

Adur District Council Audit results report

Year ended 31 March 2019

July 2019

The EY logo consists of the letters 'EY' in a bold, white, sans-serif font. A yellow triangle is positioned above the 'Y', pointing downwards towards the top right corner of the logo.

Building a better
working world



18 July 2019

Dear Joint Governance Committee Members

We are pleased to attach our audit results report for the forthcoming meeting of the Joint Governance Committee. This report summarises our preliminary audit conclusion in relation to the audit of Adur District Council for 2018/19.

We have substantially completed our audit of Adur District Council for the year ended 31 March 2019. Subject to concluding the outstanding matters listed in our report, we confirm that we expect to issue an unqualified audit opinion on the financial statements in the form at section 3, by the accounts publication date of 31 July 2019. We also have no matters to report on your arrangements to secure economy, efficiency and effectiveness in your use of resources.

This report is intended solely for the use of the Joint Governance Committee, other members of the Council, and senior management. It should not be used for any other purpose or given to any other party without obtaining our written consent.

We would like to thank your staff for their help during the engagement.

We welcome the opportunity to discuss the contents of this report with you at the Joint Governance Committee meeting on 30 July 2019.

Yours faithfully

Kevin Suter

Associate Partner

For and on behalf of Ernst & Young LLP

Encl

Contents



Public Sector Audit Appointments Ltd (PSAA) have issued a 'Statement of responsibilities of auditors and audited bodies'. It is available from the Chief Executive of each audited body and via the PSAA website (www.psa.co.uk).

This Statement of responsibilities serves as the formal terms of engagement between 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 'Terms of Appointment (updated April 2018)' issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (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.



01 Executive Summary

Executive Summary

Scope update

In our Audit Planning Report presented at the 22 January 2019 Joint Governance Committee meeting, we provided you with an overview of our audit scope and approach for the audit of the financial statements. We carried out our audit in accordance with this plan, with the following exceptions:

- ▶ Changes in materiality. In our Audit Planning Report, we communicated that our audit procedures would be performed using a materiality of £1.1m. We updated our planning materiality assessment using the draft financial statements and have also reconsidered our risk assessment. Based on our materiality measure of gross revenue expenditure, we have updated our overall materiality assessment to £1.0m. This results in updated performance materiality, at 75% of overall materiality, of £761,000, and an updated threshold for reporting misstatements of £50,000.

Status of the audit

We have substantially completed our audit of Adur District Council's financial statements for the year ended 31 March 2019 and have performed the procedures outlined in our Audit Planning Report. Subject to satisfactory completion of the following outstanding matters we expect to issue an unqualified opinion on the Council's financial statements in the form which appears at Section 3. However until work is complete, further amendments may arise:

- ▶ Testing of leases
- ▶ Completion of final pension liability procedures
- ▶ Completion of file by the Audit Manager
- ▶ Final review of the file by the Associate Partner
- ▶ Full review of the final version of the financial statements
- ▶ Completion of subsequent events review
- ▶ Receipt of the signed management representation letter
- ▶ Approval of the accounts by the Committee on 30 July 2019, or later if delegated authority is required
- ▶ Completion of procedures required by the National Audit Office (NAO) regarding the Whole of Government Accounts submission

A national issue has resulted in a relatively late change to the District Council accounts and IAS19 disclosures. It relates to legal rulings regarding age discrimination arising from public sector pension scheme transitional arrangements, commonly described as the McCloud ruling. The draft accounts recognised this matter as a contingent liability. However, since the year-end there has been additional evidence, including the legal ruling by the Supreme Court on 27th June 2019 which rejected the Government's appeal, which suggested that the amounts should in fact be able to be reasonably estimated and so included in the IAS19 liability disclosed within the financial statements. We consider the impact of this on the financial statements further in Section 4.

We expect to issue the audit certificate at the same time as the audit opinion.

Executive Summary

Audit differences

Management have made two significant amendments to the financial statements.

The Council's actuary has reassessed defined benefit pension liabilities under IAS19 as result of the McCloud ruling. This has resulted in a number of amendments being made to the draft financial statements.

Further details are provided in Section 4 of this report on the items above.

We expect to identify no audit differences that management will not adjust.

A small number of other disclosure errors were identified as a result of our work which have been corrected.

Areas of audit focus

Our Audit Planning Report identified key areas of focus for our audit of Adur District Council's financial statements. This report sets out our observations and conclusions, including our views on areas which might be conservative, and where there is potential risk and exposure. We summarise our consideration of these matters, and any others identified, in the "Areas of Audit Focus" section of this report.

We ask you to review these and any other matters in this report to ensure:

- ▶ There are no other considerations or matters that could have an impact on these issues
- ▶ You agree with the resolution of the issue
- ▶ There are no other significant issues to be considered.

There are no matters, apart from those reported by management or disclosed in this report, which we believe should be brought to the attention of the Joint Governance Committee.

Control observations

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 and which is unknown to you.

Value for money

We have considered your arrangements to take informed decisions; deploy resources in a sustainable manner; and work with partners and other third parties. In our Audit Planning Report we identified a significant risks over sustainable resource deployment. We have revisited this assessment and considered the wider results of our other audit procedures; we identified no further significant risks.

Our findings and conclusions in respect of this risk are set out at Section 5 Value for Money Conclusion Risks. We have no other matters to report about your arrangements to secure economy efficiency and effectiveness in your use of resources.



Executive Summary

Other reporting issues

We have reviewed the information presented in the Annual Governance Statement for consistency with our knowledge of the Council. We have no matters to report as a result of this work.

We have performed the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission. We had no issues to report.

We have no other matters to report.

Independence

We have no matters to highlight on Independence.



02

Areas of Audit Focus



Areas of Audit Focus

Significant risk

Misstatements due to fraud or error

What is the risk?

The financial statements as a whole are not free of material misstatements whether caused by fraud or error.

As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.

What judgements are we focused on?

We focused on the following:

- ▶ Understanding the risks of fraud and the controls put in place to address those risks by management and how the Joint Governance Committee oversees management's processes over fraud.
- ▶ Considering the effectiveness of management's controls designed to address the risk of fraud.
- ▶ Determining an appropriate strategy to address those identified risks of fraud.
- ▶ Performing mandatory procedures in respect of journal entries, estimates and significant unusual transactions.
- ▶ Reviewing accounting estimates for evidence of management bias.
- ▶ Evaluating the business rationale for significant unusual transactions.

What did we do?

