Chichester District Council

Annual Audit Letter for the year ended 31 March 2020

January 2021

Building a better working world

Contents

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

This Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The ‘Terms of Appointment (updated April 2018)’ issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Annual Audit Letter 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 Hywel Ball, 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.

Section 1

Executive Summary

Executive Summary

We are required to issue an annual audit letter to Chichester District Council (the Council) following completion of our audit procedures for the year ended 31 March 2020.

Covid-19 had an impact on a number of aspects of our 2019/20 audit. We set out these key impacts below.

Area of impact	Commentary
Impact on the delivery of the audit	
► Changes to reporting timescales	As a result of Covid-19, new regulations, the Accounts and Audit (Coronavirus) (Amendment) Regulations 2020 No. 404, have been published and came into force on 30 April 2020. This announced a change to publication date for final, audited accounts from 31 July to 30 November 2020 for all relevant authorities. We worked with the Council to deliver our audit in line with the revised reporting timescale.
Impact on our risk assessment	
► Valuation of Property Plant and Equipment and Investment Properties	The Royal Institute of Chartered Surveyors (RICS), the body setting the standards for property valuations, issued guidance to valuers highlighting that the uncertain impact of Covid-19 on markets might cause a valuer to conclude that there is a material uncertainty. Caveats around this material uncertainty have been included in the year-end valuation reports produced by the Council's internal valuer. We consider that the material uncertainties disclosed by the valuer gave rise to an additional risk relating to disclosures on the valuation of property, plant and equipment and investment properties.
► Disclosures on Going Concern	Financial plans for 2020/21 and medium term financial plans will need revision for Covid-19. We considered the unpredictability of the current environment gave rise to a risk that the council would not appropriately disclose the key factors relating to going concern, underpinned by managements assessment with particular reference to Covid-19 and the Council's actual year end financial position and performance.
Impact on the scope of our audit	
► Information Produced by the Entity (IPE)	We identified an increased risk around the completeness, accuracy, and appropriateness of information produced by the entity due to the inability of the audit team to verify original documents or re-run reports on-site from the Council's systems. We undertook the following to address this risk: • Used the screen sharing function of Microsoft Teams to evidence re-running of reports used to generate the IPE we audited; and • Agree IPE to scanned documents or other system screenshots.
► Consultation requirements	Additional EY consultation requirements concerning the impact on auditor reports. The changes to audit risks and audit approach changed the level of work we needed to perform.

Executive Summary (cont'd)

The tables below set out the results and conclusions on the significant areas of the audit process.

Area of Work	Conclusion
Opinion on the Council's:	
► Financial statements	Unqualified – the financial statements give a true and fair view of the financial position of the Council as at 31 March 2020 and of its expenditure and income for the year then ended.
► Consistency of other information published with the financial statements	Other information published with the financial statements was consistent with the Annual Accounts.
► Concluding on the Council's arrangements for securing economy, efficiency and effectiveness	We concluded that you have put in place proper arrangements to secure value for money in your use of resources.

Area of Work	Conclusion
Reports by exception:	
► Consistency of Governance Statement	The Governance Statement was consistent with our understanding of the Council.
► Public interest report	We had no matters to report in the public interest.
► Written recommendations to the Council, which should be copied to the Secretary of State	We had no matters to report.
► Other actions taken in relation to our responsibilities under the Local Audit and Accountability Act 2014	We had no matters to report.

Executive Summary (cont'd)

Area of Work	Conclusion
Reporting to the National Audit Office (NAO) on our review of the Council's Whole of Government Accounts return (WGA).	The Council is below the specified audit threshold of £500m. Therefore, we did not perform any audit procedures on the consolidation pack.

As a result of the above we have also:

Area of Work	Conclusion
Issued a report to those charged with governance of the Council communicating significant findings resulting from our audit.	Our Audit Results Report was issued on 6 November 2020
Issued a certificate that we have completed the audit in accordance with the requirements of the Local Audit and Accountability Act 2014 and the National Audit Office's 2015 Code of Audit Practice.	Our certificate was issued on 27 November 2020

We would like to take this opportunity to thank the Council's staff for their assistance during the course of our work.

