

# Adur District Council

## Joint Governance and Audit Committee Summary

For the year ended 31 March 2014

Audit Results Report – ISA (UK & Ireland) 260

*23 September 2014*



Building a better  
working world

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# Executive summary

## *Key findings*

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### 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 and Audit 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 2013/14 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 23 September 2014, 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.

# Extent and purpose of our work

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## 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 2013/14 financial statements
  - Report on any exception on the governance statement or other information included in the foreword
  - 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)
- In addition, this report contains our findings related to the areas of audit emphasis, our views on the Council's accounting policies and judgments and significant deficiencies in internal control.
- As a component auditor, we also 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.
- 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.

# 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
Significant audit risks (including fraud risks)		
<ul style="list-style-type: none"> <li>➤ The new system of local retention of business rates assumes that authorities will receive their baseline funding level as income. If the Council receives a higher or lower figure than that, there may be additional disclosures and accounting entries in your financial statements. These entries are new and therefore subject to increased inherent risk of error.</li> <li>➤ Alongside this, where rating appeals are successful, monies to settle the appeals will now come out of local authority funds. This includes not only claims from 1 April 2013 but also those relating to periods before the introduction of the business rates retention scheme. As appeals are to the Valuation Office, there is increased risk that the Council may not be aware of the level of claims made. This could reduce the reliability of any provision you make against these liabilities.</li> </ul>	<ul style="list-style-type: none"> <li>➤ Reviewed how the Council approached the preparation of accounting entries related to local retention of business rates and the effectiveness of controls over this change process;</li> <li>➤ Determined an appropriate risk based strategy to address identified risks of material misstatement, which focused on reviewing the Council 's accounting entries for local retention of business rates, and ensuring the provision was compliant with ISA 37 requirements</li> <li>➤ Performed mandatory procedures, regardless of specific risk, for example agreeing rateable value of properties to supporting documentation and ensuring the Council has only accounted for its share of business rate income procedures</li> </ul>	<ul style="list-style-type: none"> <li>➤ The Council engaged Inform CPI Ltd , who used a similar approach to that adopted in many Council's based on <i>AnalyseLocal</i> software. The Council reviewed the outputs and used these to inform their accounting entries.</li> <li>➤ We identified the Council had not included a figure for future appeals not yet notified by the Valuation Office Agency, but the amount involved was immaterial and so the accounts were not amended.</li> <li>➤ The provision met IAS37 criteria.</li> <li>➤ We found no issues in agreeing the entitlement and related accounting entries.</li> <li>➤ We therefore concluded the provision was properly derived and accounted for.</li> </ul>
<ul style="list-style-type: none"> <li>➤ As identified in ISA (UK &amp; Ireland) 240, management is in a unique position to perpetrate fraud because of their ability to directly or indirectly manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.</li> </ul>	<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>	<ul style="list-style-type: none"> <li>➤ Journals testing did not identify any instances that suggested management override.</li> <li>➤ Our review of accounting estimates did not identify any examples of management bias</li> <li>➤ No unusual items were identified.</li> </ul>

# 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 Audit Committee meeting:

- Receipt of a Letter of Representation
- Receipt of letter from Those Charged with Governance
- Annual Governance Statement
- PPE testing
- Pensions testing
- Assorted income and expenditure tests

- Subject to the satisfactory resolution of the above items, we propose to issue an unqualified audit report on the financial statements.

### **Corrected Misstatements**

- Our audit identified a number of misstatements which were highlighted to management for amendment. All of these have been corrected during the course of our work.
- A number of changes were made to the financial statement disclosures; mainly in response to points identified by our technical review, and revised IAS 19 Pension entries and consolidation of Joint Committee IAS 19 information.
- More detail of these is set out in Appendix 1.
- In our Audit Plan we set out our plan to rely on the operation of controls over expenditure and payables. During the year, in light of control failures identified by Internal Audit, we adopted a substantive audit approach instead.
- We have no other matters we wish to report.

### **Uncorrected Misstatements**

- We have identified no misstatements within the draft financial statements that management did not adjust.

