

# **Annual governance report - update October 2012**

**Worthing Borough Council**

**Audit 2011/12**

**The Audit Commission is a public corporation set up in 1983 to protect the public purse.**

**The Commission appoints auditors to councils, NHS bodies (excluding NHS foundation trusts), local police bodies and other local public services in England, and oversees their work. The auditors we currently appoint are either Audit Commission employees (our in-house Audit Practice) or one of the private audit firms.**

**We also help public bodies manage the financial challenges they face by providing authoritative, unbiased, evidence-based analysis and advice.**

# Contents

<b>Introduction .....</b>	<b>2</b>
<b>Findings .....</b>	<b>3</b>
<b>Updated annual governance report 2011/12, appendices 2, 3 and 6 .....</b>	<b>5</b>

# Introduction

- 1 My 2011/12 Annual Governance Report (AGR) was considered by the Joint Governance & Audit Committee at its meeting on 20 September 2012 and highlighted that some work was outstanding.
- 2 Following completion of this work, I issued my financial statements' opinion and an unqualified conclusion on your use of resources on 28 September 2012. The Whole of Government Accounts return and my certificate confirming the completion of the audit were issued on 1 October 2012.
- 3 This report summarises the findings from my outstanding work. Appendices 2 and 3 in my AGR referred to uncorrected and corrected accounting errors respectively and updates of these are attached.
- 4 An updated appendix 6 - action plan is also attached.

# Findings

5 The completed work to report to the Committee is set out below.

Audit area	Findings
Property, plant and equipment valuation report	The District Valuer's report was received and reviewed with no matters arising.
Related party transactions returns	The AGR stated that better arrangements are needed for obtaining returns and explained why some returns received should be updated. Some of the updated returns requested were not received but I was able to obtain enough audit evidence to give an unqualified opinion on the financial statements. Recommendation 4 in the attached action plan refers and is unchanged from the initial wording.
Cash and bank reconciliation	A full reconciliation has not been achieved because credit card and Giro receipts are accounted for in the Council's cash and bank balances before the monies are received by the Council. Because of the timing difference, the year-end cash and bank balance is overstated and debtors understated by a maximum of £45,193. System changes are needed to provide timely information for a complete and accurate reconciliation. This difference did not stop me issuing an unqualified opinion on your financial statements. Recommendation 6 in the attached action plan refers and has been updated since being included in my AGR presented to the Committee in September 2012.
Cash flow statement	The entries were audited with no significant matters arising.
Agreement of entries in the final version of the financial statements	Errors in the explanatory foreword, main statements and disclosure notes were found at first review of the statements in July 2012. Broadly these were in two categories: numerical errors; and presentational changes to help the reader of the statements. These were reported to officers in July 2012.  A few numerical corrections were made in line with the Council's policy to amend where the errors were material or the Joint Governance and Audit Committee requested them. While some presentation changes were made during the audit, others remained outstanding in late September. These included roundings within the main statements to ensure they added up, ensuring consistency of information through the statements and aligning figures correctly in some tables.

Audit area	Findings
	<p>Recommendation 3 in the action plan states the Council should continue to improve the quality of the statements. This should include a robust quality control check on the final version of the statements prior to them being presented for auditor certification.</p>

- 6 Appendices 2 and 3 have been updated as follows.
- The last three items on appendix 2 are new.
  - The original appendix 2 showed an entry for 'Note 19: Debtors – The debtors total includes a credit balance of £625,000. This should be classified as a creditor' which has been deleted as the original treatment is now considered appropriate.
  - Following the Committee's agreement to amend for Note 32 – Agency services, this item has been moved from appendix 2 to the updated appendix 3 attached.

# Updated annual governance report 2011/12, appendices 2, 3 and 6

Please see overleaf.

# Appendix 2 – Uncorrected errors (updated October 2012)

I identified the following errors during the audit which management has not addressed in the revised financial statements.