- ▶ Wrote to the s151 officer, Chair of the Joint Governance Committee and the Head of Internal Audit in this regard and reviewed their responses;
- ▶ Documented our understanding of the controls relevant to this significant risk and considered they have been appropriately designed;
- ▶ Tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in preparing the financial statements;
- ▶ Reviewed accounting estimates for evidence of management bias; and
- ▶ Evaluated the business rationale for any significant unusual transactions.

What are our conclusions?

We have not identified any material weaknesses in controls or evidence of material management override.

We have not identified any instances of inappropriate judgements being applied.

We did not identify any transactions during our audit which appeared unusual or outside the Council's normal course of business





Areas of Audit Focus

Significant risk

Risk of fraud in revenue and expenditure recognition, through inappropriate capitalisation of revenue expenditure

What is the risk?

Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.

From our risk assessment, we have assessed that the risk manifests itself through the inappropriately capitalisation of revenue expenditure to improve the financial position of the general fund, as there is an incentive to reduce expenditure which is funded from Council Tax.

Capitalised revenue expenditure can be funded through borrowing with only minimal MRP charges recorded in the general fund, deferring the expenditure for 30+ years when the borrowing is repaid.

What judgements are we focused on?

We focused on the following:

- ▶ For significant additions and Revenue Expenditure Funded from Capital under Statute (REFCUS) we examined invoices, capital expenditure authorisations, leases and other data that support these additions and expenditure. We reviewed the sample selected against the definition of capital expenditure in IAS 16; and
- ▶ Whether management were inappropriately processing journals that transferred amounts from revenue to capital.

What did we do?

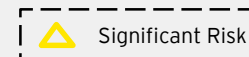
- ▶ Documented our understanding of the controls relevant to this significant risk and considered they have been appropriately designed;
- ▶ Designed journal procedures to identify and review adjustment manual journals that moved amounts from revenue codes to capital codes; and
- ▶ Sample tested PPE additions and REFCUS to reflect the existence of this risk. Agreed samples to source documentation to ensure the classification was reasonable.

What are our conclusions?

We have not identified any issues with the classification of REFCUS or capital expenditure.

We have not identified any instances of inappropriate judgements being applied.

Overall our audit work did not identify any material issues or unusual transactions to indicate any misreporting of the Council's financial position





Areas of Audit Focus

Significant risk

Risk of fraud in revenue and expenditure recognition, through inappropriate change in minimum revenue provision

What is the risk?

Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.

Local authorities are normally required each year to set aside some of their revenues as provision for capital expenditure financed by borrowing or credit arrangements. This provision is known as MRP. MRP is a real charge that impacts on the general fund and therefore the council tax financing requirement. The calculation of MRP is inherently complex and the Council is changing their methodology for calculating the provision in 2018/19 to ensure compliance with new statutory guidance and to better match the cost and income streams.

What judgements are we focused on?

We focused on the following:

- ▶ Reviewing the revised MRP methodology and ensure that this is in line with the Local Authority Accounting Code of Practice;
- ▶ Considered using an internal specialist to review the Council's MRP calculations; and
- ▶ Assessing the material accuracy of the Council's MRP estimate and historic over or under provision.

What did we do?

- ▶ Documented our understanding of the controls relevant to this significant risk and considered they have been appropriately designed;
- ▶ Reviewed the MRP methodology and ensured that this was in line with the Local Authority Accounting Code of Practice; and
- ▶ Assessed the material accuracy of the Council's MRP estimate and historic over or under provision.

What are our conclusions?

We identified that the Council had not changed their methodology for calculating the MRP in 2018/19 but had tightened up their processes to ensure that their methodology was compliant with the latest statutory guidance. Therefore, we reassessed this risk and decided that it was no longer a significant risk.

We assessed that the MRP had been calculated accurately and in line with appropriate guidance.



Areas of Audit Focus

Other areas of audit focus

What is the risk/area of focus?

Valuation of Land and Buildings

The fair value of Land and Buildings in Property, Plant and Equipment (PPE) represent significant balances in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.

Given the increase in Investment Properties (IP) and the reclassification of a property from Land and Buildings, these properties were also considered in response to this risk

What did we do?

We have performed the procedures described in our original audit plan. We have:

- ▶ Considered the work performed by the Council's valuers (Wilks, Head & Eve), including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
- ▶ Sample tested key asset information used by the valuers in performing their valuation (e.g. floor plans to support valuations based on price per square metre);
- ▶ Considered the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code for PPE and annually for IP. We have also considered if there are any specific changes to assets that have occurred and that these have been communicated to the valuer;
- ▶ Reviewed assets not subject to valuation in 2018/19 to confirm that they have been appropriately indexed in line with the Council's new estimation technique to ensure that the remaining asset base is not materially misstated;
- ▶ Considered changes to useful economic lives as a result of the most recent valuation; and
- ▶ Tested to confirm that accounting entries have been correctly processed in the financial statements.

We are satisfied that the asset valuations have been reflected in the financial statements and are based on accurate supporting information.



Areas of Audit Focus

Other areas of audit focus

What is the risk/area of focus?

Pension Liability Valuation

The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by East Sussex County Council and the Firefighters' Pension Scheme. The Council's pension fund liabilities are material estimated balances and the Code requires that these liabilities be disclosed on the Council's balance sheet. At 31 March 2018 this totalled £423 million.

The information disclosed is based on the IAS 19 reports issued to the Council by the actuaries to the two pension schemes. Accounting for these schemes involves significant estimation and judgement and therefore management engages actuaries to undertake the calculations on its behalf. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

What did we do?

Our planned work is as follows. Due to the IAS 19 reports being updated, this work is not yet complete.

- ▶ Liaise with the auditors of West Sussex Pension Fund, to obtain assurances over the information supplied to the actuary in relation to Adur District Council and the Joint Committee;
- ▶ Assess the work of the LGPS Pension Fund actuary (Hymans Robertson) including the assumptions they have used by relying on the work of PWC - Consulting Actuaries commissioned by the National Audit Office for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team; and
- ▶ Review and test the accounting entries and disclosures made within the Council's financial statements in relation to IAS19.

As considered more fully in Section 4 of this report the Council re-engaged the actuary to produce an updated IAS 19 valuation to consider the impact of the McCloud ruling. The actuary was also able to consider the following in the updated IAS 19 valuation:

- The actual rather than estimated value of the Council's share of pension fund assets at year end.
- Immaterial adjustments in respect of Guaranteed Minimum Pensions (GMP).

We will perform the procedures set out above to ensure that we are satisfied that the re-assessment of the IAS 19 liability is reasonable and that it has been correctly reflected in the revised financial statements. Details of the amendments to be made are not yet available.



