

# Chichester District Council

Audit results report for the year ended 31 March 2015

September 2015

Ernst & Young LLP



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**Private and confidential**

Corporate Governance & Audit Committee  
Chichester District Council  
East Pallant House  
1 East Pallant  
Chichester  
West Sussex  
PO19 1YT

29 September 2015

Dear Committee Members

**Audit results report**

We are pleased to attach our audit results report for the Corporate Governance & Audit Committee. This report summarises our preliminary audit conclusion in relation to Chichester District Council (the Council's) financial position and results of operations for the year ended 31 March 2015.

The audit is designed to express an opinion on the 2014/15 financial statements, to reach a conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in the use of resources, and to address current statutory and regulatory requirements. This report contains our findings on the areas of audit emphasis, our views on the Council's accounting policies and judgments, and any significant deficiencies in internal control.

This report is intended solely for the information and use of the Corporate Governance & Audit Committee and the Council. It is not intended to be and should not be used by anyone other than these specified parties.

We welcome the opportunity to discuss the contents of the report with you at the forthcoming Corporate Governance & Audit Committee meeting.

Yours faithfully  
For and on behalf of Ernst & Young LLP

**Paul King**  
Ernst & Young LLP  
United Kingdom  
Enc.

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## Contents

<b>1. Executive Summary .....</b>	<b>3</b>
<b>2. Scope update .....</b>	<b>5</b>
<b>3. Significant findings from the financial statement audit .....</b>	<b>6</b>
<b>4. Economy, efficiency and effectiveness .....</b>	<b>9</b>
<b>5. Control themes and observations .....</b>	<b>13</b>
<b>6. Status of our work.....</b>	<b>15</b>
<b>7. Fees update .....</b>	<b>16</b>
<b>8. Summary of audit differences.....</b>	<b>17</b>
<b>9. Independence confirmation: update .....</b>	<b>18</b>
<b>Appendix A Required communications with the Audit Committee .....</b>	<b>19</b>
<b>Appendix B Letter of representation .....</b>	<b>21</b>

Relevant parts of the Audit Commission Act 1998 are transitionally saved by the Local Audit and Accountability Act 2014 (Commencement No. 7, Transitional Provisions and Savings) Order 2015 for 2014/15 audits.

The Audit Commission's 'Statement of responsibilities of auditors and audited bodies' (Statement of responsibilities). It is available from the Chief Executive of each audited body and via the [Audit Commission's website](#). This document serves as the formal terms of engagement between the Audit Commission's 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 Standing Guidance serves as our terms of appointment as auditors appointed by the Audit Commission. The Standing Guidance sets out additional requirements that auditors must comply with, over and above those set out in the Code of Audit Practice 2010 (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.

# 1. Executive Summary

The Council is responsible for preparing and publishing its Statement of Accounts, accompanied by an Annual Governance Statement (AGS). In this statement the Authority reports publicly on the extent to which it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in the year, and any planned changes in the coming period.

The Council is also responsible for having proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

As auditors we are responsible for:

- ▶ expressing an opinion on:
  - ▶ the 2014/15 financial statements;
  - ▶ the consistency of other information published with the financial statements,
- ▶ reporting by exception where the Annual Governance Statement (AGS) does not comply with relevant guidance;
- ▶ reviewing and reporting on the Council's Whole of Government Accounts (WGA) return;
- ▶ forming a conclusion on the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources; and,
- ▶ discharging the powers and duties set out in the Audit Commission Act 1998 and the Code of Audit Practice.

This report also contains our findings on the areas of audit emphasis and any significant deficiencies in internal control or views on the Council's accounting policies and judgements.

Summarised below are the conclusions from all elements of our work:

## **Financial statements**

We have performed the procedures outlined in our Audit Plan and anticipate issuing an unqualified opinion on the Authority's financial statements.

Our main audit findings are set out below.

## **Significant risks**

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### **Risk of management override**

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.

### **Audit findings and conclusions**

We have completed our programme of planned work in relation to the identified risk.

We identified no material misstatement due to fraudulent financial reporting or evidence of material fraud.