Item of account	Nature of error
Comprehensive income and expenditure statement – Non distributed costs	The gross expenditure column shows (£464,000) relating to pensions costs. This should be allocated across the service heads within the comprehensive income and expenditure statement.
Comprehensive income and expenditure statement – other	Net expenditure column includes other expenditure of £34,000. Officers are unable to explain this item.
Note 1 – Accounting policies	Cash and cash equivalents – classification of short and long term investments should be further explained for clarity. Employee benefits – the policy relates to accumulated absences only.
Note 10 - Financing and investment income and expenditure	Pension costs of £20,000 have been incorrectly included within other investment income. This amount should be within pension costs. The amounts should be as follows: Pensions costs £1,330,000 Other investment £1,702,000



Item of account	Nature of error
Note 13 – Heritage assets	A summary of transactions for heritage assets should be included for periods 2007/08, 2008/09 and 2009/10. If not practicable to disclose this information then a statement to that effect should be made.
Note 17 - Inventories	Balance sheet value is £154,000 however the amount disclosed in note 17 is £161,030.
Note 19 - Debtors	The narrative for the overall aged debt analysis states ‘trade and rent debtors’. However, these balances include debtors for VAT and council tax. The narrative should be expanded.
Note 21 – Assets Held for Sale	The note does not include all the required disclosures for these assets.
Note 23 - Provisions	<p>The note does not meet disclosure requirements as it excluded:</p> <ul style="list-style-type: none"> <li>- expected timing of resulting outflows;</li> <li>- indication of the uncertainties about the amount or timing of outflows; and</li> <li>- the amount of any expected reimbursement.</li> </ul>
Note 34 - Joint budgets	This note was not updated when changes were made to the 2011/12 Adur and Worthing Joint Committee financial statements. The deficit for year should be £319,000 and not £447,000.
Note 36 – Officers’ remuneration	The two columns showing ‘Net cost borne by Adur DC and Worthing BC’ do not equal the total remuneration costs. The difference is £1,000 for each column.
Note 20 – Cash and cash equivalents	The total includes around £45,000 of debit and Giro receipts due to the Council not all of which had been received as at 31 March 2012. This means that cash is overstated and debtors understated up to this amount at most.
Note 29 – Amounts reported for resource allocation decisions	The table on page 62 of the statements includes £1,236,000 and is described as ‘Other’. No supporting information is provided to explain this entry.
Collection Fund Note 2 – Non-domestic rates	The 2011/12 rate is shown as 43.3 pence but should be 42.6 pence.

# Appendix 3 – Corrected errors (updated October 2012)

---

I identified the following errors during the audit which management addressed in the revised financial statements.

Item of account	Nature of error
Explanatory foreword – Local taxpayers	The amount billed during the year on behalf of the national pool was included incorrectly as £29.1 million is now correctly stated as £29.4 million. This now agrees to the amount within the collection fund.
Note 12 – Property, plant & equipment – capital commitments	Narrative added to disclose the capital commitments in relation to: <ul style="list-style-type: none"><li>• procurement of swimming pool;</li><li>• replacement of cremators and mercury abatement plant; and</li><li>• Beach House Park Grounds car parking.</li></ul>
Note 32 – Agency services	2011/12 income of £3,582 million (note comma) should be shown as £3.582 million. Also 2010/11 £2,243 million (note comma) should be £2.243 million. 2011/12 expenditure of £2,725 million (note comma) should be shown as £2.725 million. Also 2010/11 £1,378 million (note comma) should be £1.378 million.

# Appendix 6 – Action plan (updated October 2012)

---

## Recommendations

### Recommendation 1

A fully reconciled cash and bank balance should be achieved and third party cash holdings should be accounted for accurately.

**Responsibility**

**Priority**

High

**Date**

**Comments**

### Recommendation 2

The annual governance statement should be effectively scrutinised by the Joint Governance & Audit Committee before approval.

**Responsibility**

**Priority**

Medium

**Date**

---

**Comments****Recommendation 3**

Continue to improve the quality of the financial statements.

**Responsibility****Priority** High**Date****Comments****Recommendation 4**

Improve the arrangements for evidencing related party transactions.

**Responsibility****Priority** Medium**Date****Comments****Recommendation 5**

The Joint Governance & Audit Committee should see regular financial performance information to help it in approving the financial statements.

**Responsibility****Priority** Medium**Date****Comments**

---

If you require a copy of this document in an alternative format or in a language other than English, please call:  
**0844 798 7070**

© Audit Commission 2012.

Design and production by the Audit Commission Publishing Team.

Image copyright © Audit Commission.

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors, members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

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



Audit Commission

1st Floor  
Millbank Tower  
Millbank  
London  
SW1P 4HQ

Telephone: 0844 798 3131

Fax: 0844 798 2945

Textphone (minicom): 0844 798 2946