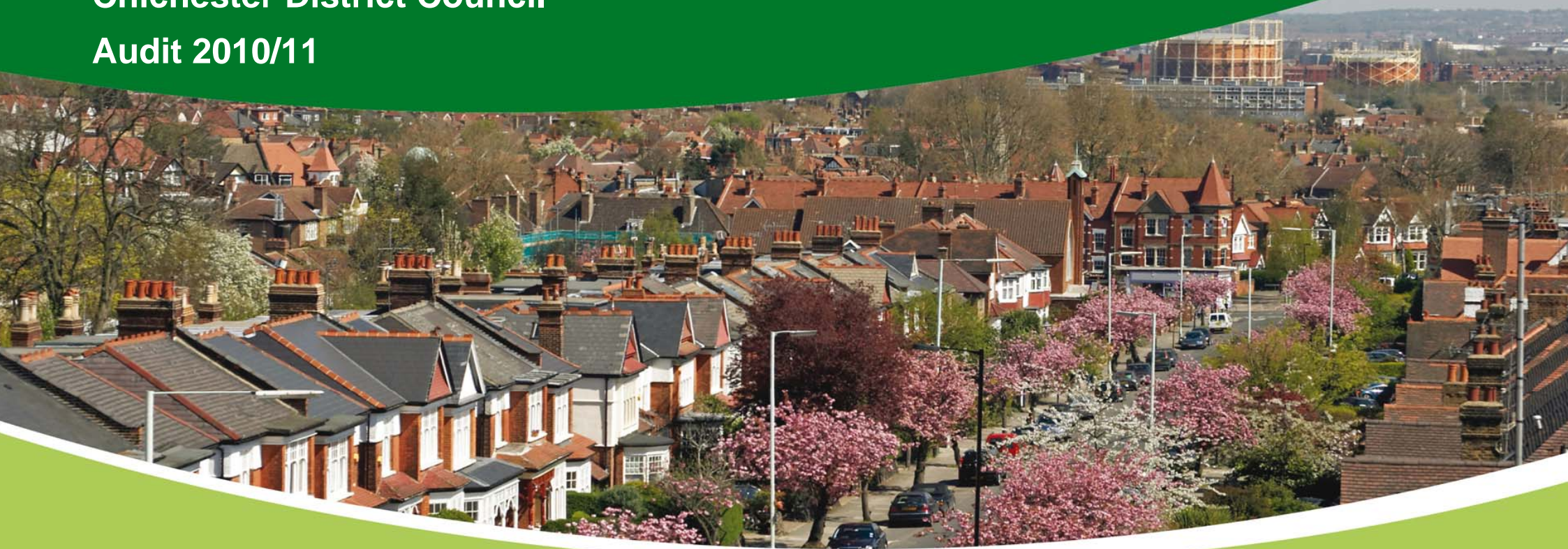


# Annual governance report

Chichester District Council

Audit 2010/11



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# 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 the work I have undertaken to assess your arrangements to secure value for money in your use of resources.**

|   | <b>Our findings</b> |
|---|---------------------|
| Unqualified audit opinion                     | YES                 |
| Proper arrangements to secure value for money | YES                 |

## **Audit opinion and financial statements**

Subject to clearance of outstanding matters I plan to issue an unqualified audit opinion on your financial statements. Your accounts and supporting working papers were well prepared.

## **Value for money**

Subject to completion of the planned work, I intend to issue an unqualified audit opinion on your arrangements to secure economy, efficiency and effectiveness in the use of resources.

As a Council, you:

- prepared your accounts on time and complied with the accounting code of practice for Local Government;
- delivered your 2010/11 budget;
- approved a balanced 2011/12 budget;
- adopted a financial plan setting the principles underpinning financial decisions and including a five-year financial model;
- are implementing a program of service reviews; and
- assessed the impact of the localism bill on your governance arrangements.

It is important that you now:

- Define a smaller custom-built set of local indicators measuring the impact and outcome of corporate priorities and actions;
- Deliver your planned programme of service reviews, focusing on delivering cash savings included in your financial plans

# 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 have complied with the Auditing Practices Board's ethical standards for auditors, including ES 1 (revised) – Integrity, Objectivity and Independence. Following the change of appointed auditor and audit manager for this year, there were no relationships resulting in a threat to my independence, objectivity and integrity.

I have not undertaken, or approved from the wider audit practice, any non-audit work for the Council during 2010/11.

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## I ask you to confirm to me

### **I ask the Council to:**

- consider the matters presented in this report; and
  - approve the letter of representation, provided alongside this report, for the Council before I issue my opinion and conclusion
-

# Financial statements

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**Your financial statements and annual governance statement are important means by which you account for your 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 the financial statements and the annual governance statement.**

## **Opinion on the financial statements**

Subject to satisfactory clearance of outstanding matters, I plan to issue an unqualified opinion on your financial statements. Appendix 1 contains a copy of my draft audit report.

