

# Annual governance report

Chichester District Council

Audit 2011/12



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# Key messages

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**This report summarises the findings from the 2011/12 audit which is now complete. It includes the messages arising from my audit of your financial statements and the results of the work I have undertaken to assess your arrangements to secure value for money in your use of resources.**

## **Financial statements**

As at 20 September 2012 I expect to issue an unqualified audit opinion.

## **Value for money (VFM)**

On the same date, I expect to conclude that you have made proper arrangements to secure economy, efficiency and effectiveness in your use of resources.

## **Annual Audit Letter**

As the Audit Commission's audit practice will transfer to a number of private firms from 1 November, I will not be able to formally present my Annual Audit Letter to you. My intention is to write to the Council shortly after I have concluded my audit and I will ask that this letter is circulated to all Members of the Council.

# Before I give my opinion and conclusion

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**My report includes only matters of governance interest that have come to my attention in performing my audit. I have not designed my audit to identify all matters that might be relevant to you.**

## **Independence**

I can confirm that I have complied with the Auditing Practices Board's ethical standards for auditors, including ES 1 (revised) – Integrity, Objectivity and Independence.

I am not aware of any relationships that may affect the independence and objectivity of the Audit Commission, the audit team or me, that I am required by auditing and ethical standards to report to you.

The Audit Commission's Audit Practice has not undertaken any non-audit work for the Council during 2010/12.

## **Action needed**

I ask the Corporate Governance and Audit Committee to approve the letter of representation (appendix 2), on behalf of the Authority before I issue my opinion and conclusion.

# Financial statements

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**The Authority's financial statements and annual governance statement are important means by which the Authority accounts for its stewardship of public funds. As elected Members you have final responsibility for these statements. It is important that you consider my findings before you adopt the financial statements and the annual governance statement.**

## Opinion on the financial statements

Subject to satisfactory clearance of outstanding matters, I plan to issue an audit report including an unqualified opinion on the financial statements. Appendix 1 contains a copy of my draft audit report.

## Corrected errors

Relatively few corrections were made to your accounts as a result of my audit. Most adjustments were of a 'housekeeping' nature, often involving minor corrections to text or to ensure consistency. In my view, there are only a very limited number of corrections that I judge need to be brought to your attention. These are set out below.

- A number of adjustments were made to Note 13 (financial instrument disclosures) ensuring that the entries comply with accounting definitions. Typically, entries were removed that did not involve a future outflow of cash, for example payments and receipts in advance.
- A note was inserted ensuring that transactions undertaken by the Council on behalf of other organisations (known as 'agency arrangements') were disclosed.

Alongside these corrections, officers also considered the recent decision by the Supreme Court on 28 March 2012 on the 'mesothelioma trigger litigation'. This created additional financial pressures on the residual funds of Municipal Mutual Insurance Ltd (MMI) and a provision of £150k has been included in your accounts to reflect the increased potential for a claw back on settlements received from MMI since 1993.

## Significant risks and my findings

I reported to you in my Audit Plan that I had not identified any significant risks to the audit opinion. I can confirm that I did not identify any later issues requiring me to perform audit procedures other than those already communicated to you in March.

## Significant weaknesses in internal control

It is the responsibility of the Authority to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. My responsibility as your auditor is to consider whether the Authority has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

I have tested your internal controls only to the extent necessary to complete my audit. There are no matters arising from this work that need to be communicated to you. In this, I am not expressing an opinion on the overall effectiveness of internal control.

I have reviewed the Annual Governance Statement and can confirm that:

- it complies with the requirements of CIPFA/SOLACE Delivering Good Governance in Local Government Framework; and
- it is consistent with other information that I am aware of from my audit of the financial statements.

## Other matters

I am required to communicate to you significant findings from the audit and other matters that are significant to your oversight of the Authority's financial reporting process including the following.

- Qualitative aspects of your accounting practices.
- Matters specifically required by other auditing standards to be communicated to those charged with governance. For example, issues about fraud, compliance with laws and regulations, external confirmations and related party transactions.
- Other audit matters of governance interest.

My only comment is to encourage the Council to continue automating its capital accounting procedures and to consider a month 10 partial closedown for capital. Much of the current workload in this area is subject to manual workarounds and deferred until year-end. There is now an opportunity to use your new asset register to record capital transactions in real-time, and to check your accounting records at month 10 by completing a partial closedown. This would spread workload more evenly over the year and provide an opportunity to correct any issues identified before the year-end.

