



**AUDIT ENQUIRIES TO THOSE CHARGED WITH GOVERNANCE**  
**REPORT BY SARAH GOBEY, CHIEF FINANCIAL OFFICER**

**1.0 SUMMARY**

- 1.1 Our external auditors, Ernst and Young, have asked that the Committee considers a letter about how the Joint Governance Committee gains assurance from management regarding the financial governance arrangements of the Councils. The Chairmen of the Committee have received two letters, one for Adur District Council, and one the Worthing Borough Council. These are attached as Appendix 1.
- 1.2 To assist the Committee in its deliberation of the letter, attached at Appendix 2 is information pertinent to each of the questions raised. This can form the basis of a formal response.

**2.0. BACKGROUND**

- 2.1 The audit of the Council's financial statements is guided by International Standards of Auditing (ISAs). In order to comply with a number of these ISA's, each year the Chairmen of the Joint Governance Committee are written to by the Council's external auditor. The purpose of this letter is to obtain an understanding on how those charged with governance (the Joint Governance Committee) exercise oversight of management's processes in relation to fraud, laws and regulations and going concern.
- 2.2 It is proposed that the Committee discusses its proposed response to the letter Members should be aware that the Committee is also asked to comment on whether the Councils are a 'going concern'. This is addressed separately below.

**3.0 GOING CONCERN**

- 3.1 In accounting, "going concern" refers to an organisations' ability to continue functioning as a business entity. For the Councils, it is the responsibility of the Joint Governance Committee to assess whether the going concern assumption is appropriate when preparing the financial statements. The Councils are required to disclose in the notes to the Financial Statements whether there are any factors that may put the organisations' status as a going concern in doubt.

### **3.0 GOING CONCERN**

3.2 In forming the opinion on whether the Councils and the Joint Committee are 'going concerns' it is important to note the following:

- the budgets reported to Councils and the Joint Strategic Committee were balanced in 2016/17 and 2017/18.
- The budget monitoring and outturn reports show that the Councils continue to spend within the overall budget set or only marginally above the budget set.
- Both Councils have a reasonable level of reserves.

Consequently, the Committee should have no concerns about whether the Councils and the Joint Committee are going concerns.

### **4.0 LEGAL IMPLICATIONS**

4.1 This report concerns the audit of the Statements of Accounts which will be prepared in accordance with statutory instrument number 2015/234, the Accounts and Audit (England) Regulations 2015 and the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Local Authority Accounting in the United Kingdom 2015/16, based on International Financial Reporting Standards (IFRS).

### **5.0 FINANCIAL IMPLICATIONS**

5.1 There are no financial implications arising from this report.

### **6.0 RECOMMENDATIONS**

**6.1 The Joint Governance Committee is asked to consider and agree the response to the audit letter**

#### **Local Government Act 1972**

#### **Background Papers:**

Reports to the Joint Strategic Committee

#### **Contact Officer:**

Sarah Gobey – Chief Financial Officer

Direct Dialling No: (01903) 221221

Email: [sarah.gobey@adur-worthing.gov.uk](mailto:sarah.gobey@adur-worthing.gov.uk)

## **SCHEDULE OF OTHER MATTERS**

### **1.0 COUNCIL PRIORITY**

1.1 Matter considered and no issues identified

### **2.0 SPECIFIC ACTION PLANS**

2.1 Matter considered and no issues identified

### **3.0 SUSTAINABILITY ISSUES**

3.1 Matter considered and no issues identified

### **4.0 EQUALITY ISSUES**

4.1 Matter considered and no issues identified

### **5.0 COMMUNITY SAFETY ISSUES (SECTION 17)**

5.1 Matter considered and no issues identified

### **6.0 HUMAN RIGHTS ISSUES**

6.1 Matter considered and no issues identified

### **7.0 REPUTATION**

7.1 Matter considered and no issues identified

### **8.0 CONSULTATIONS**

8.1 Matter considered and no issues identified

### **9.0 RISK ASSESSMENT**

9.1 Matter considered and no issues identified

### **10.0 HEALTH and SAFETY ISSUES**

10.1 Matter considered and no issues identified

### **11.0 PROCUREMENT STRATEGY**

11.1 Matter considered and no issues identified

### **12.0 PARTNERSHIP WORKING**

12.1 Matter considered and no issues identified



Ernst & Young LLP Wessex House 19 Threefield Lane Southampton SO14 3QB	Tel: + 44 2380 382 100 Fax: + 44 2380 382 001 ey.com
--	--