Kevin Suter
Associate Partner
For and on behalf of Ernst & Young LLP

Section 2

Purpose and Responsibilities

Purpose

The Purpose of this Letter

The purpose of this annual audit letter is to communicate to Members and external stakeholders, including members of the public, the key issues arising from our work, which we consider should be brought to the attention of the Council.

We have already reported the detailed findings from our audit work in our 2019/20 Audit Results Report to the 26 November 2020 Corporate Governance and Audit Committee, representing those charged with governance. We do not repeat those detailed findings in this letter. The matters reported here are the most significant for the Council.

Responsibilities

Responsibilities of the Appointed Auditor

Our 2019/20 audit work has been undertaken in accordance with the Audit Plan that we issued on 19 March 2020 and our subsequent Audit Plan update that we issued on 12 June 2020 to take into account the impact of the Covid-19 pandemic. It is conducted in accordance with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK), and other guidance issued by the National Audit Office.

As auditors we are responsible for:

- Expressing an opinion:
  - On the 2019/20 financial statements; and
  - On the consistency of other information published with the financial statements.
- Forming a conclusion on the arrangements the Council has to secure economy, efficiency and effectiveness in its use of resources.
- Reporting by exception:
  - If the annual governance statement is misleading or not consistent with our understanding of the Council;
  - Any significant matters that are in the public interest;
  - Any written recommendations to the Council, which should be copied to the Secretary of State; and
  - If we have discharged our duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice.

Alongside our work on the financial statements, we also review and report to the National Audit Office (NAO) on your Whole of Government Accounts return. The Council is below the specified audit threshold of £500m. Therefore, we did not perform any audit procedures on the return.

Responsibilities of the Council

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

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

Section 3

Financial Statement Audit

Financial Statement Audit

Key Issues

The Council's Statement of Accounts is an important tool for the Council to show how it has used public money and how it can demonstrate its financial management and financial health.

We audited the Council's Statement of Accounts in line with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK), and other guidance issued by the National Audit Office and issued an unqualified audit report on 27 November 2020.

Our detailed findings were reported to the 26 November 2020 Corporate Governance and Audit Committee.

The key issues identified as part of our audit were as follows:

Significant Risk	Conclusion
Misstatements due to fraud or error The financial statements as a whole are not free of material misstatements whether caused by fraud or error. As identified in ISA (UK) 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.	We obtained a full list of journals posted to the general ledger during the year, and analysed these journals using criteria we set to identify any unusual journal types or amounts. We then tested a sample of journals that met our criteria and tested these to supporting documentation. We did not identify any material weaknesses in controls or evidence of material management override. We did not identify any instances of inappropriate judgements being applied. We did not identify any other transactions during our audit which appeared unusual or outside the Council's normal course of business. We did not identify any inappropriate journal entries.
Risk of fraud in revenue and expenditure recognition Auditing standards also required us to presume that there is a risk that revenue and expenditure may be misstated due to improper recognition or manipulation. We have identified an opportunity and incentive to capitalise expenditure under the accounting framework, to remove it from the general fund. This would result in funding expenditure that should properly be defined as revenue, through inappropriate sources such as capital receipts, capital grants, or borrowing.	We documented our understanding of the controls relevant to this significant risk and considered they have been appropriately designed. Tested the appropriateness of journal entries recorded in the general ledger between revenue and capital codes. Amended our sample sizes when testing capital additions and Revenue expenditure funded from capital under statute (REFCUS) to reflect the existence of this risk. Agreed samples to source documentation to ensure the classification was reasonable. Our testing did not identify any material misstatements from capitalising revenue spend and REFCUS.