### **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; 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; and,
  - Any significant difficulties encountered during the audit; and
  - Other audit matters of governance interest,

# Financial statements audit (continued)

## *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. 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.
- Subject to finalising work on the Annual Governance Statement, as highlighted on page 6, we expect to 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. In addition to the standard representations, we have requested the following specific representation:
  - Non-Domestic rates
    - As a new accounting estimate, there is an element of subjectivity involved in calculating the potential impact of future appeals.

### **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 Joint 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 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.*

## Criterion 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 identified one risk in our audit plan in relation to this criterion. Alongside ongoing financial pressures set out in the public sector spending review, funding is increasingly likely to involve:
  - targeted funding aimed at specific outcomes; and
  - greater reliance on local resources, particularly those from business rates.

This increases the potential for volatility in Council finances and the importance of robust medium term financial forecasting

- We reviewed the Council's arrangements for financial resilience, financial planning, and financial control; and considered their effectiveness in delivering the 13/14 budget and the preparation and robustness of the 14/15 budget.

## Findings

- Overall we are satisfied that both long and short-term financial management of the Council is soundly based. The Council has a good track record of robust financial management.
- The 2013/14 outturn was significantly better than planned with a reported £539k underspend.
- We concluded the Council's arrangements for setting the 2014/15 budget were appropriate. Budget papers clearly identified the financial pressures faced and the Council has identified the £0.7m of savings needed to deliver a balanced budget.
- Looking to medium-term sustainability, we concluded that the Medium Term Financial Plan and budget setting narrative was sound and, based on analysis of the financial outlook, is considered fairly stated. In delivering this, the Council will need to balance the challenge of delivering the savings/cuts needed against nurturing the drivers of future sustainability.

## Conclusion

- We have not identified any significant unmitigated risks to our VFM conclusion but future audit plans will focus on the delivery of the 2014/15 budget and the development of savings plans needed in later years .



# Arrangements to secure economy, efficiency and effectiveness

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## Criterion 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 identified one risk in relation to this criterion:
  - Your 2012/13 environmental services spend per head of population is £98 and compares to the average of £46. (Source: Audit Commission’s 2012/13 profile data).
- In addition, we considered the Council's response to an in-year ICT failure at a shared service provider that highlighted weaknesses in back-up procedures and disaster recovery arrangements.
- We also reviewed the Council's arrangements for prioritising resources, and improving efficiency and productivity.

## Findings

- Relatively high spend on environmental services has largely been driven by a policy decision to continue providing weekly waste collection, while most other councils have moved to a two-weekly cycle. However, the Council should undertake further analysis to confirm this is the only driver of higher cost.
- The Council has worked with CenSus to address their backup procedures and disaster recovery arrangements. An action plan was developed and the initial focus was on improving the IT environment. Work on this is now nearing completion, but the IT Disaster Recovery Plan has yet to be developed. As the failure occurred in September 2012, the Council should seek to accelerate the pace of resolution.

## Conclusion

- We concluded the Council has proper arrangements in place to prioritise resources, and improve efficiency and productivity.

# Independence

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## Independence

- We confirm there are no changes in our assessment of independence since our confirmation in our Audit Plan dated 12 June 2014.
- We complied with the Auditing Practices Board's Ethical Standards for Auditors and the requirements of the Audit Commission's Code of Audit Practice 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.
- We confirm that we have met the reporting requirements to the Audit Committee, as 'those charged with governance' under International Standards on Auditing (UK&I) 260. Our communication plan to meet these requirements were set out in our Audit Plan.
- 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 and Audit Committee on 23 September 2014.

# Audit fees

## Audit fees

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

	Proposed final fee 2013-14	Scale fee 2013-14	Variation comments
	£s	£s	
Total audit fee – Code work	63,262	63,262	
Certification of claims and returns	12,035	13,600	Following reductions in certification requirements, the Audit Commission revised the scale fee down to £12,035 in year.
Non-audit work	0	0	

- 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.
- At the time of reporting, grant claim certification work is in its early stages and so actual outturn may vary from budget, which is the basis for the proposed final fee above.
- We confirm that we have not undertaken any non-audit work outside of the Audit Commission's Audit Code requirements.