Areas of Audit Focus

Other areas of audit focus

What is the risk/area of focus?

IFRS 9 financial instruments

This new accounting standard is applicable for local authority accounts from the 2018/19 financial year and will change:

- ▶ How financial assets are classified and measured;
- ▶ How the impairment of financial assets are calculated; and
- ▶ The disclosure requirements for financial assets.

There are transitional arrangements within the standard; and the 2018/19 Cipfa Code of practice on local authority accounting provides guidance on the application of IFRS 9.

IFRS 15 Revenue from contracts with customers

This new accounting standard is applicable for local authority accounts from the 2018/19 financial year.

The key requirements of the standard cover the identification of performance obligations under customer contracts and the linking of income to the meeting of those performance obligations.

The 2018/19 Cipfa Code of practice on local authority accounting provides guidance on the application of IFRS 15 and includes a useful flow diagram and commentary on the main sources of LG revenue and how they should be recognised.

The impact on local authority accounting is likely to be limited as large revenue streams like council tax, non domestic rates and government grants will be outside the scope of IFRS 15. However where that standard is relevant, the recognition of revenue will change and new disclosure requirements introduced.

What did we do?

We have:

- ▶ Assessed the Council's implementation arrangements that include an impact assessment paper setting out the application of the new standard, transitional adjustments and planned accounting for 2018/19;
- ▶ Considered the classification and valuation of financial instrument assets;
- ▶ Reviewed the new expected credit loss model impairment calculations for assets; and
- ▶ Checked additional disclosure requirements.

Conclusion: We concluded that IFRS 9 financial instruments had been applied correctly.

We have:

- ▶ Assessed the Council's implementation arrangements that include an impact assessment paper setting out the application of the new standard, transitional adjustments and planned accounting for 2018/19;
- ▶ Considered application to the Council's revenue streams, and identified that there are no material income streams that are affected by IFRS 15; and
- ▶ Checked additional disclosure requirements.

Conclusion: We concluded that IFRS 15 Revenue from contracts with customers had been applied correctly.



03 Audit Report



Audit Report

Draft audit report

Our proposed audit report

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF Adur DISTRICT COUNCIL

Opinion

We have audited the financial statements of Adur District Council for the year ended 31 March 2019 under the Local Audit and Accountability Act 2014. The financial statements comprise the:

- ▶ Movement in Reserves Statement;
- ▶ Comprehensive Income and Expenditure Statement;
- ▶ Balance Sheet-
- ▶ Cash Flow Statement-
- ▶ The related notes 1 to 42;
- ▶ Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement and the related notes 1 to 12; and
- ▶ Collection Fund and the related notes 1 to 5.

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

In our opinion the financial statements:

- ▶ give a true and fair view of the financial position of Adur District Council as at 31 March 2019 and of its expenditure and income 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 2018/19.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Council in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and the Comptroller and Auditor General's (C&AG) AGN01, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- ▶ the Chief Financial Officer's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- ▶ the Chief Financial Officer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Council's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The other information comprises the information included in the Statement of Accounts 2018/19, other than the financial statements and our auditor's report thereon. The Chief Financial Officer is responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.



Audit Report

Our proposed audit report

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinion on other matters prescribed by the Local Audit and Accountability Act 2014

Arrangements to secure economy, efficiency and effectiveness in the use of resources

In our opinion, based on the work undertaken in the course of the audit, having regard to the guidance issued by the Comptroller and Auditor General (C&AG) in November 2017, we are satisfied that, in all significant respects, Adur District Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

Matters on which we report by exception

We report to you if:

- ▶ in our opinion the annual governance statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Council;
- ▶ we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- ▶ we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014;

- ▶ we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- ▶ we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014; or
- ▶ we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

Responsibility of the Chief Financial Officer

As explained more fully in the Statement of Responsibilities for the Statement of Accounts set out on page 27, the Chief Financial Officer 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 2018/19, and for being satisfied that they give a true and fair view.

In preparing the financial statements, the Chief Finance Officer is responsible for assessing the Council's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Council either intends to cease operations, or have no realistic alternative but to do so.

The Council is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.



Audit Report

Our proposed audit report

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General (C&AG) in November 2017, as to whether Adur District Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether Adur District Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, Adur District Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our conclusion relating to proper arrangements.

We report if significant matters have come to our attention which prevent us from concluding that the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Certificate

We certify that we have completed the audit of the accounts of Adur District Council in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice issued by the National Audit Office.

Use of our report

This report is made solely to the members of Adur District Council, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Council and the Council's members as a body, for our audit work, for this report, or for the opinions we have formed.



04 Audit Differences





Audit Differences

In the normal course of any audit, we identify misstatements between amounts we believe should be recorded in the financial statements and the disclosures and amounts actually recorded. These differences are classified as “known” or “judgemental”. Known differences represent items that can be accurately quantified and relate to a definite set of facts or circumstances. Judgemental differences generally involve estimation and relate to facts or circumstances that are uncertain or open to interpretation.

Summary of adjusted differences

We highlight the following misstatements greater than £761,000 which have been corrected by management that were identified during the course of our audit:

- ▶ Some minor misstatements in disclosures
- ▶ Management adjustments:
 - ▶ Management reconsidered their estimate process regarding assets not revalued in year following audit discussions in previous years. They decided to implement a process of applying an indexation to these assets. The significant impact of applying this indexation has been to increase land and buildings by £1.6m, increase the revaluation reserve by £1.3m with the remaining £0.3m impacting the Housing Revenue Account reserves. There are also corresponding amendments to the Movement in Reserves statement; the General Fund and the Capital Adjustment Account of £0.3m.
 - ▶ Management identified that an investment property valued at £11.5m had been misclassified as an operational asset. A prior year adjustment was required to correct this misclassification and remove the depreciation charged in the prior year.

There were no uncorrected misstatements.



Audit Differences

McCloud ruling

A national issue has resulted in a relatively late change to the accounts and IAS19 liability disclosure. It relates to legal rulings regarding age discrimination arising from public sector pension scheme transitional arrangements, commonly described as the McCloud ruling. The draft accounts recognised this matter as a contingent liability. However, since the year-end there has been additional evidence, including the legal ruling by the Supreme Court on 27th June 2019 which rejected the Government's appeal, which suggested that the amounts should in fact be able to be reasonably estimated and so included in the IAS19 liability disclosed within the financial statements. The actuary has now estimated the impact of the McCloud ruling by updating the IAS19 assessment for the Council. In doing this the IAS19 assessment was also updated for two other issues:

- GMP - All Pension schemes must equalise between males and females which generates additional liabilities. The impact on the Council is not material but has been adjusted for in the revised IAS19 valuation.
- As is usual practice the original IAS19 valuation was based on an estimate of fund assets at the end of the year. This has been updated to reflect the actual value of fund assets and returns in the 2018/19 West Sussex Pension Fund financial statements.