Councillor Barton Worthing Borough Council, Worthing Town Hall, Chapel Road, Worthing West Sussex, BN11 1HA	01 March 2017  Ref: ADC/PK/MH  Direct line: 0118 928 1556  Email: PKing1@uk.ey.com
---	--

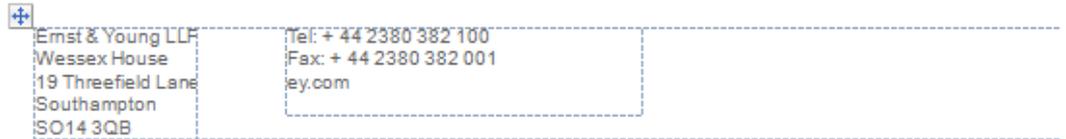
Dear George,

**RE: ADUR DISTRICT COUNCIL**

**Understanding how the Joint Governance Committee gains assurance from management**

Auditing standards require us to formally update our understanding of your arrangements for oversight of management processes and arrangements annually. Therefore, I am writing to ask that you please provide a response to the following questions.

- 1) How does the Joint Governance Committee, as 'those charged with governance' at the Authority, exercise oversight of management's processes in relation to:
  - undertaking an assessment of the risk that the financial statements may be materially misstated due to fraud or error (including the nature, extent and frequency of these assessments);
  - identifying and responding to risks of fraud in the Authority, including any specific risks of fraud which management have identified or that have been brought to its attention, or classes of transactions, account balances, or disclosure for which a risk of fraud is likely to exist;
  - communicating to employees its view on business practice and ethical behavior (for example by updating, communicating and monitoring against the Authority code of conduct);
  - encouraging employees to report their concerns about fraud; and
  - communicating to you the processes for identifying and responding to fraud or error?
- 2) How does the Joint Governance Committee oversee management processes for identifying and responding to the risk of fraud and possible breaches of internal control?



- 3) Is the Committee aware of any:
- breaches of, or deficiencies in, internal control; and
  - actual, suspected or alleged frauds during 2016/17?
- 4) Is the Joint Governance Committee aware of any organisational or management pressure to meet financial or operating targets?
- 5) How does the Joint Governance Committee gain assurance that all relevant laws and regulations have been complied with? Are you aware of any instances of non-compliance during 2016/17?
- 6) Is the Joint Governance Committee aware of any actual or potential litigation or claims that would affect the financial statements?
- 7) How does the Joint Governance Committee satisfy itself that it is appropriate to adopt the going concern basis in preparing the financial statements?

I should be grateful if you could respond either in writing or by e-mail by 30 April 2017.

Thank you for your assistance. If you have any queries in respect of this letter please contact Tom Wilkins at [twilkins@uk.ey.com](mailto:twilkins@uk.ey.com).

Yours sincerely

Paul King  
Executive Director  
For and on behalf of Ernst & Young LLP

QUESTION	PROPOSED RESPONSE
<p><b>1. How does the Joint Governance &amp; Audit Committee, as ‘those charged with governance’ exercise oversight of management's processes in relation to:</b></p> <ul style="list-style-type: none"> <li>• undertaking an assessment of the risk that the financial statements might be materially misstated due to fraud or error (including the nature, extent and frequency of these assessments)?</li>   <li>• identifying and responding to risks of fraud, including any specific risks of fraud which management have identified or that have been brought to its attention, or classes of transactions, account balances, or disclosure for which a risk of fraud is likely to exist?;</li>   <li>• communicating to employees its view on business practice and ethical behavior (for example by updating, communicating and monitoring against the Authority's code of conduct); and</li> </ul>	<p>The Joint Governance Committee have received regular reports from the Head of Internal Audit in relation to the operation of the control environment which is used to inform the Committee's view of management processes.</p> <p>Management has assessed that the risk of material fraud affecting the financial statements is very low. There is a robust system of internal control operating as reported by the Head of Internal Audit to the council and no evidence of material fraud.</p> <p>The Joint Governance Committee has oversight of this. It receives regular reports from the Head of Internal Audit including:</p> <ul style="list-style-type: none"> <li>• The Internal Audit Plan is presented to the Committee to consider and approve. This takes into account the risks associated with individual services and processes, and the frequency with which services are subjected to audit.</li> <li>• Internal audit provide the committee with regular reports on the audits undertaken together with details of any limited assurance audits;</li> <li>• The Head of Internal audit produces an annual report for the Committee.</li> </ul> <p>In addition, the Committee approves the Council's Annual Governance Statement ensuring that assurances from many sources across the Councils are provided which underpin the draft (AGS) for the Leader and the Chief Executive to review and sign.</p> <p>The Joint Governance Committee has oversight of this. The Councils have a code of conduct which is approved by the Committee. The Committee is also aware that Democratic Services keeps a register of Officer and Member interests.</p>

