reflected any management bias, and we did not identify any unusual transactions.</p>

Section 4

# Financial statements audit – issues and findings



# Financial statements audit – issues and misstatements arising from the audit

## Progress of our audit

- ▶ The following areas of our work programme remain to be completed. We will provide an update of progress at the Joint Governance Committee meeting:
  - ▶ Receipt of a Letter of Representation
  - ▶ Receipt of bank confirmation from Lloyds Bank.
  - ▶ Review of Financial Instrument disclosure.
  - ▶ Payroll Analytical Procedures
  - ▶ Whole of Government Accounts
- ▶ Subject to the satisfactory resolution of the above items, we propose to issue an unqualified audit report on the financial statements.

## Uncorrected misstatements

- ▶ We have not identified any uncorrected misstatements.

## Corrected misstatements

- ▶ Our audit identified a number of misstatements which our team have highlighted to management for amendment. These have been corrected during the course of our work and further details are provided at Appendix A.

## Other matters

- ▶ As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we are required to communicate to you significant findings from the audit and other matters that are significant to your oversight of the Authority's financial reporting process including the following:
  - ▶ Qualitative aspects of your accounting practices; estimates and disclosures;
  - ▶ Matters specifically required by other auditing standards to be communicated to those charged with governance. For example, issues about fraud, compliance with laws and regulations, external confirmations and related party transactions;
  - ▶ Any significant difficulties encountered during the audit; and
  - ▶ Other audit matters of governance interest

Throughout the course of the audit, we found the officers to be slow to respond to our queries, resulting in testing taking significantly longer to complete than expected. While we maintained a log of outstanding queries, which was shared and discussed with officers on a weekly basis, staff shortages and sickness meant these could not be resolved in a timely manner.

The authority also re-stated the CIES late in the audit process, requiring us to revisit several areas of testing.

This resulted in an additional fee being proposed, as reflected in the fee table below.

# Financial statements audit – application of materiality

## Our application of materiality

- ▶ When establishing our overall audit strategy, we determined a magnitude of uncorrected misstatements that we judged would be material for the financial statements as a whole.

Item	
<p>Planning Materiality and Tolerable error</p>	<p>We determined planning materiality to be £1.5 million (2014: £1.6 million), which is 2% of gross expenditure reported in the accounts of £72.05 million, adjusted for certain items within other operating expenditure and financing and investment expenditure.</p> <p>We consider gross expenditure to be one of the principal considerations for stakeholders in assessing the financial performance of the Council.</p> <p>We set a tolerable error for the audit. Tolerable error is the application of planning materiality at the individual account or balance level. It is set to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds planning materiality. The level of tolerable error drives the extent of detailed audit testing required to support our opinion.</p> <p>We have set tolerable error at the upper level of the available range because there were no corrected significant errors in the Council's 2013/14 financial statements and no uncorrected errors.</p>
<p>Reporting Threshold</p>	<p>We agreed with the Audit Committee that we would report to the Committee all uncorrected audit differences in excess of £75,500 (2014: £81,400).</p>

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations.

# Financial statements audit – internal control, written representations and whole of government accounts

## Internal control

- ▶ It is the responsibility of the Council to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility as your auditor is to consider whether the Council has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.
- ▶ We have tested the controls of the Council only to the extent necessary for us to complete our audit. We are not expressing an opinion on the overall effectiveness of internal control.
- ▶ We have reviewed the Annual Governance Statement and can confirm that:
  - ▶ It complies with the requirements of CIPFA/SOLACE Delivering Good Governance in Local Government Framework; and
  - ▶ It is consistent with other information that we are aware of from our audit of the financial statements.
- ▶ We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements of which you are not aware.

## Request for written representations

- ▶ We have requested a management representation letter to gain management's confirmation in relation to a number of matters.
- ▶ **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 are specified by the National Audit Office.
- ▶ We are currently concluding our work in this area and will report any matters that arise to the Audit Committee.

**Section 5**

# **Arrangements to secure economy, efficiency and effectiveness**

# Arrangements to secure economy, efficiency and effectiveness

The Code of Audit Practice (2010) sets out our responsibility to satisfy ourselves that Worthing Borough Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. In examining the Council's corporate performance management and financial management arrangements, we have regard to the following criteria and focus specified by the Audit Commission.

## Criteria 1 – arrangements for securing financial resilience

- ▶ 'Whether the Authority has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future'
- ▶ We identified one risk in our audit plan in relation to this criteria. The Council faces a significant financial management challenge over the coming years, including managing:
  - ▶ the implications of the current economic climate;
  - ▶ the significant reductions in the level of future central government funding;
  - ▶ the impact of the funding changes set out in the Local Government Finance Act 2012 and elsewhere; and
  - ▶ increases in demand for services linked to significant demographic changes such as the ageing population and rising birth rate.

## Findings

The 2014/15 outturn showed an underspend against budget of £122k (0.9%), resulting in additional contribution to reserves. We note that the Council appropriately identified and took action to address forecast overspends.

