

Chichester District Council

Corporate Governance and Audit Committee Summary

For the year ended 31 March 2013

Audit results report – ISA 260

19 September 2013



Building a better
working world

Paul King, Director
pking1@uk.ey.com

Mark Catlow, Senior Manager
mcatlow@uk.ey.com

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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' 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 2012/13 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 19 September 2013, we expect to issue an unqualified opinion. Our audit demonstrates that the Council has prepared its financial statements well and this is reflected in the low number of issues to bring to your attention.

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 have been discharged for the relevant audit year. We expect to issue the audit certificate at the same time as the Audit Opinion.

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 they comply with their own code of governance, including how they have monitored and evaluated the effectiveness of their 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 2012/13 financial statements
- ▶ Report on any exception on the governance statement or other information included in the foreword
- ▶ As a component auditor, follow the group instructions and send to the National Audit Office our group assurance certificate, audit results report and auditor's report on the consolidation schedule
- ▶ 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)

This report contains our findings related to the areas of audit emphasis, our views on the Council's accounting policies and judgments and material internal control findings.

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 this specified parties.

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.

Audit Risk identified within our Audit Plan	Audit Procedures performed	Assurance gained and issues arising
Other audit risks		
Risk of misstatement due to fraud and error	<p>Based on the requirements of auditing standards our approach will focus on:</p> <ul style="list-style-type: none"> •Identifying fraud risks during the planning stages. •Inquiry of management about risks of fraud and the controls put in place to address those risks. •Understanding the oversight given by those charged with governance of management’s processes over fraud. •Consideration of the effectiveness of management’s controls designed to address the risk of fraud. •Determining an appropriate strategy to address those identified risks of fraud. •Performing mandatory procedures regardless of specifically identified fraud risks. <p>We will consider the results of the National Fraud Initiative and may make reference to it in our reporting to you.</p>	<ul style="list-style-type: none"> • No issues have been identified from our work



Financial Statements audit

Issues and errors 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 Corporate Governance and Audit Committee meeting:
 - ▶ Receipt of a Letter of Representation.
- ▶ Subject to receipt of your letter of representation we propose to issue an unqualified audit report on the financial statements.

Uncorrected Errors

We have identified no errors within the draft financial statements, which management have not adjusted.

Corrected Errors

We consider four of the corrected errors to be significant and we set out the context and nature of them in the appendix to this report.

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 Council's financial reporting process including the following:

- ▶ Qualitative aspects of your accounting practices;
- ▶ 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;
- ▶ Other audit matters of governance interest.

There are no such matters that require reporting to you as Those Charged with Governance.

Findings and issues

Internal Control, Written Representations & 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. My 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 me to complete my 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.

Request for written representations

We have requested that you confirm a number of matters, for which we do not currently have sufficient audit evidence. These representations cover areas where it is not possible to develop appropriate audit tests to provide audit assurance. As a substitute therefore we ask you to provide a written representation to us.

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 my report are specified by the National Audit Office.

We are currently concluding my work in this area and will report any matters that arise to the Corporate Governance and Audit Committee.

Arrangements to secure economy, efficiency and effectiveness

The Code of Audit Practice (2010) sets out our responsibility to satisfy ourselves that Chichester 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 Council 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 are satisfied that the Council has adequate arrangements in place to ensure financial resilience for a period of 12 months from the date of our 2012-13 VFM conclusion.
- ▶ We have no issues to report in relation to this criteria

Criteria 2 - Arrangements for securing economy, efficiency and effectiveness

- ▶ *“Whether the Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.”*
- ▶ We reviewed how the Council plans to measure the impact of corporate and service reviews and to set bespoke performance targets and indicators to measure progress against key priorities and projects.
- ▶ We also considered the development of risk management arrangements during the year and expect formal reporting of risk to you begin this Autumn
- ▶ We are satisfied that the Council has adequate arrangements in place to ensure value for money in respect of this criteria

Independence & Audit Fees

Independence

- ▶ We confirm there are no changes in our assessment of independence since our confirmation in our Audit Plan dated 21 March 2013.
- ▶ We complied with the Ethical Standards for Auditors and the requirements of the Audit Commission's Code and Standing Guidance and 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 Corporate Governance and Audit Committee on 19 September 2013.
- ▶ We confirm that we have met the reporting requirements to the Corporate Governance and Audit Committee, as 'those charged with governance' under International Standards on Auditing (ISA) 260. Our communication plan to meet these requirements were set out in our Audit Plan of 21 March 2013.