# Appendix 1 - Corrected audit misstatements

## Balance Sheet and Statement of Comprehensive Income and Expenditure

- The following misstatements, identified during the course of our audit, have been corrected by management within the revised financial statements and warrant communicating to you.

Item of Account	Nature	Type	Balance Sheet	Statement of Comprehensive Income & Expenditure
	Description	F, P, J	Debit/(Credit)	Debit/(Credit)
1. IAS 19 Pensions	Council awaiting further actuarial information, following which this table will be updated.			
2.				
3.				
4.				
Cumulative effect of uncorrected misstatement				

### Key

- F – Factual misstatement
- P – Projected misstatement based on audit sample error and population extrapolation
- J – Judgemental misstatement

# Appendix 1 - Corrected audit misstatements

## Disclosures

- The following misstatements, identified during the course of our audit, have been corrected by management within the revised financial statements and warrant communicating to you.

Disclosure	Description of misstatement
Explanatory foreword	A number of adjustments were made to the disclosures opposite to ensure Code compliance and completeness of accounting policies. These individually are not significant and so have not been itemised here.
Movement in Reserves Statement	
Comprehensive Income and Expenditure Statement	
Cashflow statement	
Prior period adjustment	
Accounting policies	
Notes to the accounts	

## Ernst & Young LLP

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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.



# Worthing Borough Council

## Joint Governance & Audit Committee Summary

For the year ended 31 March 2014

Audit Results Report – ISA (UK & Ireland) 260

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# Executive summary

## *Key findings*

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### Audit results and other key matters

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- This report summarises the findings from the 2013/14 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 23 September 2014, 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.

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# Extent and purpose of our work

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## The Council's responsibilities

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- 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 2013/14 financial statements
  - Report on any exception on the governance statement or other information included in the foreword
  - 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)
- In addition, this report contains our findings related to the areas of audit emphasis, our views on the Council's accounting policies and judgments and significant deficiencies in internal control.
- As a component auditor, we also 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.
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# 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
Significant audit risks (including fraud risks)		
<ul style="list-style-type: none"> <li>➤ The new system of local retention of business rates assumes that authorities will receive their baseline funding level as income. If the Council receives a higher or lower figure than that, there may be additional disclosures and accounting entries in your financial statements. These entries are new and therefore subject to increased inherent risk of error.</li> <li>➤ Alongside this, where rating appeals are successful, monies to settle the appeals will now come out of local authority funds. This includes not only claims from 1 April 2013 but also those relating to periods before the introduction of the business rates retention scheme. As appeals are to the Valuation Office, there is increased risk that the Council may not be aware of the level of claims made. This could reduce the reliability of any provision you make against these liabilities.</li> </ul>	<ul style="list-style-type: none"> <li>➤ Reviewed how the Council approached the preparation of accounting entries related to local retention of business rates and the effectiveness of controls over this change process;</li> <li>➤ Determined an appropriate risk based strategy to address identified risks of material misstatement, which focused on reviewing the Council 's accounting entries for local retention of business rates, and ensuring the provision was compliant with ISA 37 requirements</li> <li>➤ Performed mandatory procedures, regardless of specific risk, for example agreeing rateable value of properties to supporting documentation and ensuring the Council has only accounted for its share of business rate income procedures</li> </ul>	<ul style="list-style-type: none"> <li>➤ The Council engaged Inform CPI Ltd , who used a similar approach to that adopted in many Council's based on <i>AnalyseLocal</i> software. The Council reviewed the outputs and used these to inform their accounting entries.</li> <li>➤ We identified the Council had not included a figure for future appeals not yet notified by the Valuation Office Agency. Further work was undertaken by the Council and an estimate of £189,000 produced. The accounts were amended to include this amount.</li> <li>➤ The provision met IAS37 criteria.</li> <li>➤ We found no issues in agreeing the entitlement and related accounting entries.</li> <li>➤ We therefore concluded the provision was properly derived and accounted for.</li> </ul>
<ul style="list-style-type: none"> <li>➤ As identified in ISA (UK &amp; Ireland) 240, management is in a unique position to perpetrate fraud because of their ability to directly or indirectly manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.</li> </ul>	<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>	<ul style="list-style-type: none"> <li>➤ Journals testing did not identify any instances that suggested management override.</li> <li>➤ Our review of accounting estimates did not identify any examples of management bias</li> <li>➤ No unusual items were identified.</li> </ul>