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### **Control themes and observations**

We identified no significant deficiencies in internal control.

There are, however, three issues which we wish to bring to your attention. The first two of these issues were initially highlighted in our 2013/14 audit results report:

- ▶ We identified some weaknesses in the Council's approach to estimating the provision required to account for the potential cost of successful appeals against national non-domestic rates (NNDR) valuations. We are satisfied that the provision included in the 2014/15 financial statements was accurate within material tolerances and based on reasonable assumptions. There were, however, some formulaic errors in the Council's model used to estimate the provision.
- ▶ We identified some weaknesses in the level of evidence supporting the income included in the Council's financial statements for the sale of Council dwellings by Hyde Housing Association Limited to which the Council is contractually entitled. Our testing showed that the Council still remains solely reliant on information provided by the Housing Association to support the income and year-end debtor accounted for in the Council's financial statements. The Council has sought to address this issue in the year and we accept that it is not clear how independent confirmation of the disposal value could be obtained.
- ▶ As part of your work to review the bad debt provision we noted a difference of approximately £138,000 between the value of housing benefit overpayment debtors recorded on the general ledger and reported in the financial statements, and the equivalent value recorded on the Northgate housing benefit system. Work undertaken by the Council suggests that this difference pre-dated 2014/15 and we are satisfied that it is not material to our responsibilities.

### **Summary of audit differences**

Our audit identified a number of misstatements in the accounts presented for audit. There are no uncorrected misstatements resulting from our work. There is one significant corrected misstatement arising from the audit which is set out in Section 8.2 of this report.

### **Economy, efficiency and effectiveness**

We have performed the procedures outlined in our Audit Plan and anticipate issuing an unqualified value for money conclusion.

### **Whole of Government Accounts**

We have performed the procedures required by the National Audit Office on the accuracy of the consolidation pack prepared by the Authority for Whole of Government Accounts purposes. We had no issues to report.

### **Audit certificate**

The audit certificate is issued to demonstrate that the full requirements of the Audit Commission's Code of Audit Practice have been discharged for the relevant audit year. We expect to issue the audit certificate at the same time as the audit opinion.

## 2. Scope update

Our 2014/15 audit work has been undertaken in accordance with the Audit Plan issued in February 2015, the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the Audit Commission.

Our work comprises a number of elements. Our Audit Plan provided you with an overview of our audit scope and approach for:

- ▶ expressing an opinion on:
  - ▶ the 2014/15 financial statements;
  - ▶ the consistency of other information published with the financial statements,
- ▶ reporting by exception where the Annual Governance Statement (AGS) does not comply with relevant guidance;
- ▶ reviewing and reporting on the Council's Whole of Government Accounts (WGA) return;
- ▶ forming a conclusion on the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources; and,
- ▶ discharging the powers and duties set out in the Audit Commission Act 1998 and the Code of Audit Practice.

We carried out our work in accordance with our Audit Plan.

### 3. Significant findings from the financial statement audit

In this section of our report we outline the main findings from our audit of your financial statements, including our conclusions on the areas of risk/ audit emphasis outlined in our Audit Plan.

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#### Significant risk: Risk of management override

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##### Description and audit response

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.

Our approach focused on:

- ▶ Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements;
- ▶ Reviewing accounting estimates for evidence of management bias; and
- ▶ Evaluating the business rationale for any significant unusual transactions.

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##### Audit findings and conclusions

Our work identified no material misstatement due to fraudulent financial reporting or other evidence of material fraud.

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As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we are required to report on:

- ▶ 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 we are seeking;
- ▶ expected modifications to the audit report;
- ▶ other matters if any, significant to the oversight of the financial reporting process;
- ▶ findings and issues regarding the opening balance on initial audits (if applicable);
- ▶ related parties;
- ▶ external confirmations;
- ▶ going concern;
- ▶ consideration of laws and regulations; and
- ▶ group audits.

We wish to draw your attention to the following issues.