Adjustments made to the financial statements for the revised valuations are as follows:

- ▶ Re-measurements: Return on plan assets has increased by approximately £0.706 million.
- ▶ Past service cost including curtailments has increased by approximately £0.587million.
- ▶ The interest cost on the defined benefit obligation has increased by approximately £0.009 million.

Some other related disclosures changes, including changes to the disclosure of sources of estimation uncertainty and post balance sheet events, have also been **made**.

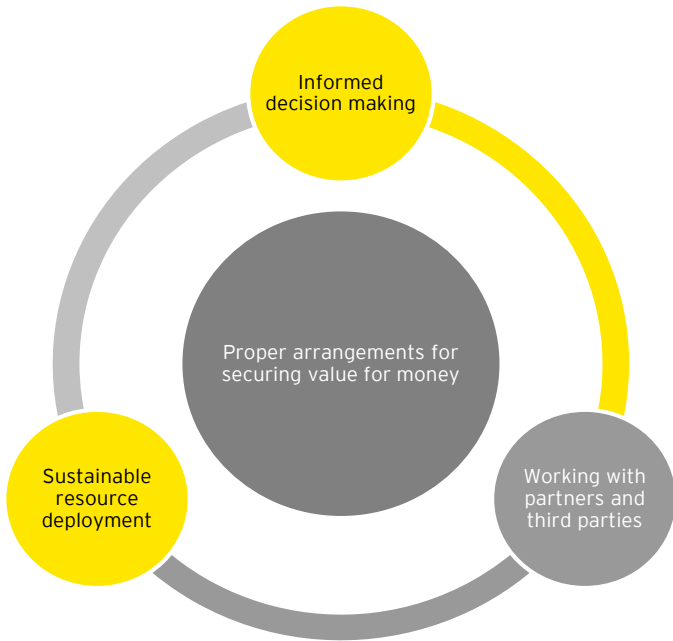


05

Value for Money Risks



Value for Money



Background

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. This is known as our value for money conclusion.

For 2018/19 this is based on the overall evaluation criterion:

"In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people"

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- Take informed decisions;
- Deploy resources in a sustainable manner; and
- Work with partners and other third parties.

In considering your proper arrangements, we will draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your annual governance statement.

Overall conclusion

We identified one significant risks around these arrangements. The table below presents our findings in response to the risk in our Audit Planning Report. We therefore expect having no matters to report about your arrangements to secure economy, efficiency and effectiveness in your use of resources.

We are only required to determine whether there are any risks that we consider significant within the Code of Audit Practice, where risk is defined as:

A matter is significant if, in the auditor's professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public

Our risk assessment supports the planning of enough work to deliver a safe conclusion on your arrangements to secure value for money, and enables us to determine the nature and extent of any further work needed. If we do not identify a significant risk we do not need to carry out further work.

The table below presents the findings of our work in response to the risks areas in our Audit Planning Report.

Value for Money Risks

What is the significant value for money risk?	What arrangements did the risk affect?	What did we do?
<p>Medium term financial position</p> <p><i>The Council will not be able to plan its finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions.</i></p> <p>The Council continues to face significant financial challenges over the coming years. We concluded last year that the Council's Medium Term Financial Plan was sound and we noted that plans were in place to deliver the 2018/19 budget.</p> <p>In the 2018/19 budget, the Council originally identified a budget gap of £11.9 million over the next 4 years. It has identified £7.6 million of savings to mitigate this gap, however, the leaves £4.3 million of savings yet to be identified.</p> <p>At 31 March 2018, the Council had £13.1 million of usable revenue reserves. This included your General Fund reserve of £518,000 which is just above the minimum level set by the Section 151 Officer. These reserves would not be sufficient to cover any shortfall in savings were they not to be achieved and leaves little resilience to meet unexpected issues.</p>	<p>Deploy resources in a sustainable manner</p>	<p>We have:</p> <ul style="list-style-type: none"> ▶ Used the PSAA's value for money profile tool to assess Council spending against similar councils. ▶ Reviewed, assessed and challenged the key assumptions used by the Council to create the medium term financial plan. ▶ Reviewed the outturn position against budget for 2018/19 and the Council's financial position at 31 March 2019. ▶ Reviewed the Council's monitoring of savings required in service budgets. <p>We also</p> <ul style="list-style-type: none"> ▶ reviewed the Council's strategy for purchasing commercial property ▶ considered the financial and governance procedures in place regarding this strategy ▶ considered whether the Council has obtained appropriate professional advice regarding purchases made within the strategy <p>In summary, we remain satisfied that the assumptions used in updating the MTFS are reasonable and justified, including those regarding the purchase of commercial property to generate income.</p> <p>However, there is still significant uncertainty over future funding from Central Government. Therefore, the Council needs to continue to seek out methods to generate savings without impacting on services, increasing reserves and retaining a sustainable financial position.</p> <p>Our detailed findings are set out on the following pages.</p>

Other matters to bring to your attention

What are our findings?

The Council is, and will continue to, face significant financial challenges. The Council carries very low reserves for an organisation of its size, although they are meeting their minimum stated General Fund reserve with a General Fund balance of £519,000. With earmarked revenue reserves there are total available revenue reserves of £2,130,000 as at 31 March 2019.

The Council's budget planning cycle for 2019/20 is now complete, having set a balanced budget. We ascertained that all the key assumptions used in creating the 2019/20 annual budget and beyond in the medium term financial strategy (MTFS) appear to be reasonable and justified.. There are sound internal and external justifications behind the changes in the assumptions for the future years (in inflation and Council Tax for example) and the Council appears to have conservatively estimated savings over the 4-year period of the MTFS.

The Council appears to be prioritising their savings items and giving these savings appropriate consideration at Committee level when making plans. They have forecast significant savings from commercial properties and have earmarked funds to help them achieve this.

However, in our view the Council need to be more transparent in setting out the savings they need to achieve in their medium term financial plan. The figure reported at the time of our review was £1.066m, however, when the additional "savings still to be found" from within the individual categories are added to this, we can see that in actual fact the Council needs to find £1.823m.