# 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 Audit Committee meeting:
  - Receipt of a Letter of Representation
  - Receipt of letter from Those Charged with Governance
  - PPE testing
  - Pensions testing
  - Assorted income and expenditure tests
  - Annual Governance Statement.
- Subject to the satisfactory resolution of the above items, we propose to issue an unqualified audit report on the financial statements.

### **Corrected Misstatements**

- Our audit identified misstatements which our team have highlighted to management for amendment. All of these have been corrected during the course of our work.
- A number of changes were made to the financial statement disclosures; mainly in response to points identified by our technical review, and revised IAS 19 Pension entries and consolidation of Joint Committee IAS 19 information.
- We also requested amendment of the NDR Appeals Provision to ensure the Council's best estimate of future claims is reflected in the statements.
- More detail of these is set out in Appendix 1.

### **Uncorrected Misstatements**

- We have identified no misstatements within the draft financial statements which management has chosen not to adjust.

### **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; 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; and,
  - Any significant difficulties encountered during the audit; and
  - Other audit matters of governance interest,
- In our Audit Plan we set out our plan to rely on the operation of controls over expenditure and payables. During the year, in light of control failures identified by Internal Audit, we adopted a substantive audit approach instead.
- We have no other matters we wish to report.

# Financial statements audit (continued)

## *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. 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.
- Subject to finalising work on the Annual Governance Statement, as highlighted on page 6, we expect to 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. In addition to the standard representations, we have requested the following specific representation:
  - Non Domestic Rates. As a new accounting estimate, there is an element of subjectivity involved in calculating the potential impact of future appeals.

### **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.

# 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.*

## Criterion 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 identified one risk in our audit plan in relation to this criterion. Alongside ongoing financial pressures set out in the public sector spending review, funding is increasingly likely to involve:
  - targeted funding aimed at specific outcomes; and
  - greater reliance on local resources, particularly those from business rates.
  - This increases the potential for volatility in Council finances and the importance of robust medium term financial forecasting
- We reviewed the Council's arrangements for financial resilience, financial planning, and financial control; and considered their effectiveness in delivering the 13/14 budget and the preparation and robustness of the 14/15 budget.

## Findings

- The 2013/14 outturn showed an overspend for the first time in several years of £299k (2.1%). While this was higher than estimated in-year, the potential for an overspend was reported to members on a timely basis. We did not consider this grounds for qualifying our conclusion but it has effectively exhausted 26% of the brought forward general fund reserves..
- We considered the Council's arrangements for setting the 2014/15 budget were appropriate. Budget papers clearly identified the financial pressures faced and the Council has identified the £1.4m of savings needed to deliver a balanced budget.
- Similarly, the medium term financial planning was considered fit-for-purpose. It recognises the on-going uncertainty caused by ongoing changes to funding, and makes sensible assumptions about their impact, The view to 2015/16 appears manageable, but becomes more challenging from 2016/17.

## Conclusion

- We have not identified any significant unmitigated risks to our VFM conclusion but future audit plans will focus on the delivery of the 2014/15 budget and the development of savings plans needed in later years .

# Arrangements to secure economy, efficiency and effectiveness

## Criterion 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 identified two risks in relation to this criterion:
  - You have settled a long-running legal dispute with National Car Parks. We have received several communications questioning the robustness of the processes the Council followed in settling this dispute.
  - Your 2012/13 culture and sport services spend per head of population is £115 and compares to the average of £64. This puts you in the top 20%. (Source: Audit Commission’s 2012/13 profile data).
- In addition, we considered the Council's response to an in-year ICT failure at a shared service provider that highlighted weaknesses in back-up procedures and disaster recovery arrangements.
- We also reviewed the Council's arrangements for prioritising resources, and improving efficiency and productivity.