Financial Statement Audit (cont'd)

Significant Risk	Conclusion
Valuation of investment properties and property, plant and equipment (PPE) The fair value of Investment Properties and PPE represent significant balances in the Council's accounts and are subject to valuation changes, impairment reviews and market fluctuations. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet. The Royal Institute of Chartered Surveyors (RICS), the body setting the standards for property valuations, has issued guidance to valuers highlighting that the uncertain impact of Covid-19 on markets might cause a valuer to conclude that there is a material uncertainty. This impact is expected to affect Investment Properties and PPE valued at Existing Use Value (EUV) as the valuation basis for these properties are linked to recent market transactions. Caveats around this material uncertainty have been included in the year-end valuation reports produced by the Council's internal valuer.	We have reviewed the instructions and data provided to the valuer by the Council. We identified no issues. We have reviewed the classification and valuation methods used. We identified no issues. For PPE, we considered the annual cycle of valuations and confirmed that assets have been valued within a 5 year rolling programme as required by the Code. For PPE, we reviewed assets not subject to valuation in 2019/20 and confirmed that the remaining asset base was not materially misstated. We reviewed the scope and relationship of the valuer to the Council and identified no issues. We were satisfied that disclosures in the accounts were appropriate concerning the material uncertainty. Our review of accounting entries at period end and those journals made in processing valuation adjustments did not identify any issues. We reviewed inputs obtained from EYRE, our internal specialists on asset valuations for Investment Properties and PPE which confirmed that the assumptions used, including those related to Estimated Rental Values/yields were appropriate for Investment Properties and EUV calculations for PPE. We did identify a property that was duplicated in the asset register. Two properties were previously valued separately but since redevelopment the rent has been combined. Due to an oversight, one of the separate valuations was incorrectly carried forward resulting in a £493k overstatement of PPE

Financial Statement Audit (cont’d)

Other financial statement risk	Conclusion
Pension liability valuation The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by West Sussex County Council. The Council’s pension fund surplus is a material estimated balance and the Code requires that this liability be disclosed on the Council’s balance sheet. At 31 March 2020 the net pension asset totalled £20,876k. The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the County Council. Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.	We obtained assurances from the auditors of West Sussex County Council Pension Fund that the information supplied to the actuary in relation to Chichester District Council was accurate and complete. We have assessed and are satisfied with the competency and objectivity of the Council’s actuaries: Hymans Robertson. We have reviewed the work of the actuaries. We challenged the actuarial valuation and found no indication of management bias in this estimate. Our review of accounting entries at period end and those journals made in processing valuation adjustments did not reveal any instances of management intention to misreport the financial position. We identified an adjusting event after reporting date relating to the McCloud judgement. The Council contacted the actuary for an updated IAS 19 report and amended the accounts. The new IAS 19 report also took into account the updated fair value of plan assets resulting in a further increase in the net pension asset of £561k.
Going concern The Council prepares its accounts on the assumption that it will continue as a going concern. The current and future uncertainty over government funding and loss of income as a result of Covid-19 increases the need for the Council to revisit its financial planning and undertake an updated detailed assessment to support its going concern assertion. From an audit perspective, the auditor’s report going concern concept is a 12-month outlook from the approval of the accounts, rather than the balance sheet date. So, for the 2019/20 statements, for example, we needed to see evidence of an assessment up to and including November 2021.	We reviewed the proposed going concern disclosures for inclusion in the financial statements and the Council’s forecast cash flows. The key issues we reflected on for our assessment relate to a combination of the Council’s liquidity and its level of General Fund reserves. Management’s assessment demonstrated that reserves should be maintained above the minimum level set by the s151 officer for the foreseeable future, and the Council will have access to sufficient working capital. The Council updated its disclosures in the accounts to reference these factors and we were satisfied that the revised disclosure sufficiently disclosed the key elements of management’s assessment and no material uncertainties exist.

