

Annual governance report

Adur & Worthing Joint Strategic Committee

Audit 2011/12



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Key messages

This report summarises the findings from my 2011/12 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.

Financial statements

As at 10 September 2012 I expect to issue an unqualified audit opinion. Some work remains outstanding as at this date and I will be able to update at the Joint Governance and Audit Committee on 20 September 2012. The work includes:

- related party transactions;
- cash and bank reconciliation;
- .cash flow statement; and
- agreement of the amended entries in the final version of the financial statements.

Your financial statements were signed by the Executive Head of Financial Services before the target date of 30 June 2012. A number of amendments have been made to the statements but overall they were consistent internally and were supported by improved working papers.

Value for money (VFM)

I am satisfied that you have made proper arrangements to secure economy, efficiency and effectiveness in your use of resources. I expect to issue an unqualified VFM conclusion.

Certificate

I expect to issue a certificate to complete the audit on 28 September 2012.

Before I give my opinion and conclusion

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

Independence

I can confirm that I have complied with the Auditing Practices Board's ethical standards for auditors, including ES 1 (revised) - Integrity, Objectivity and Independence.

I am not aware of any relationships that may affect the independence and objectivity of the Audit Commission, the audit team or me, that I am required by auditing and ethical standards to report to you.

The Audit Commission's Audit Practice has not undertaken any non-audit work for the Joint Committee during 2011/12.

I ask the Joint Governance and Audit Committee to:

- take note of the adjustments to the financial statements included in this report (Appendix 2); and
- consider whether to adjust the statements for the errors that management has not amended or set out the reasons for not amending the errors (Appendix 3);
- approve the letter of representation (Appendix 4), on behalf of the Joint Governance and Audit Committee before I issue my opinion and conclusion; and
- agree your response to the proposed action plan (Appendix 6).

Financial statements

The Joint Committee's financial statements and annual governance statement are important means by which the Joint Committee accounts for its stewardship of public funds. As 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 audit report including an unqualified opinion on the financial statements. Appendix 1 contains a copy of my draft audit report.

Errors in the financial statements

I detected a small number of errors during the course of audit. Details of errors that management has corrected are set out in Appendix 2. Details of errors that management have been declined to correct are set out in Appendix 3.

Significant risks and my findings

In planning my audit I identified one significant risk to my audit of your financial statements. I reported this risk in my 2011/12 Audit Plan to the March 2012 meeting of the Joint Governance and Audit Committee. My findings are in Table 1.

Table 1: **Risks and findings**

Significant risks	Finding
Property, plant and equipment (PPE) My 2010/11 audit opinion on the Joint Committee was qualified because the PPE assets it controlled and gained economic benefit from were not on its balance sheet. Bringing PPE into its balance sheet is complex and the amounts are material	The 2011/12 financial statements included appropriate accounting policies for PPE and there were no issues with valuations. The financial statements provided for audit were materially stated.

Significant weaknesses in 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. My 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.

I have tested the Joint Committee's controls only to the extent necessary for me to complete my audit. I am not expressing an opinion on the overall effectiveness of internal control.

One matter is brought to your attention. Senior finance officers do a monthly review of journals processed but this did not work properly for part of 2011/12 because not all journals were listed on the lists provided for the reviews. This was due to a system error. As the omitted journals were reviewed retrospectively and all reviews are complete, this issue is now resolved.

Annual governance statement

I have reviewed the annual governance statement and can confirm that the September 2012 version that has been provided to the Joint Governance and Audit Committee:

- complies with the requirements of CIPFA/SOLACE Delivering Good Governance in Local Government Framework; and
- is consistent with other information that I am aware of from my audit of the financial statements.

The 2011/12 annual governance statement has been updated since it was approved by the Joint Governance and Audit Committee at its June 2012 meeting and the Joint Governance and Audit Committee at its September 2012 meeting will be invited to approve the updated version. This is required as the earlier version did not report the delayed implementation of Internal Audit's recommendations on the joint disaster recovery plan.

Internal Audit's annual report 2011/12 was taken to the same June meeting and the failure to take corrective actions was highlighted. The statement is a key element of the Joint Committee's governance framework and it should be the subject to robust scrutiny before approval.

Other matters

I am required to communicate to you significant findings from the audit and other matters that are significant to your oversight of the Joint Committee'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; and
- other audit matters of governance interest.

There are two matters to report.