## Findings

- Our review of the legal dispute with NCP focused on whether the use of urgency powers was appropriate and that they were exercised in accordance with the Council's constitution. While it is possible this could have been resolved earlier in the life of the dispute, and have been better communicated to members, we concluded the new Chief Executive acted promptly and appropriately to resolve a long drawn out issue. Legal advice was sought and followed, and the use of urgency powers was within the Council’s constitution. We are satisfied the Council has learned from this and strengthened procurement and contracting arrangements accordingly.
- Relatively high spend on culture and sport services has largely been driven by a policy decision to invest in cultural programmes. The Council has taken action to reduce costs and increase revenue, which are reflected in the 2014/15 Q1 outturn report.
- The Council has worked with CenSus to address their backup procedures and disaster recovery arrangements. An action plan was developed and the initial focus was on improving the IT environment. Work on this is now nearing completion, but the IT Disaster Recovery Plan has yet to be developed. As the failure occurred in September 2012, the Council should seek to accelerate the pace of resolution.

## Conclusion

- We concluded the Council has proper arrangements in place to prioritise resources, and improve efficiency and productivity.

# Independence

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## Independence

- We confirm there are no changes in our assessment of independence since our confirmation in our Audit Plan dated 12 June 2014.
- We complied with the Auditing Practices Board's Ethical Standards for Auditors and the requirements of the Audit Commission's Code of Audit Practice and Standing Guidance. In our professional judgement the firm is independent and the objectivity of the audit Director 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.
- We confirm that we have met the reporting requirements to the Audit Committee, as 'those charged with governance' under International Standards on Auditing (UK&I) 260. Our communication plan to meet these requirements were set out in our Audit Plan.
- 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 and Audit Committee on 23 September 2014



# Audit fees

## Audit fees

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

	Proposed final fee 2013-14	Scale fee 2013-14	Variation comments
	£s	£s	
Total audit fee – Code work	61,976	61,976	N/A
Certification of claims and returns	10,912	10,912	N/A
Non-audit work	0	0	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.
- At the time of reporting, grant claim certification work is in its early stages and so actual outturn may vary from budget, which is the basis for the proposed final fee above.
- We confirm that we have not undertaken any non-audit work outside of the Audit Commission's Audit Code requirements.

# Appendix 1 - Corrected audit misstatements

## Balance Sheet and Statement of Comprehensive Income and Expenditure

- The following misstatements, identified during the course of our audit, have been corrected by management within the revised financial statements and warrant communicating to you.

Item of Account	Nature	Type	Balance Sheet	Statement of Comprehensive Income & Expenditure
	Description	F, P, J	Debit/(Credit)	Debit/(Credit)
1. Various	The late receipt of the Joint Committee's IAS19 Actuary report led to a number of consolidation adjustments to Worthing accounts.	F	Pension Liability (4,540,800) Unusable (Pension) Reserve 4,540,800	Net Cost of Services 736,200 Finance & Investment Income & Expenditure 1,670,400 General Fund Balance (2,406,600)
2. NDR Appeals Provision (Council proportion only. Gross adjustments flow through Collection Fund Adjustment Account)	The authority have included an adjustment to their NDR Appeals Provision to include future claims.	J	Provisions (75,000) Unusable Reserves 75,000	Taxation & Non-specific Grant Income 75,000 Surplus/Deficit on Provision of Services (75,000)
Cumulative effect of corrected misstatement			0	0

### Key

- F – Factual misstatement
- P – Projected misstatement based on audit sample error and population extrapolation
- J – Judgemental misstatement

# Appendix 1 - Corrected audit misstatements

## Disclosures

- The following misstatements, identified during the course of our audit, have been corrected by management within the revised financial statements and warrant communicating to you.

Disclosure	Description of misstatement
Explanatory foreword	A number of adjustments were made to the disclosures opposite to ensure Code compliance and completeness of accounting policies. These individually are not significant and so have not been itemised here.
Statement of responsibilities	
Movement in Reserves Statement	
Comprehensive Income and Expenditure Statement	
Cashflow statement	
Prior period adjustment	
Accounting policies	
Notes to the accounts	

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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.