Audit fees

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

	Proposed final fee 2012/13	Scale fee 2012/13	Variation comments
	£s	£s	
Total Audit Fee - Code work	64,553	64,553	-
Certification of claims and returns	9,300	9,300	-
Non-Audit work	n/a	n/a	-

- ▶ Our actual fee is in line with the agreed fee at this point in time, subject to the satisfactory clearance of the outstanding audit work.
- ▶ We confirm that we have not undertaken any non-audit work outside of the Audit Commission's Audit Code requirements.

Appendix - Adjusted Audit errors 1

- The following adjustments, which are greater than £1.1m, have been identified during the course of our audit.
- These adjustments have been made by management within the revised financial statements

Item of Account	Nature of Error	Error Type	Statement of Comprehensive Income & Expenditure		Balance Sheet	
			Debit	(Credit)	Debit	(Credit)
Item 1 - Prior Period Adjustments	Description					
CIES - Cultural and Related Services The Council identified that reported income and expenditure in respect of the Westgate Leisure Centre was shown net rather than gross and adjusted its accounts for 2012-13 and comparatives for 2011-12. We requested the insertion of a prior period adjustment note to explain this adjustment.	A prior period adjustment to both income and expenditure to correct the presentation of this in the 2011/12 comparatives.	Factual	NIL	NIL	NIL	NIL
Item 2 - Note 8 – Property, Plant and Equipment. Two downward asset revaluations in 2009/10 were incorrectly accounted for as impairments. The total reclassification is £4.4m but has no effect on net book values. We requested the insertion of a prior period adjustment note to explain this adjustment.	A prior period adjustment to Note 8 from earliest financial period presented (1 April 2011).	Factual	NIL	NIL	NIL	NIL
<i>Balance sheet totals</i>			<i>NIL</i>	<i>NIL</i>	<i>NIL</i>	<i>NIL</i>
Income effect of corrected adjustments			<i>NIL</i>	<i>NIL</i>	<i>NIL</i>	<i>NIL</i>
Cumulative effect of corrected misstatements			<i>NIL</i>	<i>NIL</i>	<i>NIL</i>	<i>NIL</i>

Appendix - Adjusted Audit errors 2

- The following adjustments, which are greater than £1.1m, have been identified during the course of our audit.
- These adjustments have been made by management within the revised financial statements

Item of Account	Nature of Error	Error Type	Statement of Comprehensive Income & Expenditure		Balance Sheet	
			Debit	(Credit)	Debit	(Credit)
Item 3 – Financial Instruments	Description					
We agreed with you that Housing Benefit overpayment debtors are not financial instruments. This is because they are statutory rather than contractual debts. Non-contractual debts do not meet the definition of a financial instrument as set out in the Code.	Reduce trade debtors in note 37 (credit risk) BY £2,181k to £1,159k.	Factual	NIL	NIL	NIL	NIL
<i>Balance sheet totals</i>			<i>NIL</i>	<i>NIL</i>	<i>NIL</i>	<i>NIL</i>
Income effect of corrected adjustments			<i>NIL</i>	<i>NIL</i>	<i>NIL</i>	<i>NIL</i>
Cumulative effect of corrected misstatements			<i>NIL</i>	<i>NIL</i>	<i>NIL</i>	<i>NIL</i>

Appendix - Adjusted Audit errors 3

- The following adjustments, which are greater than £1.1m, have been identified during the course of our audit.
- These adjustments have been made by management within the revised financial statements

Item of Account	Nature of Error	Error Type	Statement of Comprehensive Income & Expenditure		Balance Sheet	
			Debit	(Credit)	Debit	(Credit)
4. Cash Flow statement	Description					
We agreed with officers to adjust entries related to purchase and proceeds of investments to correctly disclose the gross transactions. Officers also made a small number of reclassifications to entries to comply with the Code.	Both entries increased by £2.4m. There was no effect on the Council's disclosed cash position.	Factual	NIL	NIL	NIL	NIL
Balance sheet totals			NIL	NIL	NIL	NIL
Income effect of corrected adjustments			NIL	NIL	NIL	NIL
Cumulative effect of corrected misstatements			NIL	NIL	NIL	NIL

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Ernst & Young LLP, 1 More London Place, London, SE1 2AF.

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In March 2010 the Audit Commission issued a revised version of the 'Statement of responsibilities of auditors and audited bodies' (Statement of responsibilities). It is available from the Chief Executive of each audited body and via the [Audit Commission's website](#).

The Statement of responsibilities serves as the formal terms of engagement between the Audit Commission's appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The Standing Guidance serves as our terms of appointment as auditors appointed by the Audit Commission. The Standing Guidance sets out additional requirements that auditors must comply with, over and above those set out in the Code of Audit Practice 2010 (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Audit Results Report is prepared in the context of the Statement of responsibilities. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure – If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