Policy/practice/finding	EY comments
<p><b>Staffing in Finance</b></p> <p>As part of its broader plan of service reviews the Council has undertaken some restructuring of Finance and Accountancy Services during the year.</p> <p>Although the required changes to the Finance Department have successfully been made, some unplanned staff departures have occurred which have resulted in the Department operating below the revised establishment during the period of the audit.</p>	<p>Staffing shortages in Finance and Accountancy Services did have some impact on the capacity of officers to respond to queries arising from the audit. Recruitment is currently in train to address this.</p>
<p><b>Indexation of property, plant and equipment (PPE) values</b></p> <p>The Council needs to be able to demonstrate that the carrying value of PPE assets is materially correct at the balance sheet date.</p> <p>Land and building valuations are based upon valuation reports issued by the professional valuer used by the Council. The valuations are carried out in accordance with the methodologies and bases for estimation set out in relevant professional standards. The Council carries out a rolling programme for revaluing its PPE assets, excluding a limited number of assets, which ensures that all PPE assets required to be measured at fair value are revalued at least every five years. In adopting this rolling programme of revaluations it is important that the Council is able to demonstrate the carrying value of assets not subject to revaluation in the year of account is not materially mis-stated.</p> <p>As part of our work we also note that annual revaluations are undertaken at the start of the year of account rather than as at the balance sheet date.</p>	<p>Build cost indices have increased significantly over the last five years. In accordance with the Code of Practice on Local Authority Accounting in the UK the Council values the proportion of its general fund property which is specialised in nature at depreciated replacement cost (DRC). The building element of a DRC valuation is based on build costs. In both cases adjustments are made for known local factors. Given the increases in indices build costs, and the fact that only 20 per cent of DRC assets are reviewed annually and as at the start of the year, we challenged the Council's approach to valuing DRC buildings. We specifically asked the Council to evidence that it was not necessary to apply indexation to ensure that the carrying value of DRC buildings was materially correct as at the balance sheet date.</p> <p>As a result of our challenge and additional work undertaken by the Council based on appropriate building cost indices it has determined that it is necessary to increase the carrying value at the balance sheet date of buildings valued at DRC by £1.664 million.</p>
<p><b>See recommendation 1</b></p>	

We consider some qualitative aspects of accounting practices initially reported as part of our 2013/14 audit in Section 5 of this report.

### **Recommendation 1**

The Council should ensure that:

- ▶ All property, plant and equipment revaluations are undertaken as close to the balance sheet date as reasonably possible.
- ▶ The scope of the annual impairment review undertaken by the Council's valuer is extended to explicitly consider the need to uplift asset values. This should consider both the results of actual revaluations undertaken across significant classes of assets and more widely available evidence of changes in value, for example available indices.

## 4. Economy, efficiency and effectiveness

The Code of Audit Practice 2010 sets out our responsibility to satisfy ourselves that the Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources. In examining corporate performance management and financial management arrangements we consider the following criteria specified by the Audit Commission:

- ▶ arrangements for securing financial resilience – whether the Council has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue operating for the foreseeable future; and
- ▶ arrangements for securing economy, efficiency and effectiveness – whether the Council is prioritising its resources within tighter budgets, for example by achieving cost reductions or improving efficiency and productivity.

We did not identify any significant risks to the value for money (VFM) conclusion. However, as part of our Audit Plan we identified key areas, or non-significant risks, that we considered to support our VFM conclusion. The results of our work are set out below.

### Non-significant risk: Delivering efficiencies to secure financial resilience

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#### Description and audit response

Like other local government bodies the Council continues to face financial challenges over the medium term. A clear focus on addressing high cost areas is therefore essential to the economy, efficiency and effectiveness of services delivered and the overall financial resilience of the Council.

In previous years we used the Audit Commission's value for money profile tool to assess Council spending against similar councils and over time. Our review of the 2013/14 VFM profile data showed that the Council's costs per capita relative to its statistical nearest neighbours remained relatively high. However, this was partially offset by a relatively high level of income from fees and charges resulting in an average council tax financing requirement.

The Council's financial position remained sound at the end of 2013/14 and it continued to be financially resilient. The Council's medium term financial model had been updated to consider the 5 year future period up to and including 2019/20. For the first four years the Council budgeted to deliver surpluses of between £258,000 and £827,000, and forecast break-even in year five. The delivery of this forecast was not without risk and is dependent on the delivery of the Council's agreed deficit reduction programme and the realisation of other additional income.