## **Your financial statements**

- 1** I am required to report to you those corrections made during my audit to your accounts that are, in my opinion, both important and relevant to your oversight of the financial reporting process.
- 2** There is only one adjustment that I have identified that has not been corrected in your accounts. A debtor account for £34k was included in your accounts despite it being settled on 31 March. Projecting the same error rate across your entire population of debtors would produce an estimated error of £154k. Correcting this estimated error would not change your net assets or general fund surplus. I have not asked you to amend based on this estimate, but I have included this in my request for information within your letter of representation.
- 3** I have carefully considered each of the other adjustments made to your accounts, none of which affected the Council's general fund reserves or net asset position. Appendix 2 sets out details of the more significant corrections made that I judge are relevant to your responsibilities. Other than these, we identified 6 other non-material errors, none of which affected the Council's net assets or general fund balance. These errors included one casting error and a number of inconsistencies between primary statements and supporting notes. Errors of this type are not unusual within the general accounts production process and in our view should not overly concern those charged with governance in approving the accounts. All the identified inconsistencies have now been amended.

4 A few other minor presentational amendment to text and disclosures were made to ensure your statements fully comply with the accounting code of practice. These have not been reported to you individually as they have been corrected and, in my view, are not important or relevant to your responsibilities to oversee the financial reporting process.

## Specific risks identified by my planning

In planning my audit I identified specific risks and areas of judgement. I reported these to you in June and include below my final conclusions in respect of each of them.

### Key audit risk and our findings

| Key audit risk   | Finding  |
|--|--|
| <p><b>1. Transition to International Financial Reporting Standards (IFRS)</b></p> <p>I planned to consider your risk assessment process and gap analysis to inform my audit of your restated accounts.</p>   | <p>I undertook substantive procedures on the Council's IFRS disclosures and the transition to IFRS.</p> <p>Your accounts comply with the requirements of the accounting code of practice.</p>  |
| <p><b>2. New Fixed Asset register</b></p> <p>A new Fixed Asset register was set up in 2010/11 and was used in to prepare your financial statements.</p>  | <p>Your officers had already identified that manual adjustments were required to accounting entries produced from this system to ensure they complied with IFRS.</p> <p>I considered this work and undertook added detailed testing of property, plant and equipment (PPE) figures in your financial statements</p> <p>I gained assurance that accounting entries for PPE in your accounts are not materially misstated.</p> |
| <p><b>3. LAAP Bulletin 88</b></p> <p>On 14 April 2011 CIPFA's issued LAAP Bulletin 88 to highlight issues that may cause authorities difficulties when closing the 2010/11 accounts. I will consider each of the following areas within my audit and risk planning process.</p> <ul style="list-style-type: none"> <li>■ Accounting for grants and contributions.</li> <li>■ Disclosure of assets and liabilities as current or non-current.</li> <li>■ Notes to support the 'third' balance sheet on IFRS restatement.</li> </ul> | <p>I undertook substantive procedures in each of the areas of risk associated with this CIPFA Bulletin. There are no issues from this work that I wish to bring to your attention outside my comments below.</p>   |

| Key audit risk   | Finding   |
|--|---|
| <ul style="list-style-type: none"> <li>■ Accumulated depreciation and accumulated impairment.</li> <li>■ Heritage and community assets (disclosure requirements).</li> <li>■ Changes to Pension calculations.</li> </ul> |   |
| <p><b>4. Calculation of Fair Values</b></p> <p>The Council has a significant investment portfolio and calculates the fair value of these investments in-house.</p>   | <p>An officer has received training on this technical accounting area and I undertook detailed testing on the estimates of fair value included for investments in your financial statements</p> <p>I am satisfied that you now have robust processes to prepare these accounting estimates.</p> |

### Significant weaknesses in internal control

Following my report to you in June, I have a single further comment to make to you on your arrangements for internal control which I am required to bring to your attention.

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

### Internal control issues and our findings

| Description of weakness   | Potential effect   | Management action  |
|---|--|--|
| <p><b>1. Accounting Policies</b></p> <p>My testing identified that:</p> <ul style="list-style-type: none"> <li>■ the accounting policy for infrastructure was inconsistent with the accounting treatment applied; and</li> <li>■ the supporting narrative disclosure in 'Note 8 Property, Plant and Equipment' on useful asset lives was not consistent with the treatment applied</li> </ul> | <p>The Council is responsible for the choice and implementation of the most suitable accounting policies.</p> <p>A key part of this is for the audit and corporate governance committee to continue to review and confirm yearly acceptance of the policies chosen.</p> <p>Given my findings above, the Committee should also review the processes in place to apply them in practice.</p> | <p>Use your forward programme or work to plan for this assessment before the accounts closedown process. .</p> |

## **Quality of your financial statements**

I also consider the non-numeric content of your financial reporting. Financial statements were produced in line with agreed timetables. Working papers were once again produced on time and to a good standard to support the entries and disclosures in the accounts.

There are no other matters I need to bring to your attention.