We considered the Council's arrangements for setting the 2015/16 budget were appropriate. Budget papers clearly identified the financial pressures faced and the Council has identified savings needed to deliver a balanced budget.

We also considered medium term financial planning and note that it recognises the on-going uncertainty caused by changes to funding and makes sensible assumptions about their impact. However, we note that considerable savings and additional income are required over the medium term to ensure a balanced budget. While 2015/16 plans are in place, and production of 2016/17 plans is underway, there is still much work to do to identify the savings required in the medium term.

## Conclusion

- We have yet to conclude our assessment of whether the Council has proper arrangements to ensure it is financially resilient for the foreseeable future. We will update the Committee at the 29 September meeting.

# Arrangements to secure economy, efficiency and effectiveness

The Code of Audit Practice (2010) sets out our responsibility to satisfy ourselves that Worthing Borough Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. In examining the Council's corporate performance management and financial management arrangements, we have regard to the following criteria and focus specified by the Audit Commission.

## Criteria 2 – arrangements for securing economy, efficiency and effectiveness

- ▶ 'Whether the Authority is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity'
- ▶ We did not identify any significant risks in relation to this criteria.

Our work did not identify any other matters relating to aspects of your corporate performance and financial management framework which are not covered by the scope of the two specified criteria.

**Section 6**

# **Independence and audit fees**

# Independence and audit fees

## Independence

- ▶ We confirm there are no changes in our assessment of independence since our confirmation in our Audit Plan dated May 2015.
- ▶ We complied with the Auditing Practices Board's Ethical Standards for Auditors and the requirements of the Audit Commission's Code and Standing Guidance. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.
- ▶ We confirm that we are not aware of any relationships that may affect the independence and objectivity of the firm that we are required by auditing and ethical standards to report to you.
- ▶ We consider that our independence in this context is a matter that should be reviewed by both you and ourselves. It is therefore important that you consider the facts of which you are aware and come to a view. If you wish to discuss any matters concerning our independence, we will be pleased to do so at the forthcoming meeting of the Joint Governance Committee on 29 September 2015.

- ▶ We confirm that we have met the reporting requirements to the Joint Governance Committee, as 'those charged with governance' under International Standards on Auditing (UK and Ireland) 260 – Communication with those charged with governance. Our communication plan to meet these requirements were set out in our Audit Plan of May 2015.

## Audit fees

- ▶ The table below sets out the scale fee and our final proposed audit fees.

	Proposed final fee 2014/2015	Scale fee 2014/2015	Variation comments
	£	£	
Audit Fee: Code work	TBC	62,876	Slow response to queries, restatement of CIES, VFM Significant Risk.
Certification of claims and returns	7,731	7,731	N/A
Non-Audit work	0	0	N/A

- ▶ Our proposed final fee differs from the scale fee as a result of slow responses from officers in relation to our queries, resulting from staff sickness and shortages. Significant additional time was spent discussing and reviewing these queries which led to delay in completion of audit procedures. A late adjustment to the CIES was also processed by finance staff, requiring us to revisit several areas of testing to ensure sufficient work had been done. Additional work was also required in relation to the Value for Money significant risk identified in our Audit Plan.
- ▶ We confirm that we have not undertaken any non-audit work outside of the Audit Commission's Audit Code requirements.



**Section 7**

# **Appendix**

# Appendix A – corrected audit misstatements

- ▶ As we found significantly more errors this year, we consider it appropriate to report all misstatements greater than £75.500 that we have identified during the course of our audit or which, in our professional judgement warrant communicating to you The following misstatements, greater than £75.5 thousand, have been identified during the course of our audit and in our professional judgement warrant communicating to you.
- ▶ These items have been corrected by management within the revised financial statements

## Disclosures

Disclosure	Description of misstatement
1. Disclosure errors	<p>We identified a number of disclosure errors throughout the financial statements. These have all been amended by the Council, and include:</p> <ul style="list-style-type: none"><li>- Explanatory Foreword made reference to Prior Year Adjustments. None have been made. Disclosure therefore updated.</li><li>- The Capital Grant Receipts column was removed from the Movement in Reserves Statement as all balances were nil.</li><li>- The signage of balances in the Movement in Reserves statement is inconsistent with other areas of the statements. This has been revised.</li><li>- The statements include a third balance sheet at 1/4/13. There were no Prior Period Adjustments and therefore this is not required. The blank Prior Period Adjustment note has also been removed.</li><li>- A number of minor adjustments were made to Accounting Policies.</li><li>- Note 48 Defined Benefit Pension Plan was amended to ensure consistency with Notes 7 and 25.</li><li>- Note 51 Nature and extent of risks arising from Financial Instruments repeated the information contained in note 16 and was therefore not required and has been removed.</li></ul>
2. Related Party Transactions	<p>We identified a Worthing Councillor had an interest in a company to which £19,215 had been paid in year. IAS24 requires this to be disclosed. We therefore requested the Related Party Transaction note to be updated.</p> <p>In addition, declarations of interest had not been received from three members.</p>

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