The Council has implemented a policy (originally established during 2017/18) and have purchased significant commercial property, some of which is outside its boundary. Significant purchases (£26.4m) were made in 2018/19 and more options are being evaluated. Borrowing has been used for investments.

The Council's strategy appears to be consistent across all main areas (investment, treasury, and commercial) -investment and commercial goals are aimed towards facilitating investment in commercial properties. Treasury management makes plans for this and works to balance the need to invest in properties that will generate future income, with the need to implement short term savings.

The Council has sought appropriate sufficient financial advice from third parties who are well qualified to issue it, including both external financial advice and Treasury Management support. With respect to property purchases throughout the year, they have sought and received external help from estate agents and property surveyors to help them to value the property financially and to evaluate it physically.

The Council appears to have a clear plan for risk management and oversight in place to prevent risk. Importantly they also have a risk response plan in place for when risks are discovered. The governance procedures in place to minimise risks associated with the individual property purchases appear to be robust - they have set timetables for updates to the committees and committee members appear to be engaged and questioning about the purchase plans.

To manage long term strategic risk, the Council has a standardised prescriptive procedure in place for identifying, categorising and managing risks. This helps departments to be more aware of the risks that they face and to be better prepared to manage them if they arise.

Financial risk management is predominantly based around ensuring the Council has sufficient funds to support itself on any occasions when spend is higher than anticipated. They are also working on building up their reserves over the next five years to support this.



Other matters to bring to your attention

What are our findings?

We recognise that the financial challenge to the Council remains, and there are still savings requirements in the next three years. While the Council's budget planning cycle for 2019/20 is now complete, the Council is continuously working to identify further potential savings for the future years under their MTFS. Based on previous experience of the Council's budget process, whereby the savings required have been detailed in the budget book and through budget monitoring procedures down to service or activity level, we have concluded that the saving requirements will be appropriately identified and monitored.

Having reviewed the 2018/19 outturn and the MTFS, we judge the Council to be financially resilient for the foreseeable future, and that the measures taken during 2018/19 have been both robust and proportionate. It is important that the Council continues its track record of delivering its planned budget and savings, and maintains a focus on managing the risks associated with commercial property investments including, but not exclusively, to the proportionality of the commercial property investments to the activities of the Council..



06 Other reporting issues

Other reporting issues

Consistency of other information published with the financial statements, including the Annual Governance Statement

We must give an opinion on the consistency of the financial and non-financial information in the Statement of Accounts 2018/19 with the audited financial statements.

We must also review the Annual Governance Statement for completeness of disclosures, consistency with other information from our work, and whether it complies with relevant guidance.

Financial information in the Statement of Accounts 2018/19 and published with the financial statements was consistent with the audited financial statements. We have discussed with officers that they could reduce the volume of the financial statements in future years by removing immaterial notes that do not add value.

We have reviewed the Annual Governance Statement and can confirm it is consistent with other information from our audit of the financial statements and we have no other matters to report.

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, is specified by the National Audit Office.

We are currently concluding our work in this area, but anticipate having no matters to report as the Council is below the £500m threshold for undertaking detailed audit procedures.

Other reporting issues

Other reporting issues

Other powers and duties

We have a duty under the Local Audit and Accountability Act 2014 to consider whether to report on any matter that comes to our attention in the course of the audit, either for the Council to consider it or to bring it to the attention of the public (i.e. "a report in the public interest"). We did not identify any issues which required us to issue a report in the public interest.

We also have a duty to make written recommendations to the Council, copied to the Secretary of State, and take action in accordance with our responsibilities under the Local Audit and Accountability Act 2014. We did not identify any issues.

Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we must tell you significant findings from the audit and other matters if they are significant to your oversight of the Council's financial reporting process. They include the following:

- Significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures;
- Any significant difficulties encountered during the audit;
- Any significant matters arising from the audit that were discussed with management;
- Written representations we have requested;
- Expected modifications to the audit report;
- Any other matters significant to overseeing the financial reporting process;
- Related parties;
- External confirmations;
- Going concern; and
- Consideration of laws and regulations.

We have no matters to report.



07

Assessment of Control Environment



Assessment of Control Environment

Financial controls

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.

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. As we have adopted a fully substantive approach, we have therefore not tested the operation of controls. Although our audit was not designed to express an opinion on the effectiveness of internal control we are required to communicate to you significant deficiencies in internal control.

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.

Other Control issues

As part of our audit we identified that the Council needs to be more transparent in its application of the Capital Flexibilities Strategy and more precise in its documentation and strategy documents, to demonstrate their compliance with the Directions.



08 Data Analytics



Use of Data Analytics in the Audit

Data analytics – Journal entries

Analytics Driven Audit

Data analytics

We used our data analysers to enable us to capture entire populations of your financial data. These analysers:

- ▶ Help identify specific exceptions and anomalies which can then be the focus of our substantive audit tests; and
- ▶ Give greater likelihood of identifying errors than traditional, random sampling techniques.

In 2018/19, our use of these analysers in the Council's audit included testing journal entries, to identify and focus our testing on those entries we deem to have the highest inherent risk to the audit.

We capture the data through our formal data requests and the data transfer takes place on a secured EY website. These are in line with our EY data protection policies which are designed to protect the confidentiality, integrity and availability of business and personal information.

Journal Entry Analysis

We obtain downloads of all financial ledger transactions posted in the year. We perform completeness analysis over the data, reconciling the sum of transactions to the movement in the trial balances and financial statements to ensure we have captured all data. Our analysers then review and sort transactions, allowing us to more effectively identify and test journals that we consider to be higher risk, as identified in our audit planning report.