While the presentation of the financial statements was better in 2011/12, they could be improved further. The accounting policies were subject to some revisions to make them specific to the Joint Committee as were some disclosure notes, such as Note 4 – Sources of estimation which omitted accruals despite this being a material component of the Joint Committee's statements.

The arrangements for obtaining related party transaction declarations can be improved. This is the third consecutive year where such a matter has been raised. For 2011/12, the requests were certified in advance of 31 March 2012 which resulted in a significant number of members and officers having to sign a further declaration in order to cover the whole of the financial year.

Recommendation

R1 Further improve the quality of the financial statements by reviewing the accounting policies, main statements and the disclosure note entries prior to approval by the Executive Head of Financial Services.

R2 The annual governance statement should be scrutinised effectively by the Joint Governance and Audit Committee before approval.

R3 Improve the arrangements for obtaining related party transaction declarations.

Value for money

I am required to consider the Joint Committee's arrangements to secure economy, efficiency and effectiveness.

The Audit Commission has revised the approach I am required to take for your value for money (VFM) conclusion in 2011/12. This is to allow me to take a lighter touch to my VFM work. For 2011/12 I have met the requirement to issue a VFM conclusion by:

- reviewing the results of the work of other relevant regulatory bodies or inspectorates, to consider whether there is any impact on my responsibilities; and
- reviewing the annual governance statement.

I am not aware of any relevant work of other relevant regulatory bodies or inspectorates.

The CIPFA/SLOACE guidance on annual governance statements highlights the following matters:

- • consider the extent to which the authority complies with the principles and elements of good governance;
- • identify systems, processes and documentation that provide evidence of compliance;
- • identify the individuals and committees responsible for monitoring and reviewing the systems, processes and documentation identified;
- • identify issues that have not been addressed in the authority and consider how they should be addressed;
- • identify the individuals who would be responsible for undertaking the actions that are required.

My work has confirmed that above arrangements are under the control of a Strategic Director. He has extensive knowledge of the Joint Committee and its constitution. He has ready access to senior colleagues including the Chief Executive, Monitoring Officer and Section 151 officer and to the records of the Joint Committee. He uses reporting by internal and external audit to inform him. A governance action plan exists which is regularly reviewed. Each plan item has a target date for delivery and a named responsible officer.

I need to draw attention to one area which is the preparation of the annual governance statement. In 2010/11 and 2011/12 a statement was approved by the Joint Governance and Audit Committee at its June 2011 and June 2012 meetings. In both years a revised statement has been produced and approved. As stated earlier in this report, the statement is a key element of the Joint Committee's governance framework and it should be the subject to robust scrutiny before approval.

In-year financial performance reports have not been included on the Joint Governance and Audit Committee's agendas and papers to date. For this Committee to perform its role of approving the financial statements I would expect it to be kept abreast of financial performance to help inform its

judgement of risks and whether the financial performance reported in the financial statements is in line with expectations. This has been discussed with the officers who did not share my view. He stated that budget setting and the monitoring of financial performance against the budget is the task of the Joint Strategic Committee and, where appropriate, Joint Overview and Scrutiny Committee. I have made a recommendation for the Joint Governance and Audit Committee to consider its needs.

Recommendation

R4 The Joint Governance & Audit Committee should see regular financial performance information to help it in approving the financial statements.

Fees

I reported my planned audit fee in the 2011/12 Audit Plan.

I will complete the audit within the planned fee.

Table 2: **Fees**

	Planned fee 2011/12 (£)	Expected fee 2011/12 (£)
Audit	£37,579	£37,579

Appendix 1 – Draft independent auditor's report

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ADUR & WORTHING JOINT STRATEGIC COMMITTEE

Opinion on the Joint Strategic Committee's financial statements

I have audited the financial statements of Adur and Worthing Joint Strategic Committee for the year ended 31 March 2012 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Accounting in the United Kingdom 2011/12.

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

Respective responsibilities of the Executive Head of Financial Services and auditor

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

Scope of the audit of the accounting statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial 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 Joint Strategic Committee's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Executive Head of Financial Services; and the overall presentation of the financial

statements. I read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Unqualified opinion on accounting statements

In my opinion, the accounting statements:

- give a true and fair view of the state of Adur & Worthing Joint Strategic Committee's affairs as at 31 March 2012 and of its income and expenditure for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

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 report to you if:

- in my opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007;
- I issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- I designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or
- I exercise any other special powers of the auditor under the Audit Commission Act 1998.