Financial Statement Audit (cont’d)

Other financial statement risk	Conclusion
NDR Appeals valuation The Non Domestic Rates Appeals Provision is a material balance in the financial statements which requires a number of assumptions and judgements. In addition, in previous years we have identified errors above our audit differences threshold.	We reviewed the NDR Appeals provision calculation and confirmed that the calculation was accurate. We considered the work performed by the Council expert, Analyse Local and understood the assumptions used in their calculation. We reviewed the assumptions, methods and models used by management’s specialist. We identified no issues. We ensured the Council has amended the provision appropriately for any Business Rate reliefs awarded and performed post year-end review of appeals settled to ensure the revised rateable value and effective date of the appeal was in line with the provision. Our post year-end review of appeals settled identified no issues.

Financial Statement Audit (cont’d)

Other key findings	Conclusion
Audit differences	In the normal course of any audit, we identify misstatements between amounts we believe should be recorded in the financial statements and the disclosures and amounts actually recorded. These differences are classified as “known” or “judgemental”. Known differences represent items that can be accurately quantified and relate to a definite set of facts or circumstances. Judgemental differences generally involve estimation and relate to facts or circumstances that are uncertain or open to interpretation. We highlight the following misstatements greater than £0.077m identified during the course of our audit which management corrected: • A misclassification of £263k between short term and long term creditors; • An understatement of short term debtors of £100k relating to items on the debtors reconciliation which were not cleared at year-end; • An understatement of the Net Pension Asset of £251k as a result of an adjusting event after reporting date relating to the McCloud judgement • An understatement of the Net Pension Asset of £561k to take into account the updated fair value of plan assets resulting in an increase in the Net Pension Asset • A correction to the 2018/19 comparator figures of £32,955k in relation to Note 25 Grant Income - Grants credited to services. The disclosure note was restated for 2018/19 to include the subsidy contribution the Council receives from the DWP towards its housing benefit expenditure; and • Some minor misstatements in disclosures
Audit differences	Management chose not to correct the following misstatements as they were not material and had no impact on the overall financial statements: • £493k overstatement of PPE in relation to a duplicate valuation of Plot 20/21 Quarry Lane

Financial Statement Audit (cont'd)

Our application of materiality

When establishing our overall audit strategy, we determined a magnitude of uncorrected misstatements that we judged would be material for the financial statements as a whole.

Item	Thresholds applied
Planning materiality	We determined planning materiality to be £1.536m (2019: £1.502m), which is 75% of gross revenue expenditure reported in the draft accounts of £76.83m. We consider gross revenue expenditure to be one of the principal considerations for stakeholders in assessing the financial performance of the Council.
Reporting threshold	We agreed with the Corporate Governance and Audit Committee that we would report to the Committee all audit differences in excess of £0.077m (2019: £0.075m)

We also identified the following areas where misstatement at a level lower than our overall materiality level might influence the reader. For these areas we developed an audit strategy specific to these areas. The areas identified and audit strategy applied include:

- Remuneration disclosures including any severance payments, exit packages and termination benefits.
- Related party transactions.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations.

Section 4

Value for Money

Value for Money

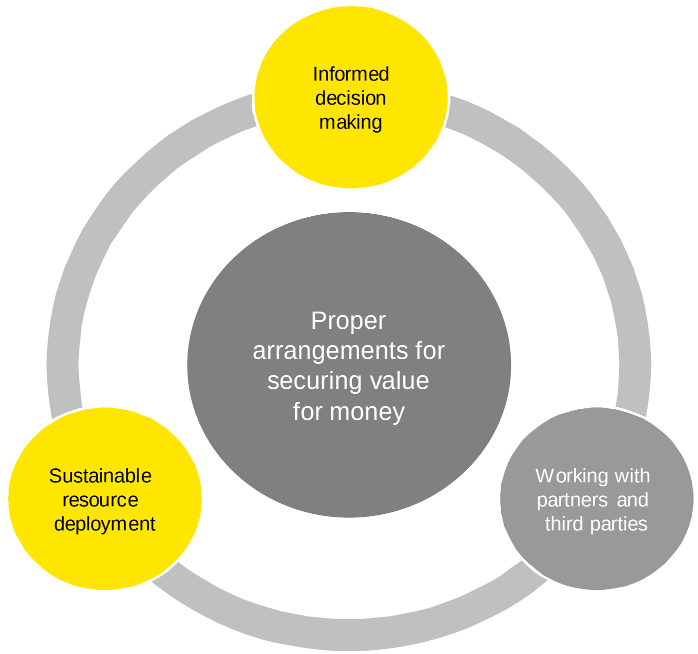
We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness in its use of resources. This is known as our value for money conclusion.