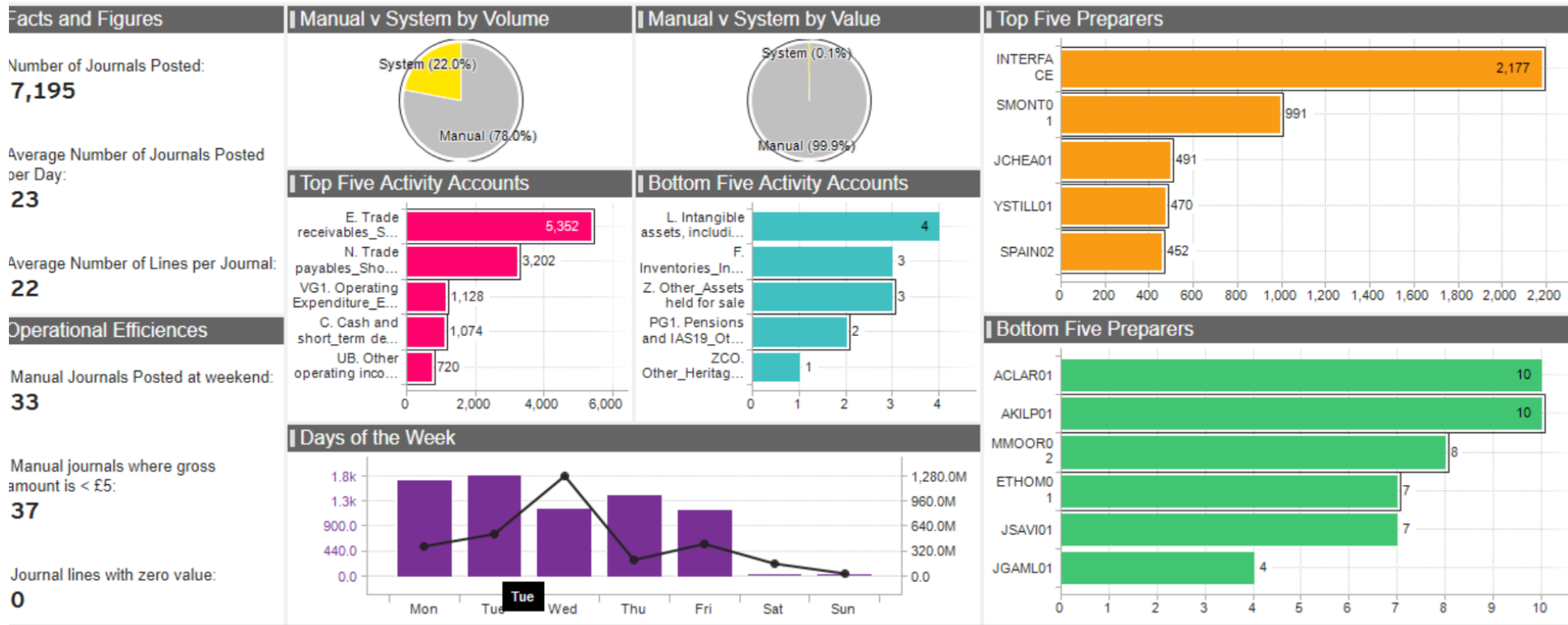
Data Analytics

Journal Entry Data Insights

The graphic outlined below summarises the journal population for 2018/19. We review journals by certain risk based criteria to focus on higher risk transactions, such as journals posted manually by management, those posted around the year-end, those with unusual debit and credit relationships, and those posted by individuals we would not expect to be entering transactions.

The purpose of this approach is to provide a more effective, risk focused approach to auditing journal entries, minimising the burden of compliance on management by minimising randomly selected samples. We have also shared this information with management to provide additional insight and value from our audit procedures.

EY Helix - GLASS: Journal Entry Data Insights - Adur District Council - 31/03/2019





Journal Entry Testing

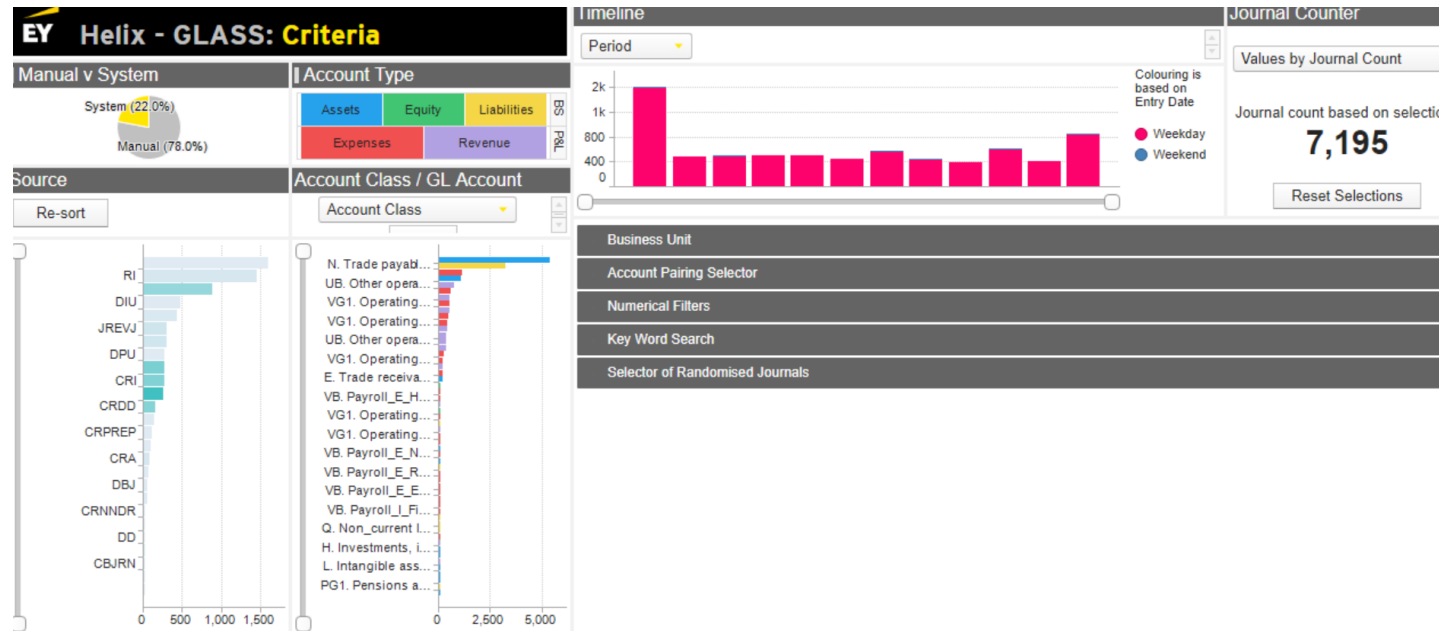
What is the risk?

In line with ISA 240 we are required to test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements.

What judgements are we focused on?

Using our analysers we are able to take a risk based approach to identify journals with a higher risk of management override, as outlined in our audit planning report.

Journal entry data criteria – 31 March 2019



What did we do?

We obtained general ledger journal data for the period and have used our analysers to identify characteristics typically associated with inappropriate journal entries or adjustments, and journals entries that are subject to a higher risk of management override.

We then performed tests on the journals identified to determine if they were appropriate and reasonable.

The graphic shows journals posted on weekends which was one of our criteria considered for unusual journals

What are our conclusions?