## Whole of Government Accounts

Alongside my work on the financial statements, I have also reviewed and reported to the National Audit Office on your Whole of Government Accounts return. The extent of my review and the nature of my report were specified by the National Audit Office. I have no matters to report.

# Value for money

**I am required to conclude whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is the value for money conclusion.**

I assess your arrangements against the two criteria specified by the Commission. In my March Audit Plan I reported to you the significant risks that were relevant to my conclusion. I have set out below my conclusion on the two criteria, including the findings of my work addressing each of the risks I identified

I intend to issue an unqualified conclusion stating that the Authority has proper arrangements to secure economy, efficiency and effectiveness in the use of its resources. I include my draft conclusion in appendix 1.

Table 1: **Value for money conclusion criteria and my findings**

Criteria	Plan	Findings
<p><b>1. Financial resilience</b></p> <p>The organisation has proper arrangements in place to secure financial resilience.</p> <p>Focus for 2011/12:</p> <p>The organisation has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.</p>	<p>There are a number of uncertainties facing the Council in its medium term financial planning. These mainly stem from changes being made through the local government resource review (eg opportunities to retain business rates), and the delivery of your savings plans.</p> <p>I informed you that I would review the Council's medium term financial planning, the</p>	<p>A sound culture of financial governance exists within the Council. It has good basic systems and strong financial planning. The budget is balanced without using reserves and the capital programme is funded over the medium term. The Council's financial projections show a broadly balanced resource position over the medium term, subject to the planned savings being achieved.</p> <p>National and local financial risks are well understood and considered by both Members and officers. The impact of developments to localise NNDR and Council Tax have been considered. Reduced income from car parking and planning is allowed for and the Council's base revenue budget incorporates more of the whole life costs of its assets. Pressures from funding disabled facilities grants and the full cost of asset replacement is identified within the Council's financial strategy as challenges still to be met.</p>

Criteria	Plan	Findings
	<p>reasonableness of its assumptions, the planned savings, and its sensitivity and scenario analysis.</p>	<p>Officers and Members acknowledge that financial projections within the current climate are risky and uncertain. Because of this, the Council works within balances (including earmarked reserves and the general fund balance) that are reviewed yearly. Total usable reserves are high in comparison with many District Councils without an HRA. At the next annual review Members need to consider if the current level of reserves is commensurate with financial risks and corporate priorities over the medium term.</p> <p>The Council has a track record of delivering savings and consistently manages within its budget. A reduction in the size of the Council's management team contributed towards planned savings for 2011/12.</p> <p>The Council achieved a surplus against its planned budget of £332,000, mostly through savings on contract services and vacancy management. As the focus on efficiency savings will continue for the foreseeable future it is important that the Council understands the main drivers for significant budget variances (both over and under), especially where there is a pattern across more than one year. This can lead to more accurate and correct budgets with the potential to refocusing priorities or release scarce resources to priority areas.</p>
<p><b>2. Securing economy efficiency and effectiveness</b></p> <p>The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.</p> <p>Focus for 2011/12:</p> <p>The organisation is prioritising its resources within tighter budgets, for example by achieving cost</p>	<p>Last year I noted that you were updating your performance information to focus on more bespoke indicators linked to your corporate priorities.</p> <p>I informed you that I would follow-up the comments in my Annual Audit Letter on this issue and assess the progress you have made.</p>	<p>The Council has strong leadership and the ability to deliver its corporate priorities and spending reductions required. It has shown it is willing to challenge its existing approach to managing the organisation and delivering its services.</p> <p>Members have over the last few years reduced and reshaped the council's services by implementing a vision and service model for the Council. They are now refreshing key priorities for the Council's management team to help focus the work of the council in the future. Much of the work this year has focussed on engaging members in priority identification, budget planning and in defining measurable outcomes, a process that included a participatory budgeting exercise. This work deepens understanding within</p>