I have nothing to report in these respects

Other matters on which I am required to conclude

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. I am also required by the Audit Commission's Code of Audit Practice to report any matters that prevent me being satisfied that the audited body has put in place such arrangements.

I have undertaken my audit in accordance with the Code of Audit Practice and, having regard to the guidance issued by the Audit Commission in October 2011, I have considered the results of the following:

- my review of the annual governance statement;

- the work of other relevant regulatory bodies or inspectorates, to the extent the results of the work have an impact on my responsibilities [include if relevant]; and
- my locally determined risk-based work on [insert description as appropriate].

As a result, I have concluded that there are no matters to report.

Certificate

I certify that I have completed the audit of the accounts of Adur & Worthing Joint Strategic Committee in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Helen Thompson
Officer of the Audit Commission,
Audit Practice, Audit Commission, Suite 2 - Ground Floor, Bicentennial Building, Chichester, West Sussex PO19 8EZ

xx September 2012

Appendix 2 – Corrected errors

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

Item of account	Description of error
Balance sheet & Note 10 - Property, plant and equipment (PPE)	Officers added some items in the financial statements during the audit. PPE was increased by £122,000 as at 31 March 2012. PPE was increased by £6,000 as at 31 March 2011.

Appendix 3 – Uncorrected errors

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

Item of account	Description of error
Comprehensive income and expenditure statement	<p>The depreciation for additional assets identified has been charged to the holding accounts rather than the service heads to which the assets relate.</p> <p>Holding accounts overstated expenditure of £7,200</p> <p>Environmental services understated expenditure of £2,900</p> <p>Planning services understated expenditure of £4,300</p>
<p>Note 4 - Estimation uncertainty</p> <p>The note for estimation uncertainty should show all material estimates used within the accounts</p>	<p>The estimation note does not include any information about the estimation techniques and uncertainties of accruals.</p>
<p>Note 16 – Creditors</p> <p>This note includes an overstated redundancy accrual.</p>	<p>Creditors overstated by £3,265</p> <p>Planning expenditure overstated by £3,265</p> <p>The actual amount paid for redundancy was known at the time of producing the accounts.</p>
Note 20 - Amounts reported for resource allocation decisions	<p>£318,000 adjustment required between two service lines in the Other Expenses column. Overall net impact of nil in that column and Note 20 overall.</p> <p>Financial Services line overstated by £318,000 and Planning, Regeneration and Wellbeing line is understated by £318,000.</p> <p>Adjustment reduces Financial Services to £1.313 million and increases Planning, Regeneration and Wellbeing to £564,000.</p>

Item of account	Description of error
<p>There are a number of cross referencing and addition errors in the accounts.</p> <p>Our initial review of the accounts identified over 20 errors. These were discussed with officers with the expectation of amendment.</p> <p>An improved check on the accounts before authorisation should identified these issues.</p>	<p>None of the errors identified were amended.</p> <p>They consisted of presentational inconsistencies such as use of brackets and dashes for nil figures. Page numbers used as cross- references should be correct.</p> <p>The majority of the addition errors related to Note 24 - Officers remuneration. The entries are split between Adur DC and Worthing BC but the entries do not cast correctly.</p>

Appendix 4 – Draft letter of management representation

To Helen Thompson, District Auditor

Adur & Worthing Joint Strategic Committee - Audit for the year ended 31 March 2012

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other directors of Adur & Worthing Joint Strategic Committee, the following representations given to you in connection with your audit of the Committee's financial statements for the year ended 31 March 2012.

Compliance with the statutory authorities

I have fulfilled my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom which give a true and fair view of the financial position and financial performance of the Committee, for the completeness of the information provided to you, and for making accurate representations to you.

Uncorrected misstatements

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

These misstatements have been discussed with those charged with governance within the Joint Governance and Audit Committee and the reasons for not correcting these items are as follows [insert details]:

Supporting records

I have made available all relevant information and access to persons within the Committee for the purpose of your audit. I have properly reflected and recorded in the financial statements all the transactions undertaken by the Committee.

Internal control

I have communicated to you all deficiencies in internal control of which I am aware.

Irregularities

I acknowledge my responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud or error.

I also confirm that I have disclosed:

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

Law, regulations, contractual arrangements and codes of practice

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

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

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

Accounting estimates including fair values

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

Related party transactions

I confirm that I have disclosed the identity of the Authority's related parties and all the related party relationships and transactions of which I am aware. I have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirements of the Code.