QUESTION	PROPOSED RESPONSE
<p><b>1. How does the Joint Governance &amp; Audit Committee, as ‘those charged with governance’ exercise oversight of management's processes in relation to:</b> (continued)</p> <ul style="list-style-type: none"> <li>• encouraging employees to report their concerns about fraud;</li>   <li>• communicating to you the processes for identifying and responding to fraud or error?</li> </ul>	<p>The Committee is aware that the Council has a well-publicised whistle blowing policy for staff to use. The Council also has several other policies and procedures in place which the Committee has oversight of including:</p> <ul style="list-style-type: none"> <li>• Code of conduct for members</li> <li>• Council Policies (e.g. counter Fraud &amp; Corruption).</li> <li>• Financial and Contract Standing Orders</li> <li>• Staff &amp; Member declarations of interest.</li> <li>• Programme of audits by Internal Audit.</li> <li>• Work by External Audit.</li> </ul> <p>The Joint Governance Committee has oversight of this and receives regular reports from internal audit. These include regular updates from the Corporate Fraud manager.</p>
<p><b>2. How does the Joint Governance Committee oversee management processes for identifying and responding to the risk of fraud and possible breaches of internal control</b></p>	<p>The Joint Governance Committee has oversight of this and monitors this through the reports provided by internal audit.</p> <p>The committee receives details of any limited and nil assurance audit reports and any special audit reviews commissioned.</p>
<p><b>3. Is the Joint Governance and Audit Committee aware of any:</b></p> <ul style="list-style-type: none"> <li>• breaches of or deficiencies in internal control during 2016/17?</li>   <li>• actual, suspected or alleged frauds during 2016/17?</li> </ul>	<p>We are not aware of any breaches of internal control other than those brought to our attention through the work of internal audit.</p> <p>We are not aware of any actual, suspected or alleged frauds other than those brought to our attention through the work of internal audit, the monitoring officer, and the S151 Officer.</p>

QUESTION	PROPOSED RESPONSE
<p>4. Is there is any organisational or management pressure to meet financial or operating targets?</p>	<p>Officers are asked to monitor budgets and report to members over or under spends in a transparent manner, they will be questioned on any over or under performance against budget.</p> <p>However, there is no undue organisational or management pressure to meet financial or operating targets. There are no staff incentives for meeting financial or operating targets.</p>
<p>5. How does the Joint Governance Committee gain assurance that all relevant laws and regulations have been complied with? Are you aware of any instances of non-compliance in 2016/17?</p>	<ul style="list-style-type: none"> <li>▪ The Councils Legal Service Team lead by the Monitoring Office has a general advisory role to all Council Services as supplemented by specialist legal advice when necessary;</li> <li>▪ All reports must be reviewed by the legal officers and include a legal implications paragraph before any decision is made;</li> <li>▪ A legal officer is present at all meetings of the Council to ensure that Council operates within the law;</li> <li>▪ Legal issues are considered as part of audit work;</li> <li>▪ Committee approves constitution, delegations, financial regulations and contract standing orders which provide guidance on procedural matters to ensure Council operates within the law.</li> <li>▪ Training is arranged by the legal team on new legislation and matters of particular significance.</li> </ul> <p>The Committee is not aware of any instances of non-compliance other than those brought to our attention through the work of internal audit or by the monitoring officer.</p>
<p>6. Is the Joint Governance Committee aware of any actual or potential litigation or claims that would affect the financial statements?</p>	<p>There are no potential litigation claims affecting either Council at this time.</p>

QUESTION	PROPOSED RESPONSE
<p>7. How does the Joint Governance Committee satisfy itself that it is appropriate to adopt the 'going concern' basis in preparing the financial statements</p>	<p>The Committee considers the overall financial information available to it. These include:</p> <ul style="list-style-type: none"> <li>• The annual revenue budget;</li> <li>• The Councils track record in spending within the budgets set;</li> <li>• The Councils' levels of reserves.</li> </ul> <p>The Committee has carried out this assessment and we are of the opinion that the Councils' and the Joint Committee have the ability to continue as a going concern.</p>