In response to this our approach focused on:

- ▶ Consideration of the relative spending of the Council by reference to comparable authorities and previous years using the Audit Commission's VFM profile tool.
  - ▶ Review of the reasonableness and robustness of medium term financial planning assumptions set out in the refreshed medium term financial strategy and plan and five-year financial model.
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## Non-significant risk: Delivering efficiencies to secure financial resilience

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### Impacts on arrangements for:

Economy, efficiency and effectiveness

Financial resilience

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### Audit findings and conclusions

#### Consideration of the relative spending of the Council based on the VFM profile tool

Public Sector Audit Appointments Ltd (PSAA) will continue to produce value for money profiles for local authorities on an annual basis. This provides an indication of the relative spending of an individual body against a comparator group of statistical nearest neighbours which have similarities in population, expenditure, and geographical area. We have used the latest available VFM profile data, largely relating to financial year 2013/14, to review the cost and efficiency of Council services.

Our review of the data shows that although the overall level of spending is reducing, the spending of the Council relative to others is broadly consistent with the previous period. The Council's spending per head relative to its statistically nearest neighbours remains relatively high and in the highest 20 per cent. This is true for both its overall per capita spending and per capita spending in the majority of its main service areas. This is consistent with our prior year findings, however we note that the impact of recent restructuring and service reviews undertaken at the Council is unlikely to have yet filtered through to the 2014/15 comparative data which is not yet available.

In terms of financial resilience the Council Tax financing requirement compared to statistically nearest neighbours is above average and the value of income from fees and charges remains in the top five per cent. This results in a below average level of net service spend relative to nearest neighbours, although net spend per capita and total spend both remain relatively high. The Council's financial standing remains sound and it has a relatively high level of unallocated reserves.

The pattern of the Council's relative spending remains similar when compared to all district councils. However the relative sending of the Council is lower in the majority of areas, and closer to average, when judged against all district councils than when compared to only its statistical nearest neighbours..

#### The reasonableness and robustness of medium term financial planning assumptions set out in the refreshed medium term financial strategy and plan and five-year financial model

The Council successfully delivered against its 2014/15 budget and maintained a sound level of balances and reserves at the end of the year.

The net expenditure of the Council in 2014/15, including Parish Council precepts and the Internal Drainage Board Levy, was approximately £14.3 million. This represented an underspend of approximately £1.8 million against the general fund budget. Capital expenditure in the year amounted to £5.64 million. There was no significant under or over-spending on individual schemes against budget, but there has been approximately £1m of slippage to 2015/16. The level of balances held by the Council remained healthy, with some £24.0 million held in earmarked reserves and a further £10.7 million in the General Fund.

There have been no formally approved changes to the Council's five year financial plan and strategy to the version considered at the December 2014 meeting of the Cabinet that we considered at the planning stage of our work. That plan forecasts that the Council will deliver surpluses of between £258,000 and £827,000 for the first four

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## Non-significant risk: Delivering efficiencies to secure financial resilience

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years of the plan, which covers a five year period from 2015/16, and plans to broadly breakeven by year five. We have considered the key assumptions which underpin the financial plan, including assumptions made on delivery of savings, and have concluded they are reasonable in light of both the medium term financial outlook for local government and the Council's current track record of performance. In particular we note that the five year model assumes the receipt of no New Homes Bonus (NHB) from 2016/17 onwards. We also note that NHB received up to an including 2014/15 has not been used to support revenue spending. NHB received to the end of 2014/15 has been appropriated to an earmarked reserve where balances are accumulating. In doing this the Council has been able to use NHB funding solely for community benefit which is in accordance with the underlying purpose of the grant. The Council does recognise that NHB may need to be called upon in the future to support Council spending if other changes are not made, but this is not explicitly factored into the MTFS assumptions.

Work is already in train to update the financial plan. A member and officer workshop held in July 2015 considered an updated version of the financial model, an update on the funding pressures faced by local government and the Council's progress in securing efficiencies and maximising revenues, including progress against its deficit reduction programme.