We isolated a sub set of journals for further investigation and obtained supporting evidence to verify the posting of these transactions and concluded that they were appropriately stated.



9

Independence

Confirmation



We confirm that there are no changes in our assessment of independence since our confirmation in our audit planning board report dated 8 January 2019.

We complied with the FRC Ethical Standards and the requirements of the PSAA's Terms of Appointment. 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 consider that our independence in this context is a matter which you should review, as well as us. It is important that you and your Joint Governance Committee consider the facts known to you and come to a view. If you would like to discuss any matters concerning our independence, we will be pleased to do this at the meeting of the Joint Governance Committee on 30 July 2019.

We confirm we have not undertaken non-audit work outside the NAO Code requirements.

Independence

Relationships, services and related threats and safeguards



The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and your Council, and its directors and senior management and its affiliates, including all services provided by us and our network to your Council, its directors and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on the our integrity or objectivity, including those that could compromise independence and the related safeguards that are in place and why they address the threats.

There are no relationships from 1 April 2018 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

Services provided by Ernst & Young

Below includes a summary of the fees that you have paid to us in the year ended 31 March 2019 in line with the disclosures set out in FRC Ethical Standard and in statute.

We confirm that none of the services listed in the table below has been provided on a contingent fee basis.

As at the date of this report, we are contracted to provide audit services for a further four years from 1 April 2019. In addition, the Council has agreed to our proposal to provide the Housing Benefit Subsidy Assurance services for the same period.

Independence

Fee analysis

As part of our reporting on our independence, we set out below a summary of the fees paid for the year ended 31 March 2019.

We confirm that we have not undertaken non-audit work outside the NAO Code requirements.

	Final Fee 2018/19	Planned Fee 2018/19	Scale Fee 2018/19	Final Fee 2017/18
	£	£	£	£
Total Audit Fee - Code work	37,054	37,054	37,054	48,122
Non-audit work - Grant claims	TBC	14,506*	N/A	27,019
Work in progress: Certification of pooling of housing capital receipts subsidy claims for 2014/15, 2015/16 and 2016/17	-	-	-	12,000**
Total non-audit services	TBC	14,506	N/A	39,019
Total fees	TBC	51,560	37,054	87,141

* This is based on initial testing only and therefore will increase depending on the volume of additional testing required

** The work on the Certification of pooling of housing capital receipts subsidy claims for 2014/15, 2015/16 and 2016/17 is not yet complete and therefore this fee may increase







10 Appendices




Appendix A

Required communications with the Joint Governance Committee

There are certain communications that we must provide to the Audit Committees of UK clients. We have detailed these here together with a reference of when and where they were covered:

		 Our Reporting to you
Required communications	 What is reported?	  When and where
Terms of engagement	Confirmation by the Joint Governance Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter.	Audit Planning Report presented at the Joint Governance Committee 22 January 2019.
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit Planning Report presented at the Joint Governance Committee 22 January 2019. Progress Report to the 26 March 2019 Joint Governance Committee
Significant findings from the audit	<ul style="list-style-type: none"> ▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▶ Significant difficulties, if any, encountered during the audit ▶ Significant matters, if any, arising from the audit that were discussed with management ▶ Written representations that we are seeking ▶ Expected modifications to the audit report ▶ Other matters if any, significant to the oversight of the financial reporting process 	Progress Report to the 26 March 2019 Joint Governance Committee Audit Results Report presented at the Joint Governance Committee 30 July 2019

Appendix A


		 Our Reporting to you
Required communications	 What is reported?	 When and where
Going concern	<p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> ▶ Whether the events or conditions constitute a material uncertainty ▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▶ The adequacy of related disclosures in the financial statements 	<p>No conditions or events were identified, either individually or together to raise any doubt about Adur District Council's ability to continue for the 12 months from the date of our report</p> <p>Audit Results Report presented at the Joint Governance Committee 30 July 2019</p>
Misstatements	<ul style="list-style-type: none"> ▶ Uncorrected misstatements and their effect on our audit opinion ▶ The effect of uncorrected misstatements related to prior periods ▶ A request that any uncorrected misstatement be corrected ▶ Material misstatements corrected by management 	<p>Audit Results Report presented at the Joint Governance Committee 30 July 2019</p>
Subsequent events	<ul style="list-style-type: none"> ▶ Enquiry of the Joint Governance Committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements. 	<p>Request for the Joint Governance Committee to approve the letter of representation from management at the Joint Governance Committee meeting on 30 July 2019</p>
Fraud	<ul style="list-style-type: none"> ▶ Enquiries of the Joint Governance Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the Council ▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▶ Unless all of those charged with governance are involved in managing the Council, any identified or suspected fraud involving: <ul style="list-style-type: none"> a. Management; b. Employees who have significant roles in internal control; or c. Others where the fraud results in a material misstatement in the financial statements. ▶ The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected ▶ Any other matters related to fraud, relevant to Corporate Governance and Audit Committee responsibility. 	<p>Enquiries by letter to the Chair of the Joint Governance Committee dated 18 March 2019.</p> <p>Audit Results Report presented at the Joint Governance Committee 30 July 2019</p> <p>We have no matters to report</p>



Appendix A

		Our Reporting to you
Required communications	What is reported?	When and where
Related parties	<p>Significant matters arising during the audit in connection with the Council's related parties including, when applicable:</p> <ul style="list-style-type: none"> ▶ Non-disclosure by management ▶ Inappropriate authorisation and approval of transactions ▶ Disagreement over disclosures ▶ Non-compliance with laws and regulations ▶ Difficulty in identifying the party that ultimately controls the Council 	<p>Audit Results Report presented at the Joint Governance Committee 30 July 2019</p> <p>We have no matters to report</p>
Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence.</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> ▶ The principal threats ▶ Safeguards adopted and their effectiveness ▶ An overall assessment of threats and safeguards ▶ Information about the general policies and process within the firm to maintain objectivity and independence <p>Communications whenever significant judgments are made about threats to objectivity and independence and the appropriateness of safeguards put in place.</p>	<p>Initial reporting in the Audit Planning Report presented at the Joint Governance Committee 22 January 2019.</p> <p>Confirmation in the Audit Results Report presented at the Joint Governance Committee 30 July 2019</p>

Appendix A

 Our Reporting to you

 When and where

	 What is reported?	 When and where
Consideration of laws and regulations	<ul style="list-style-type: none"> ▶ Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur ▶ Enquiry of the Joint Governance Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the audit committee may be aware of 	
Significant deficiencies in internal controls identified during the audit	<ul style="list-style-type: none"> ▶ Significant deficiencies in internal controls identified during the audit. 	Audit Results Report presented at the Joint Governance Committee 30 July 2019 We have no matters to report