Subsequent events

I have adjusted for or disclosed in the financial statements all relevant events subsequent to the date of the financial statements.

Signed on behalf of Adur & Worthing Joint Strategic Committee

I confirm that the this letter has been discussed and agreed by the Joint Governance & Audit Committee on 20 September 2012

Signed

Sarah Gobey, Executive Head of Financial Services

Date

Appendix 5 – Glossary

Annual Audit Letter

Letter issued by the auditor to the Authority after the completion of the audit that summarises the audit work carried out in the period and significant issues arising from auditors' work.

Annual Governance Report

The auditor's report on matters arising from the audit of the financial statements presented to those charged with governance before the auditor issues their opinion [and conclusion].

Annual Governance Statement

The annual report on the Authority's systems of internal control that supports the achievement of the Authority's policies aims and objectives.

Audit of the accounts

The audit of the accounts of an audited body comprises all work carried out by an auditor under the Code to meet their statutory responsibilities under the Audit Commission Act 1998.

Audited body

A body to which the Audit Commission is responsible for appointing the external auditor.

Auditing Practices Board (APB)

The body responsible in the UK for issuing auditing standards, ethical standards and associated guidance to auditors. Its objectives are to establish high standards of auditing that meet the developing needs of users of financial information and to ensure public confidence in the auditing process.

Auditing standards

Pronouncements of the APB that contain basic principles and essential procedures with which auditors must comply, except where otherwise stated in the auditing standard concerned.

Auditor(s)

Auditors appointed by the Audit Commission.

Code (the)

The Code of Audit Practice for local government bodies issued by the Audit Commission and approved by Parliament.

Commission (the)

The Audit Commission for Local Authorities and the National Health Service in England.

Ethical Standards

Pronouncements of the APB that contain basic principles relating to independence, integrity and objectivity that apply to the conduct of audits and with which auditors must comply, except where otherwise stated in the standard concerned.

Financial statements

The annual statement of accounts that the Authority is required to prepare, which report the financial performance and financial position of the Authority in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom.

Group accounts

Consolidated financial statements of an Authority and its subsidiaries, associates and jointly controlled entities.

Internal control

The whole system of controls, financial and otherwise, that the Authority establishes to provide reasonable assurance of effective and efficient operations, internal financial control and compliance with laws and regulations.

Materiality

The APB defines this concept as ‘an expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole. A matter is material if its omission would reasonably influence the decisions of an addressee of the auditor’s report; likewise a misstatement is material if it would have a similar influence. Materiality may also be considered in the context of any individual primary statement

within the financial statements or of individual items included in them. Materiality is not capable of general mathematical definition, as it has both qualitative and quantitative 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

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

Those charged with governance

Those entrusted with the supervision, control and direction of the Authority. This term includes the members of the Authority and its Audit Committee.

Whole of Government Accounts

A project leading to a set of consolidated accounts for the entire UK public sector on commercial accounting principles. The Authority must submit a consolidation pack to the department for Communities and Local Government which is based on, but separate from, its financial statements.

Appendix 6 – Action plan

Recommendations

Recommendation 1

Further improve the quality of the financial statements by reviewing the accounting policies, main statements and the disclosure note entries prior to approval by the Executive Head of Financial Services.

Responsibility	Christine Ryder and Sarah Gobey (Management Review)
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Priority	High
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Date	30th June 2013
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Comments	Agreed. The team will build on the improvements made over the past two years.
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Recommendation 2

The annual governance statement should be scrutinised effectively before approval.

Responsibility	Andrew Gardiner and Sarah Gobey
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Priority	High
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Date	30th June 2013
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Comments	Agreed.
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Recommendation 3

Improve the arrangements for obtaining related party transaction declarations.

Responsibility	Christine Ryder
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Priority	Medium
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Date	31st May 2012
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Comments	Agreed. Better guidance to be issued to members and officers to prevent the forms being returned too early.
Recommendation 4	
The Joint Governance & Audit Committee should see regular financial performance information to help it in approving the financial statements.	
Responsibility	Jo-Anne Chang-Rogers
Priority	High
Date	31st December 2012
Comments	Agreed. The management accounts are actively scrutinised by the Joint Strategic Committee so it will be a duplication to put them on the agenda of the JGAC as well. However, to ensure members have full financial information the budget monitoring and outturn reports will be circulated to the members of JGAC for information.

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