We note that the Council's updated five year plan, assuming a two per cent increase in council tax each year, shows an improved level of surplus over the five year period including a surplus in year five. The main changes that have led to this are:

- ▶ An assumption that the Council will generate more income through retained business rates. The assumption used in the previous iteration of the plan and annual budgets was that the Council would perform at safety net level. This has not proved to be the case and has, in part, led to the underspending against the General Fund budget in 2014/15. The new assumption is still considered to be prudent, but is more realistic.
  - ▶ Increased levels of income brought about by a changed approach to investment of available funds. Management of the Council's capital programme is now being more explicitly linked to the need to achieve efficiencies and operate in a commercial manner. The programme, from June 2015, has been split and is managed by three separate corporate programme boards:
    - The Business Improvement Board. The role of the Business Improvement Board is to consider the systems, equipment and technology used by the Council to deliver services. Its role is to oversee business transformation, challenging process and delivery mechanisms and managing skills and resources. It also has a wider remit to consider how services might be delivered differently, for example through partnership working, shared services or outsourcing
    - The Commercial Board. The role of the Board is to take a strategic overview of commercial activity and new opportunities, to prioritise Board schemes/projects to support the Council's Corporate Plan and to manage skills with a view to maximising income opportunities. The Board is leading on a more commercial approach to the acquisition of investment property. During 2014-15 the Council made a £1.6 million capital acquisition to become the landlord for shops with existing tenants in Crane Street Chichester. It forecast that it will achieve an annual return of eight to nine per cent on its investment, out-stripping the performance it could achieve by making traditional investment of available balances. The Council plans to recycle investment income generated for further
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### **Non-significant risk: Delivering efficiencies to secure financial resilience**

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investment in the future.

- The Infrastructure Board. The role of the Board is to oversee key processes and procedures relating to the prioritisation and delivery of infrastructure, and ensuring the necessary skills and resources are in place to ensure success of the programme

Modelling underpinning the five year plan is in the process of being updated to project the impact of various scenarios such as the possible continuation of Council Tax freeze and other potential financial risks.

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Based on all of the work undertaken we have no material concerns over either the Council's arrangements to secure VFM in the way that it uses its resources or its financial resilience over the medium term. Therefore, we have concluded that the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2015.

## 5. Control themes and observations

As part of our work, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. 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 identified during our audit.

The matters reported below are limited to those deficiencies that we identified during the audit and that we concluded are of sufficient importance to merit being reported to you.

### 5.1 Current year observations

We identified no significant deficiencies in internal control.

There are, however, three issues which we wish to bring to your attention. The first two of these issues were initially highlighted in our 2013/14 audit results report:

- ▶ In 2013/14 we identified some weaknesses in the Council's approach to estimating the provision required to account for the potential cost of successful appeals against national non-domestic rates (NNDR) valuations. Although we are satisfied that the provision included in the 2014/15 financial statements was accurate within material tolerances and based on reasonable assumptions there were some formulaic errors in the Council's model used to estimate the provision. There is also some evidence of the Council considering actual 2014/15 data on success rates to support the key assumptions used in its model, but the Council's approach in this area was not clearly explained in working papers produced. No amendments were made to the provision disclosed in the financial statements as a result of our work as we are satisfied it remained a reasonable estimate that is likely to be accurate within material tolerances, but there remains scope to further develop the Council model and supporting working papers. We also note the Council did make use of an external assessment to help assess the reasonableness of the provision calculated using its own model that was disclosed in the financial statements. **See recommendation 2.**
- ▶ In 2013/14 we identified some weaknesses in the level of evidence supporting the income included in the Council's financial statements for the sale of Council dwellings by Hyde Housing Association Limited to which the Council is contractually entitled. Inaccurate data initially provided by Hyde in a prior year had led to some corrections being required in 2013/14. Our testing showed that the Council's still remains solely reliant on information provided by the Housing Association to support the income and year-end debtor of approximately £880,000 accounted for in the Council's financial statements. The Council has sought to address this issue in the year and we accept that it is not clear how independent confirmation of the disposal value could be obtained.
- ▶ As part of your work to review the bad debt provision we noted a difference of approximately £138,000 between the value of housing benefit overpayment debtors recorded on the general ledger and reported in the financial statements, and the equivalent value recorded on the Northgate housing benefit system. Work undertaken by the Council suggests that this difference pre-dated 2014/15 and we are satisfied that it is not material to our responsibilities. The Council should continue to investigate, fully reconcile and resolve the difference. **See recommendation 3.**