## **Other matters**

Several years ago, you chose to report costs associated with 'democratic representation and management' and 'corporate management' separately on your income and expenditure statement. In my view, although I understand the reason for this, this does not promote comparability between your statements and those of other Local Government bodies. Officers have now adjusted the presentation of these costs to that specified by the accounting code of practice.

An updated IT Strategy for the Council is still under development. This delay is because of a slippage in the timetable for joint working across West Sussex authorities. I did not consider this to represent a risk of material misstatement to your accounts.

Finally, I asked officers to provide greater disclosure in your annual governance statement about actions being taken to mitigate the key control risks identified by the Council. Alongside other more minor changes to fully comply with the code requirements, your officers made appropriate adjustments to this statement and I have no further comments to make to you.

There are no other matters I wish to bring to your attention.

## **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.



# Value for money

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**I considered whether the Council is managing and using its money, time and people to deliver value for money. I assessed your performance against the criteria specified by the Audit Commission and have reported the outcome as the value for money (VFM) conclusion.**

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

- the organisation has proper arrangements in place for securing financial resilience (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); and
- 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).

My overall conclusion is the Council has proper arrangements to secure, economy, efficiency and effectiveness in its use of resources.

## My value for money conclusion

In 2010/11 I identified some significant risks relevant to my value for money conclusion. For each risk, I considered the arrangements put in place by the Council to mitigate the risk. The risks, how I addressed them and my conclusions are set out in the table below.

| Risk  | How addressed  | Conclusion  |
|---|--|---|
| <p>Managing financial risk and delivering a stable financial position</p> | <p>You took early action to respond to the challenges of the spending review.</p> <p>A new Financial Plan was adopted in November 2010 setting the principles underpinning financial decisions as well as your five-year financial modelling.</p> <p>Measures are in place to deliver your 2011/12 budget without using your reserves.</p> <p>Officers are updating your medium term financial plans, but some generic uncertainties about national strategy exists over the longer term</p> | <p>Your arrangements to secure financial resilience are well developed but rely heavily on continued progress being made on the Chichester service transformation agenda.</p> <p>One important element in this will be to continue considering alternate service delivery choices as well as 'in-house' provision.</p> <p>This is an aspect of your processes that I will monitor as part of my continuing assessment of your arrangements.</p> |
| <p>Prioritising resources within tighter budgets</p>                      | <p>You have a good strategic approach to challenging areas of spend and to reducing baseline costs.</p> <p>The Council's project for transforming services has driven this since 2009 resulting in over £3.1m of costs being removed.</p> <p>You have also previously comprehensively reviewed your asset management and capital programmes.</p> <p>Comparative information and benchmarking continues to be used where useful.</p>  | <p>Your arrangements to challenge how you set priorities and deliver effective, economic and efficient services continue to be sound.</p> <p>More work is now needed to define a smaller custom-built set of local indicators measuring the impact and outcome of corporate priorities and actions. My continuing audit work for 2011/12 will consider this.</p>  |

# Appendix 1 Draft Audit Report

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

### **Opinion on the Authority accounting statements**

I have audited the accounting statements of Chichester 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, and the 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 Chichester 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 District Treasurer and Auditor**

As explained more fully in the Statement of the District Treasurer Responsibilities, the District Treasurer 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 Practice's 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 Chichester 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, Chichester 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.

## **Certificate**

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

Patrick Jarvis  
Appointed Auditor  
Collins House  
Bishopstoke Road  
Eastleigh  
Hampshire  
SO50 6AD

**September 2011**

# Appendix 2 Amendments made to your draft financial statements

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

|   |  | Statement of comprehensive net expenditure |           | Statement of financial position |           |
|---|--|--|-----------|---------------------------------|-----------|
| Adjusted misstatement   | Nature of adjustment   | Dr £'000s                                  | Cr £'000s | Dr £'000s                       | Cr £'000s |
| <p><b>Prior period adjustments</b></p> <p>Your original accounts included an amount of £4,854k in Other Comprehensive Income and Expenditure for 2009/10.</p> <p>This related to corrections identified in 2009/10 but not treated as prior year adjustments because they were not 'fundamental' to the reliability of your accounts.</p> | <p>Following discussions, your officers made a prior period adjustment for £3.4m of the original £4.8m entry.</p> <p>The remainder of the balance, £1.4m, has not been classified as a prior year adjustment as it is not material to your property, plant and equipment balances.</p> | N/A  | N/A       | N/A                             | N/A       |

Upon transition to IFRS, this adjustment has been revisited.

**Presentation of corporate costs in the CIES**

You had chosen to split corporate and democratic core costs between 'Democratic representation and management' and 'Corporate management' on your comprehensive income and expenditure statement.

Lines for Democratic representation and management and corporate management were amalgamated into 'corporate and democratic core' to strictly comply with the Code presentation requirements

This adjustment was made to promote the comparability of your accounts with other local government bodies.

N/A

N/A

N/A

N/A

# Appendix 3 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.

## Opinion

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.

