

ADUR & WORTHING  
COUNCILS

Joint Governance Committee  
30 May 2019  
Agenda Item 9

Ward(s) Affected: All

**Audit enquiries to those charged with Governance**

**Report by the Director for Digital & 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 the proposed response to each of the questions raised. This can form the basis of a formal letter.

**2. Recommendations**

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

### **3. Context**

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.

### **4. Issues for consideration**

4.1 It is proposed that the Committee discusses its proposed response to the letter at Appendix 2. 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.

### **5. Going Concern**

5.1 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.

5.2 In forming an 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 2018/19 and 2019/20.
- The budget monitoring and outturn reports show that both Councils continue to spend within the overall budget set.
- Both Councils have a reasonable level of reserves and have a strategy to build reserves over the forthcoming years.

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

## **6. Engagement and Communication**

- 6.1 The Head of Internal Audit and the Monitoring Officer have been consulted on the proposed responses to the External Auditors.
- 6.2 The purpose of the report is to consult with the members of the Joint Governance Committee on the proposed response to our External Auditors

## **7. Financial Implications**

- 7.1 There are no financial implications arising from this report.

## **8. Legal Implications**

- 8.1 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).

## **Background Papers**

Regular reports to the Joint Governance Committee on the progress of the work of internal audit

### **Officer Contact Details:-**

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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 provides a proposed response to the letter from the External Auditor on how the Committee gains oversight of the Councils' management processes and arrangement.

This forms part of the Councils' annual audit which is part of the financial governance arrangements of the Councils.

Councillor George Barton  
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West Sussex  
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18 March 2019

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Dear Councillor Barton

### **Understanding how the Joint Governance Committee gains assurance from management - Adur District Council**

Auditing standards require us to formally update our understanding of your arrangements for oversight of management processes and arrangements annually. Therefore, we are 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 behaviour (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 2018/19?

4) Is the Committee aware 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 2018/19?

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?

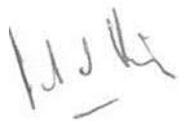
8) What does the Joint Governance Committee consider to be the related parties that are significant to the Authority and what is its understanding of the relationships and transactions with those related parties?

9) Does the Joint Governance Committee have concerns regarding relationships or transactions with related parties and, if so, what is the substance of those concerns?

Please would you provide a response covering the whole of 2018/19, by email or letter either on behalf of those charged with governance or from yourself in your capacity as Chair of the Joint Governance Committee. Please send the response via e-mail to [KBundy@uk.ey.com](mailto:KBundy@uk.ey.com) or by hard copy to Kerrie Bundy at our Southampton Office address shown at the top of this letter. If possible, please could we have your response by 31 May 2019.

Thank you for your assistance. If you have any queries in respect of this letter please Hannah Lill at [hlill@uk.ey.com](mailto:hlill@uk.ey.com).

Yours sincerely



Paul King  
Associate Partner  
For and on behalf of Ernst & Young LLP

| QUESTION   | PROPOSED RESPONSE  |
|--|--|
| <p><b>1. How does the Joint Governance Committee, as ‘those charged with governance’ at the authority 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 may be materially misstated due to fraud or error (including the nature, extent and frequency of these assessments)?</li> <br/> <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> </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> |

| QUESTION  | PROPOSED RESPONSE   |
|---|---|
| <p>1. <b>How does the Joint Governance 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>● 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);</li> <li>● encouraging employees to report their concerns about fraud; and</li> <li>● communicating to you the processes for identifying and responding to fraud or error?</li> </ul> | <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> <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>2. <b>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>  |

| QUESTION   | PROPOSED RESPONSE  |
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| <p><b>3. Is the Joint Governance Committee aware of any:</b></p> <ul style="list-style-type: none"> <li>● breaches of or deficiencies in internal control during 2018/19?</li> <li>● actual, suspected or alleged frauds during 2018/19?</li> </ul> <p><b>4. Is there is any organisational or management pressure to meet financial or operating targets?</b></p> | <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> <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><b>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 2018/19?</b></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 the 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> |

| QUESTION  | PROPOSED RESPONSE  |
|---|--|
| <p>5. <b>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 2018/19? (continued)</b></p>                  | <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. <b>Is the Joint Governance Committee aware of any actual or potential litigation or claims that would affect the financial statements?</b></p>  | <p>Any potential litigation claims are disclosed within the statement of accounts.</p> <p>The Committee is not aware of any instances of any other potential claims other than those brought to our attention by the Chief Financial Officer or by the monitoring officer.</p>   |
| <p>7. <b>How does the Joint Governance Committee satisfy itself that it is appropriate to adopt the ‘going concern’ basis in preparing the financial statements</b></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> |
| <p>8. <b>What does the Joint Governance Committee consider to be the related parties that are significant to the authority and what is its understanding of the relationships and transactions with those related parties</b></p> | <p>The members of the Committee have received guidance on related party transactions from the S151 officer. The Committee understands that significant related parties include members and officers of the Council or their close family members.</p> <p>The Committee is not aware of any significant related parties or transactions other than those disclosed within the Statement of Accounts</p>   |
| <p>9. <b>Does the Joint Governance Committee have concerns regarding relationships with related parties and, if so, what is the substance of those concerns.</b></p>  | <p>The Committee does not have any concerns regarding relationships with related parties.</p>  |