#### Recommendation 2

Continue to refine and improve the Council's model for estimating the potential cost of successful appeals against NNDR valuations. In particular seek to eliminate formulaic errors and be clearer on how historic data on successful appeals is used to estimate the potential future cost to the Council.

**Recommendation 3**

Investigate, fully reconcile and resolve the historic difference between the value of housing benefit overpayment debtors recorded on the general ledger and reported in the financial statements, and the equivalent value recorded on the Northgate housing benefit system.

## 6. Status of our work

### 6.1 Financial statement audit

Our audit work for our opinion on the Authority's financial statements is substantially complete. The following items were outstanding at the date of this report.

Item	Actions to resolve	Responsibility
Letter of representation	To be tabled at Corporate Governance & Audit Committee on 29 September 2015.	Management and Corporate Governance & Audit Committee

On the basis of our audit work to date, we anticipate issuing an unqualified auditor's report on the Council's financial statements. However, until we have completed our outstanding procedures, it is possible that further matters requiring amendment may arise.

### 6.2 Economy, efficiency and effectiveness

Our work in respect of our conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources is complete.

We expect to present an unqualified value for money conclusion on the Council's arrangements to ensure economy, efficiency and effectiveness in its use of resources.

## 7. Fees update

A breakdown of our fee is shown below.

	Proposed final fee 2014/15 £'000	Planned fee 2014/15 £'000	Scale fee 2014/15 £'000
<b>Total Audit Fee – Code work</b>	<b>65,453</b>	<b>65,453</b>	<b>65,453</b>
Certification of claims and returns*	10,010	10,010	10,010

Our actual fee is in line with the agreed fee.

Fees for the auditor's consideration of correspondence from the public and formal objections are charged in addition to the scale fee.

*\*Our fee for certification of grants and claims is yet to be finalised for 2014/15 and will be reported to those charged with governance in January 2016 within the Annual Certification Report for 2014/15.*

## 8. Summary of audit differences

In the normal course of any audit, we identify differences between amounts we believe should be recorded in the financial statements and amounts actually recorded. These differences are classified as either 'factual' or 'judgemental'. Factual 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 which are uncertain or open to interpretation.

We determined planning materiality to be £1.489 million (2014: £1.456 million), which is 2% of gross expenditure reported in the accounts of £74.448 million. This provided a basis for determining the nature, timing and extent of risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature, timing and extent of further audit procedures.

We consider gross expenditure to be one of the principal considerations for stakeholders in assessing the financial performance of the Council.

We set our tolerable error for the audit at the upper end of the available range. Tolerable error is the application of planning materiality at the individual account or balance level. It is set to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds planning materiality. The level of tolerable error drives the extent of detailed audit testing required to support our opinion.

We agreed with the Corporate Governance & Audit Committee that we would report to the Committee all audit differences in excess of £1.117 million (2014: £1.092 million). There was one corrected misstatement above this level which is set out in Section 8.2 below.

### 8.1 Uncorrected misstatements

We highlight the following uncertainty which has not been corrected by management. There are no uncorrected misstatements resulting from our work.

### 8.2 Corrected misstatements

We highlight in particular the following misstatement identified during the course of our audit and which have been corrected by management.

As a result of audit challenge the Council has applied indexation to ensure that the carrying value of buildings valued at DRC is materially correct as at the balance sheet date. This increased the carrying value of Property Plant and Equipment and the Revaluation Reserve in the balance sheet date by approximately £1.664 million.

