



Audit Enquiries to those Charged with Governance

Report by the Director for Digital and Resources

EXECUTIVE SUMMARY

1. PURPOSE

- 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. The letter to Adur District Council is attached as Appendix 1, which is identical to the letter to Worthing Borough Council.
- 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. RECOMMENDATIONS

- 2.1 The Joint Governance Committee is asked to consider and agree the response to the audit letter

3.0. BACKGROUND

- 3.1 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.
- 3.2 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.

4.0 GOING CONCERN

4.1 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.

4.2 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 2017/18 and 2018/19.
- 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.

5.0 LEGAL IMPLICATIONS

5.1 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 2017/18, based on International Financial Reporting Standards (IFRS).

6.0 FINANCIAL IMPLICATIONS

6.1 There are no financial implications arising from this report.

Local Government Act 1972

Background Papers:

Reports to the Joint Strategic Committee

Contact Officer:

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Sustainability & Risk Assessment

- 1. Economic**
Matter considered and no issues identified.
- 2. Social**
 - 2.1 Social Value**
Matter considered and no issues identified.
 - 2.2 Equality Issues**
Matter considered and no issues identified.
 - 2.3 Community Safety Issues (Section 17)**
Matter considered and no issues identified.
 - 2.4 Human Rights Issues**
Matter considered and no issues identified.
- 3. Environmental**
Matter considered and no issues identified.
- 4. Governance**
The report addresses governance questions raised by our external auditors.



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Councillor George Barton
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28th February 2018

Ref: ADC/EY1718/PK

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 2017/18?

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 2017/18?



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 30th April 2018.

Thank you for your assistance. If you have any queries in respect of this letter please contact Hannah Lill at HLill@uk.ey.com.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Paul King', is located below the 'Yours sincerely' text.

Paul King

Associate Partner

For and on behalf of Ernst & Young LLP

QUESTION	PROPOSED RESPONSE
<p>1. How does the Joint Governance & Audit Committee, as ‘those charged with governance’ exercise oversight of management's processes in relation to:</p> <ul style="list-style-type: none"> • 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)? • 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?; • 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 	<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 fundamentally sound system of internal control operating as reported by the Head of Internal Audit to the Councils 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"> • 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. • Internal audit provide the committee with regular reports on the audits undertaken together with details of any limited assurance audits; • The Head of Internal audit produces an annual report for the Committee. <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>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"> ▪ 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; ▪ All reports must be reviewed by the legal officers and include a legal implications paragraph before any decision is made; ▪ A legal officer is present at all meetings of the Council to ensure that Council operates within the law; ▪ Legal issues are considered as part of audit work; ▪ Committee approves the constitution, delegations, financial regulations and contract standing orders which provide guidance on procedural matters to ensure Council operates within the law. ▪ Training is arranged by the legal team on new legislation and matters of particular significance. <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 currently no actual or potential litigation claims that would affect the financial statements.</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"> • The annual revenue budget; • The Councils track record in spending within the budgets set; • The Councils' levels of reserves. <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>