# Worthing Borough Council

## Joint Governance & Audit Committee Summary

For the year ended 31 March 2014

Audit Results Report – ISA (UK & Ireland) 260

*23 September 2014*



■ Kate Handy, Director  
■ [KHandy@uk.ey.com](mailto:KHandy@uk.ey.com)

■ Mark Justesen, Manager  
■ [MJustesen@uk.ey.com](mailto:MJustesen@uk.ey.com)

# Contents

- ▶ Executive summary
- ▶ Extent and purpose of our work
- ▶ Addressing audit risk
- ▶ Financial statements audit – issues and findings
- ▶ Arrangements to secure economy, efficiency and effectiveness
- ▶ Independence and audit fees
- ▶ Appendix

# Executive summary

## *Key findings*

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### 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 and Audit 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 2013/14 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 23 September 2014, 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.

# Extent and purpose of our work

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## 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 2013/14 financial statements
  - Report on any exception on the governance statement or other information included in the foreword
  - 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)
- In addition, this report contains our findings related to the areas of audit emphasis, our views on the Council's accounting policies and judgments and significant deficiencies in internal control.
- As a component auditor, we also 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.
- 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.



# 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
Significant audit risks (including fraud risks)		
<ul style="list-style-type: none"> <li>➤ The new system of local retention of business rates assumes that authorities will receive their baseline funding level as income. If the Council receives a higher or lower figure than that, there may be additional disclosures and accounting entries in your financial statements. These entries are new and therefore subject to increased inherent risk of error.</li> <li>➤ Alongside this, where rating appeals are successful, monies to settle the appeals will now come out of local authority funds. This includes not only claims from 1 April 2013 but also those relating to periods before the introduction of the business rates retention scheme. As appeals are to the Valuation Office, there is increased risk that the Council may not be aware of the level of claims made. This could reduce the reliability of any provision you make against these liabilities.</li> </ul>	<ul style="list-style-type: none"> <li>➤ Reviewed how the Council approached the preparation of accounting entries related to local retention of business rates and the effectiveness of controls over this change process;</li> <li>➤ Determined an appropriate risk based strategy to address identified risks of material misstatement, which focused on reviewing the Council 's accounting entries for local retention of business rates, and ensuring the provision was compliant with ISA 37 requirements</li> <li>➤ Performed mandatory procedures, regardless of specific risk, for example agreeing rateable value of properties to supporting documentation and ensuring the Council has only accounted for its share of business rate income procedures</li> </ul>	<ul style="list-style-type: none"> <li>➤ The Council engaged Inform CPI Ltd , who used a similar approach to that adopted in many Council's based on <i>AnalyseLocal</i> software. The Council reviewed the outputs and used these to inform their accounting entries.</li> <li>➤ We identified the Council had not included a figure for future appeals not yet notified by the Valuation Office Agency. Further work was undertaken by the Council and an estimate of £189,000 produced. The accounts were amended to include this amount.</li> <li>➤ The provision met IAS37 criteria.</li> <li>➤ We found no issues in agreeing the entitlement and related accounting entries.</li> <li>➤ We therefore concluded the provision was properly derived and accounted for.</li> </ul>
<ul style="list-style-type: none"> <li>➤ As identified in ISA (UK &amp; Ireland) 240, management is in a unique position to perpetrate fraud because of their ability to directly or indirectly manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.</li> </ul>	<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>	<ul style="list-style-type: none"> <li>➤ Journals testing did not identify any instances that suggested management override.</li> <li>➤ Our review of accounting estimates did not identify any examples of management bias</li> <li>➤ No unusual items were identified.</li> </ul>

# 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 Audit Committee meeting:
  - Receipt of a Letter of Representation
  - Receipt of letter from Those Charged with Governance
  - PPE testing
  - Pensions testing
  - Assorted income and expenditure tests
  - Annual Governance Statement.
- Subject to the satisfactory resolution of the above items, we propose to issue an unqualified audit report on the financial statements.