Appendix A

		Our Reporting to you
Required communications	What is reported?	When and where
Written representations we are requesting from management and/or those charged with governance	<ul style="list-style-type: none"> ▶ Written representations we are requesting from management and/or those charged with governance 	Request for the Joint Governance Committee to approve the letter of representation from management at the Joint Governance Committee meeting on 30 July 2019
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	<ul style="list-style-type: none"> ▶ Material inconsistencies or misstatements of fact identified in other information which management has refused to revise 	<p>Audit Results Report presented at the Joint Governance Committee 30 July 2019</p> <p>We have no matters to report</p>
Auditors report	<ul style="list-style-type: none"> ▶ Any circumstances identified that affect the form and content of our auditor's report 	Audit Results Report presented at the Joint Governance Committee 30 July 2019
Fee Reporting	<ul style="list-style-type: none"> ▶ Breakdown of fee information when the audit planning report is agreed ▶ Breakdown of fee information at the completion of the audit ▶ Any non-audit work 	<p>Initial reporting in the Audit Planning Report presented at the Joint Governance Committee 22 January 2019.</p> <p>Confirmation in the Audit Results Report presented at the Joint Governance Committee 30 July 2019</p>

Appendix B

Management representation letter

Management Rep Letter

To be prepared on Adur District Council's letterhead

XX July 2019

Ernst & Young
Wessex House,
19 Threefield Lane,
Southampton
SO14 3QB United Kingdom

This letter of representations is provided in connection with your audit of the financial statements of Adur District Council ("the Council") for the year ended 31 March 2019. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the Council financial position of Adur District Council as of 31 March 2019 and of its income and expenditure for the year then ended in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

We understand that the purpose of your audit of our financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing (UK and Ireland), which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose - all fraud, shortages, errors and other irregularities, should any exist.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.
2. We acknowledge, as members of management of the Council, our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position, financial performance (or results of operations) and cash flows of the Council in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19, and are free of material misstatements, including omissions. We have approved the financial statements.
3. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.

Management representation letter

Management Rep Letter

4. As members of management of the Council, we believe that the Council has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19, that are free from material misstatement, whether due to fraud or error.
5. There are no unadjusted audit differences identified during the current audit and pertaining to the latest period presented.

B. Non-compliance with law and regulations, including fraud

1. We acknowledge that we are responsible to determine that the Council's activities are conducted in accordance with laws and regulations and that we are responsible to identify and address any non-compliance with applicable laws and regulations, including fraud.
2. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
3. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
4. We have no knowledge of any identified or suspected non-compliance with laws or regulations, including fraud that may have affected the Council (regardless of the source or form and including without limitation, any allegations by "whistleblowers"), including non-compliance matters:
 - ▶ involving financial statements;
 - ▶ related to laws and regulations that have a direct effect on the determination of material amounts and disclosures in the Council's financial statements;
 - ▶ related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Council's activities, its ability to continue to operate, or to avoid material penalties;
 - ▶ involving management, or employees who have significant roles in internal controls, or others; or
 - ▶ in relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.

C. Information Provided and Completeness of Information and Transactions

1. We have provided you with:
 - ▶ Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
 - ▶ Additional information that you have requested from us for the purpose of the audit; and
 - ▶ Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
2. All material transactions have been recorded in the accounting records and are reflected in the financial statements.
3. We have made available to you all minutes of the meetings of the Council and committees held through the year to the most recent meeting on 30 July 2019:

Management representation letter

Management Rep Letter

4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Council's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the year end. These transactions have been appropriately accounted for and disclosed in the financial statements.
5. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
6. We have disclosed to you, and the Council has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

D. Liabilities and Contingencies

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements.
2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.
3. We have recorded and/or disclosed, as appropriate, all liabilities related litigation and claims, both actual and contingent, and have disclosed in the financial statements all guarantees that we have given to third parties.

E. Subsequent Events

1. Other than disclosed in the financial statements, there have been no events subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

F. Other information

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises the Narrative Statement and the Annual Governance Statement.
2. We confirm that the content contained within the other information is consistent with the financial statements.

G. Comparative information - corresponding financial information

1. The comparative amounts have been correctly restated to reflect the correct classification of an investment property capitalized incorrectly as an operational asset in 2017/18 and appropriate note disclosure of this restatement has also been included in the current year's financial statements.

Management representation letter

Management Rep Letter

H. Ownership of Assets

1. Except for assets capitalised under finance leases, the Council has satisfactory title to all assets appearing in the balance sheet, and there are no liens or encumbrances on the Council's assets, nor has any asset been pledged as collateral. All assets to which the Council has satisfactory title appear in the balance sheet.
2. There are no formal or informal compensating balance arrangements with any of our cash and investment accounts.

I. Reserves

1. We have properly recorded or disclosed in the financial statements the useable and unusable reserves.

J. Use of the Work of a Specialist - Actuary

1. We agree with the findings of the specialists that we engaged to evaluate the valuation of the net pension liability and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

K. Use of the Work of a Specialist - Property valuers

1. We agree with the findings of the specialists that we engaged to evaluate the valuation of investment property and operational land and buildings and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

L. Estimates

1. We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimates have been consistently applied and are appropriate in the context of the CIPFA LASAAC Code of Practice of Local Authority Accounting in the United Kingdom 2018/19.
2. We confirm that the significant assumptions used in making the NDR appeals provision, valuation of assets and IAS19 disclosure appropriately reflect our intent and ability to carry out providing services on behalf of the entity.
3. We confirm that the disclosures made in the financial statements with respect to the accounting estimates are complete and made in accordance with the CIPFA LASAAC Code of Practice of Local Authority Accounting in the United Kingdom 2018/19.
4. We confirm that no adjustments are required to the accounting estimates and disclosures in the financial statements due to subsequent events.

Management representation letter

Management Rep Letter

M. Retirement benefits

1. On the basis of the process established by us and having made appropriate enquiries, we are satisfied that the actuarial assumptions underlying the scheme liabilities are consistent with our knowledge of the business. All significant retirement benefits and all settlements and curtailments have been identified and properly accounted for.

Signed on behalf of Adur District Council

I confirm that this letter has been discussed and agreed by the Joint Governance Committee on 30 July 2019

Signed:

Name: Sarah Gobey

Position: Chief Financial Officer

Date:

Name: Councillor Kevin Boram

Position: Chairman, Joint Governance Committee

Date:

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