## 9. Independence confirmation: update

We confirm there are no changes in our assessment of independence since our confirmation in our Audit Plan dated February 2015. We complied with the Auditing Practices Board's Ethical Standards for Auditors and the requirements of the Audit Commission's Standing Guidance: 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 that should be reviewed by both you and ourselves. It is therefore important that you consider the facts of which you are aware. If you wish to discuss any matters concerning our independence, we will be pleased to do so at the Corporate Governance & Audit Committee on 29 September 2015.

## Appendix A Required communications with the Audit Committee

There are certain communications that we must provide to the Audit Committee. These are detailed here:

Required communication	Reference
<b>Terms of engagement</b>	The Statement of responsibilities serves as the formal terms of engagement between the Audit Commission's appointed auditors and audited bodies.
<b>Planning and audit approach</b> Communication of the planned scope and timing of the audit including any limitations.	Audit Plan
<b>Significant findings from the audit</b> <ul style="list-style-type: none"> <li>▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures</li> <li>▶ Any significant difficulties encountered during the audit</li> <li>▶ Any significant matters, arising from the audit that were discussed with management</li> <li>▶ Written representations we are seeking</li> <li>▶ Expected modifications to the audit report</li> <li>▶ Any other matters significant to the oversight of the financial reporting process</li> </ul>	Audit results report
<b>Misstatements</b> <ul style="list-style-type: none"> <li>▶ Uncorrected misstatements and their effect on our audit opinion</li> <li>▶ The effect of uncorrected misstatements related to prior periods</li> <li>▶ A request that any uncorrected misstatement be corrected</li> <li>▶ In writing, corrected misstatements that are significant</li> </ul>	Audit results report
<b>Fraud</b> <ul style="list-style-type: none"> <li>▶ Enquiries of the Audit Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity</li> <li>▶ Any fraud we have identified or information we have obtained indicating that a fraud may exist</li> <li>▶ A discussion of any other matters related to fraud</li> </ul>	By correspondence with the Chair of the Corporate Governance & Audit Committee dated 11 March 2015 Audit results report
<b>Related parties</b> Significant matters arising during the audit in connection with the entity's related parties including, when applicable: <ul style="list-style-type: none"> <li>▶ Non-disclosure by management</li> <li>▶ Inappropriate authorisation and approval of transactions</li> <li>▶ Disagreement over disclosures</li> <li>▶ Non-compliance with laws and regulations</li> <li>▶ Difficulty in identifying the party that ultimately controls the entity</li> </ul>	Audit results report. No significant matters identified.
<b>External confirmations</b> <ul style="list-style-type: none"> <li>▶ Management's refusal for us to request confirmations</li> <li>▶ Inability to obtain relevant and reliable audit evidence from other procedures</li> </ul>	Management has not refused for us to request external confirmations.

Required communication	Reference
<p><b>Consideration of laws and regulations</b></p> <ul style="list-style-type: none"> <li>▶ Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off</li> <li>▶ Enquiry of the Audit 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</li> </ul>	<p>We have not identified any material instances of non-compliance with law and regulation.</p> <p>We made written enquiries to managements and those charged with governance. We also have also received representations as part of the letter of management representation. No instances of material non-compliance have been disclosed by either management or those charged with governance.</p>
<p><b>Independence</b></p> <p>Communication of all significant facts and matters that bear on EY's 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"> <li>▶ The principal threats</li> <li>▶ Safeguards adopted and their effectiveness</li> <li>▶ An overall assessment of threats and safeguards</li> <li>▶ Information about the general policies and process within the firm to maintain objectivity and independence</li> </ul>	<p>Audit Plan and update in section 9 of this report.</p>
<p><b>Going concern</b></p> <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"> <li>▶ Whether the events or conditions constitute a material uncertainty</li> <li>▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements</li> <li>▶ The adequacy of related disclosures in the financial statements</li> </ul>	<p>Audit results report.</p>
<p><b>Significant deficiencies in internal controls identified during the audit</b></p>	<p>Audit results report.</p>
<p><b>Fee reporting</b></p> <ul style="list-style-type: none"> <li>▶ Final, planned and scale fee broken down into the headings of Code audit work; certification of claims and returns; and any non-audit work (or a statement to confirm that no non-audit work has been undertaken for the body).</li> </ul>	<p>Audit Plan and Audit results report</p>
<p><b>Summary of certification work undertaken</b></p> <ul style="list-style-type: none"> <li>▶ Annual report to those charged with governance summarising the certification work undertaken</li> </ul>	<p>Annual Certification Report – to be issued January 2016.</p>