### **Corrected Misstatements**

- Our audit identified misstatements which our team have highlighted to management for amendment. All of these have been corrected during the course of our work.
- A number of changes were made to the financial statement disclosures; mainly in response to points identified by our technical review, and revised IAS 19 Pension entries and consolidation of Joint Committee IAS 19 information.
- We also requested amendment of the NDR Appeals Provision to ensure the Council's best estimate of future claims is reflected in the statements.
- More detail of these is set out in Appendix 1.

### **Uncorrected Misstatements**

- We have identified no misstatements within the draft financial statements which management has chosen not to adjust.

### **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; 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; and,
  - Any significant difficulties encountered during the audit; and
  - Other audit matters of governance interest,
- In our Audit Plan we set out our plan to rely on the operation of controls over expenditure and payables. During the year, in light of control failures identified by Internal Audit, we adopted a substantive audit approach instead.
- We have no other matters we wish to report.

# Financial statements audit (continued)

## *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. 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.
- Subject to finalising work on the Annual Governance Statement, as highlighted on page 6, we expect to 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. In addition to the standard representations, we have requested the following specific representation:
  - Non Domestic Rates. As a new accounting estimate, there is an element of subjectivity involved in calculating the potential impact of future appeals.

### **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.

# 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.*

## Criterion 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 identified one risk in our audit plan in relation to this criterion. Alongside ongoing financial pressures set out in the public sector spending review, funding is increasingly likely to involve:
  - targeted funding aimed at specific outcomes; and
  - greater reliance on local resources, particularly those from business rates.
  - This increases the potential for volatility in Council finances and the importance of robust medium term financial forecasting
- We reviewed the Council's arrangements for financial resilience, financial planning, and financial control; and considered their effectiveness in delivering the 13/14 budget and the preparation and robustness of the 14/15 budget.

## Findings

- The 2013/14 outturn showed an overspend for the first time in several years of £299k (2.1%). While this was higher than estimated in-year, the potential for an overspend was reported to members on a timely basis. We did not consider this grounds for qualifying our conclusion but it has effectively exhausted 26% of the brought forward general fund reserves..
- We considered the Council's arrangements for setting the 2014/15 budget were appropriate. Budget papers clearly identified the financial pressures faced and the Council has identified the £1.4m of savings needed to deliver a balanced budget.
- Similarly, the medium term financial planning was considered fit-for-purpose. It recognises the on-going uncertainty caused by ongoing changes to funding, and makes sensible assumptions about their impact, The view to 2015/16 appears manageable, but becomes more challenging from 2016/17.

## Conclusion

- We have not identified any significant unmitigated risks to our VFM conclusion but future audit plans will focus on the delivery of the 2014/15 budget and the development of savings plans needed in later years .

# Arrangements to secure economy, efficiency and effectiveness

## Criterion 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 identified two risks in relation to this criterion:
  - You have settled a long-running legal dispute with National Car Parks. We have received several communications questioning the robustness of the processes the Council followed in settling this dispute.
  - Your 2012/13 culture and sport services spend per head of population is £115 and compares to the average of £64. This puts you in the top 20%. (Source: Audit Commission’s 2012/13 profile data).
- In addition, we considered the Council's response to an in-year ICT failure at a shared service provider that highlighted weaknesses in back-up procedures and disaster recovery arrangements.
- We also reviewed the Council's arrangements for prioritising resources, and improving efficiency and productivity.

## Findings

- Our review of the legal dispute with NCP focused on whether the use of urgency powers was appropriate and that they were exercised in accordance with the Council's constitution. While it is possible this could have been resolved earlier in the life of the dispute, and have been better communicated to members, we concluded the new Chief Executive acted promptly and appropriately to resolve a long drawn out issue. Legal advice was sought and followed, and the use of urgency powers was within the Council’s constitution. We are satisfied the Council has learned from this and strengthened procurement and contracting arrangements accordingly.
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## Conclusion

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# Independence

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## Independence

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# Audit fees

## Audit fees

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# Appendix 1 - Corrected audit misstatements

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- The following misstatements, identified during the course of our audit, have been corrected by management within the revised financial statements and warrant communicating to you.

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Cumulative effect of corrected misstatement			0	0

### Key

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