Criteria	Plan	Findings
<p>reductions and by improving efficiency and productivity.</p>		<p>the Council of the impact of alternatives on services and performance. It also provides a clearer focus within business planning on specifying outcomes and being realistic about what the service is trying to, and can, achieve. This helps clarify where the Council's limited resources must be spent, or where they should be to achieve greatest impact.</p> <p>The Council's management team have now agreed a list of key indicators that they will measure and these are supported by a number of clear corporate projects linked to these outcomes that monitored by exception by both the Council's Cabinet and management team.</p> <p>Individual service heads have defined what they will routinely measure and monitor, but there is more work to do to ensure these are always outcomes focussed and sufficiently clear to be meaningfully measured. There is also still some work to do to develop a sufficiently robust process to strategically rank service proposals.</p> <p>From my work, overall progress on my recommendations from last year is good. There is a clear focus on good performance management within the Council, although there are still areas where work is ongoing.</p> <p>The Council has acknowledged that it's historical preference to deliver its own services should now not be the only option. External partnerships and commissioning is becoming increasingly important and some major service areas will be market tested in the short to medium term. The Council understands its partnerships and Members are actively involved in risk and performance review. It knows which are its 'strategic partners' and it has asked each to set out the reasons for the partnership and the outcomes expected. To date, targets and desired outcomes from the partnerships are often not clearly defined and consequently there is a lack of outcome focus and their impact would be difficult to measure. Officers know this is an area that needs more work and this should be a focus for development over the next 12 months.</p>

# Fees

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I reported my planned audit fee to you in March. I will complete the audit within this fee.

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Table 2: **Fees**

	2011/12 (£)
Audit – Actual	107,588
Claims and returns – estimated	17,500
Non-audit work	0
<b>Total</b>	<b>125,088</b>

# Appendix 1 – Draft independent auditor’s report

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## INDEPENDENT AUDITOR’S REPORT TO THE MEMBERS OF CHICHESTER DISTRICT COUNCIL

### **Opinion on the Authority financial statements**

I have audited the financial statements of Chichester District Council for the year ended 31 March 2012 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, and Collection Fund and the related notes. 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 2011/12.

This report is made solely to the members of Chichester District Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

### **Respective responsibilities of the District Treasurer and auditor**

As explained more fully in the Statement of the District Treasurer’s Responsibilities, the District Treasurer 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, and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the accounting statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices Board’s Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority’s circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the District Treasurer; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

### **Opinion on financial statements**

In my opinion the financial statements:

- give a true and fair view of the financial position of Chichester District Council as at 31 March 2012 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 2011/12.

### **Opinion on other matters**

In my opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the accounting statements.

### **Matters on which I report by exception**

I report to you if:

- in my opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007;
- I issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- I designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or
- I exercise any other special powers of the auditor under the Audit Commission Act 1998.

I have nothing to report in these respects

### **Conclusion on Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources**

#### **Respective responsibilities of the Authority and the auditor**

The Authority 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.

I am required under Section 5 of the Audit Commission Act 1998 to satisfy myself that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

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

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

I have undertaken my audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2011, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for me to consider under the Code of Audit Practice in satisfying myself whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012.

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

### **Conclusion**

On the basis of my work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2011, I am satisfied that, in all significant respects, Chichester District Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012.

### **Certificate**

I certify that I have completed the audit of the accounts of Chichester District Council in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Stephen Taylor  
District Auditor

Collins House  
Bishopstoke Road  
Eastleigh  
Hampshire, SO50 6AD

September 2012

# Appendix 2 – Draft letter of management representation

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## **Chichester District Council – Audit for the year ended 31 March 2012**

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other directors and Members of Chichester District Council, the following representations given to you in connection with your audit of the Authority's financial statements for the year ended 31 March 2012.

### **Compliance with the statutory authorities**

I have fulfilled my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom which give a true and fair view of the financial position and financial performance of the Authority, for the completeness of the information provided to you, and for making accurate representations to you.

### **Supporting records**

I have made available all relevant information and access to persons within the Authority for the purpose of your audit. I have properly reflected and recorded in the financial statements all the transactions undertaken by the Authority.

### **Irregularities**

I acknowledge my responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud or error.

I also confirm that I have disclosed:

- my knowledge of fraud, or suspected fraud, involving either management, employees who have significant roles in internal control or others where fraud could have a material effect on the financial statements;
- my knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others; and
- the results of our assessment of the risk the financial statements may be materially misstated as a result of fraud.

### **Law, regulations, contractual arrangements and codes of practice**

I have disclosed to you all known instances of non-compliance, or suspected non-compliance with laws, regulations and codes of practice, whose effects should be considered when preparing financial statements.