## Appendix B Letter of representation

To:  
Paul King  
Director  
Ernst & Young LLP  
Wessex House  
19 Threefield Lane  
Southampton  
SO14 3QB

### **Chichester District Council - Audit for the year ended 31 March 2015**

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other directors of Chichester District Council, the following representations given to you in connection with your audit of the Council's financial statements for the year ended 31 March 2015:

#### **A. Financial Statements and Financial Records**

I have fulfilled my responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with the CIPFA Code of Practice on Local Authority Accounting (CIPFA Code).

I acknowledge my responsibility for the fair presentation of the financial statements. I believe the financial statements referred to above give a true and fair view of the financial position, financial performance and cash flows of the Council in accordance with the CIPFA Code and are free of material misstatements, including omissions. I have approved the financial statements.

I confirm that as the Responsible Officer I have:

- ▶ reviewed the accounts;
- ▶ reviewed all relevant written assurances relating to the accounts; and
- ▶ made other enquiries as appropriate.

The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.

I believe that the Council has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA Code that are free from material misstatement, whether due to fraud or error.

#### **B. Fraud**

I acknowledge that I am responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud

I 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.

### **C. Compliance with Laws and Regulations**

I have disclosed to you all known actual or suspected noncompliance with laws and regulations whose effects should be considered when preparing the financial statements.

### **D. Information Provided and Completeness of Information and Transactions**

I have provided you with:

- ▶ access to all information of which you are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters as agreed in terms of the audit engagement;
- ▶ 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.

All material transactions have been recorded in the accounting records and are reflected in the financial statements.

I have made available to you all minutes of the meetings of the Council and its relevant committees (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the year to the most recent meeting on 29 September 2015.

I confirm the completeness of information provided regarding the identification of related parties. I have disclosed to you the identity of the Council related parties and all related party relationships and transactions of which I am 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.

I 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.

### **E. Liabilities and Contingencies**

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.

I have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.

I 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 I have given to third parties.

### **F. Subsequent Events**

Other than described 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.

## **G. Accounting Estimates**

I believe that the significant assumptions I used in making accounting estimates, including those measured at fair value, are reasonable.

In respect of accounting estimates recognised or disclosed in the financial statements:

- ▶ I believe the measurement processes, including related assumptions and models, used in determining accounting estimates is appropriate and the application of these processes is consistent.
- ▶ The disclosures relating to accounting estimates are complete and appropriate in accordance with the applicable financial reporting framework.
- ▶ The assumptions used in making accounting estimates appropriately reflects our intent and ability to carry out specific courses of action on behalf of the entity, where relevant to the accounting estimates and disclosures.
- ▶ No subsequent event requires an adjustment to the accounting estimates and disclosures included in the financial statements.

## **H. Segmental reporting**

I have reviewed the operating segments reported internally to the Board and I am satisfied that it is appropriate to aggregate these as, in accordance with IFRS 8: Operating Segments, they are similar in each of the following respects:

- ▶ The nature of the products and services
- ▶ The nature of the production processes
- ▶ The type or class of customer for their products and services
- ▶ The methods used to distribute their products

## **I. Going Concern**

I have made you aware of any issues that are relevant to the Council's ability to continue as a going concern, including significant conditions and events, our plans for future action, and the feasibility of those plans.

## **Signed on behalf of Chichester District Council**

I confirm that this letter has been discussed and agreed by the Corporate Governance & Audit Committee on 29 September 2015.

Signed:

Name: John Ward

Position: Head of Finance and Governance Services

Date: 29 September 2015

Letter of representation

Signed:

Name: Councillor P M Tull

Position: Chair of the Corporate Governance & Audit Committee

Date: 29 September 2015

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