Transactions and events have been carried out in accordance with law, regulation or other authority. The Authority has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance.

All known actual or possible litigation and claims, whose effects should be considered when preparing the financial statements, have been disclosed to the auditor and accounted for and disclosed in accordance with the applicable financial reporting framework.

### **Accounting estimates including fair values**

I confirm the reasonableness of the significant assumptions used in making the accounting estimates, including those measured at fair value.

For the Guildhall, I confirm that, in our view, there is no appropriate and reliable cost and valuation data obtainable for this asset that would allow a reasonable estimate of value to be made in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting.

### **Related party transactions**

I confirm that I have disclosed the identity of the Authority's related parties and all the related party relationships and transactions of which I am aware. I have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirements of the Code.

### **Subsequent events**

I have adjusted for or disclosed in the financial statements all relevant events subsequent to the date of the financial statements.

Signed on behalf of Chichester District Council

I confirm that the this letter has been discussed and agreed by the Corporate Governance and Audit Committee on 20 September 2012

Signed

Name

Position

Date

# Appendix 3 – Glossary

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## **Annual Audit Letter**

Letter issued by the auditor to the Authority after the completion of the audit that summarises the audit work carried out in the period and significant issues arising from auditors' work.

## **Annual Governance Report**

The auditor's report on matters arising from the audit of the financial statements presented to those charged with governance before the auditor issues their opinion [and conclusion].

## **Annual Governance Statement**

The annual report on the Authority's systems of internal control that supports the achievement of the Authority's policies aims and objectives.

## **Audit of the accounts**

The audit of the accounts of an audited body comprises all work carried out by an auditor under the Code to meet their statutory responsibilities under the Audit Commission Act 1998.

## **Audited body**

A body to which the Audit Commission is responsible for appointing the external auditor.

## **Auditing Practices Board (APB)**

The body responsible in the UK for issuing auditing standards, ethical standards and associated guidance to auditors. Its objectives are to establish high standards of auditing that meet the developing needs of users of financial information and to ensure public confidence in the auditing process.

**Auditing standards**

Pronouncements of the APB that contain basic principles and essential procedures with which auditors must comply, except where otherwise stated in the auditing standard concerned.

**Auditor(s)**

Auditors appointed by the Audit Commission.

**Code (the)**

The Code of Audit Practice for local government bodies issued by the Audit Commission and approved by Parliament.

**Commission (the)**

The Audit Commission for Local Authorities and the National Health Service in England.

**Ethical Standards**

Pronouncements of the APB that contain basic principles relating to independence, integrity and objectivity that apply to the conduct of audits and with which auditors must comply, except where otherwise stated in the standard concerned.

**Financial statements**

The annual statement of accounts that the Authority is required to prepare, which report the financial performance and financial position of the Authority in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom.

**Group accounts**

Consolidated financial statements of an Authority and its subsidiaries, associates and jointly controlled entities.

**Internal control**

The whole system of controls, financial and otherwise, that the Authority establishes to provide reasonable assurance of effective and efficient operations, internal financial control and compliance with laws and regulations.

## **Materiality**

The APB defines this concept as ‘an expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole. A matter is material if its omission would reasonably influence the decisions of an addressee of the auditor’s report; likewise a misstatement is material if it would have a similar influence. Materiality may also be considered in the context of any individual primary statement within the financial statements or of individual items included in them. Materiality is not capable of general mathematical definition, as it has both qualitative and quantitative aspects’.

The term ‘materiality’ applies only to the financial statements. Auditors appointed by the Commission have responsibilities and duties under statute, as well as their responsibility to give an opinion on the financial statements, which do not necessarily affect their opinion on the financial statements.

## **Significance**

The concept of ‘significance’ applies to these wider responsibilities and auditors adopt a level of significance that may differ from the materiality level applied to their audit of the financial statements. Significance has both qualitative and quantitative aspects.

## **Those charged with governance**

Those entrusted with the supervision, control and direction of the Authority. This term includes the members of the Authority and its Corporate Governance and Audit Committee.

## **Whole of Government Accounts**

A project leading to a set of consolidated accounts for the entire UK public sector on commercial accounting principles. The Authority must submit a consolidation pack to the department for Communities and Local Government which is based on, but separate from, its financial statements.

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**0844 798 7070**

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The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors, members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
- any third party.