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

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

On 16 April 2020 the National Audit Office published an update to auditor guidance in relation to the 2019/20 Value for Money assessment in the light of Covid-19. This clarified that in undertaking the 2019/20 Value for Money assessment auditors should consider Local Government bodies' response to Covid-19 only as far as it relates to the 2019-20 financial year; only where clear evidence comes to the auditor's attention of a significant failure in arrangements as a result of Covid-19 during the financial year, would it be appropriate to recognise a significant risk in relation to the 2019-20 VFM arrangements conclusion.

We did not identify any significant risks in relation to these criteria. We therefore issued an unqualified value for money conclusion on 27 November 2020.



Section 5

Other Reporting Issues

Other Reporting Issues

Whole of Government Accounts

We are required to perform the procedures specified by the National Audit Office on the accuracy of the consolidation pack prepared by the Council for Whole of Government Accounts purposes.

The Council is below the specified audit threshold of £500mn. Therefore, we were not required to perform any audit procedures on the consolidation pack.

Annual Governance Statement

We are required to consider the completeness of disclosures in the Council's annual governance statement, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it is misleading.

We completed this work and did not identify any areas of concern.

Report in the Public Interest

We have a duty under the Local Audit and Accountability Act 2014 to consider whether, in the public interest, to report on any matter that comes to our attention in the course of the audit in order for it to be considered by the Council or brought to the attention of the public.

We did not identify any issues which required us to issue a report in the public interest.

Written Recommendations

We have a duty under the Local Audit and Accountability Act 2014 to designate any audit recommendation as one that requires the Council to consider it at a public meeting and to decide what action to take in response.

We did not identify any issues which required us to issue a written recommendation.

Objections Received

We did not receive any objections to the 2019/20 financial statements from members of the public.

Other Powers and Duties

We identified no issues during our audit that required us to use our additional powers under the Local Audit and Accountability Act 2014.

Independence

We communicated our assessment of independence in our Audit Results Report to the Corporate Governance and Audit Committee on 26 November 2020. 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 regulatory and professional requirements.

Other Reporting Issues (cont'd)

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.

We have adopted a fully substantive audit approach and have therefore not tested the operation of controls.

Appendix A

Audit Fees

Audit Fees

Our final fee for 2019/20 has been impacted by a range of factors which has resulted in additional work as reported in our Audit Results Report.

Description	Final Fee 2019/20 £	Planned Fee 2019/20 £	Scale Fee 2019/20 £	Final Fee 2018/19 £
Total Audit Fee – Code work	37,799	37,799	37,799	38,708
Scale Fee Rebasing: Changes in work required to address professional and regulatory requirements and scope associated with risk (see page 25)	23,869			N/A
Revised proposed scale fee	61,668	37,799	37,799	38,708
Additional work required for going concern and Covid-19 considerations (see Note 1)	1,960			
Additional work required for PPE valuation (see Note 2)	6,339			
Additional specific one-off work required to audit prior year restatements (see Note 3)	1,545			
Total Audit Fee	71,512	37,799	37,799	38,708
Non-audit work – Claims and returns	TBC**	19,879	n/a	19,879

Audit Fees (cont'd)

Note 1

To review management's assessment and additional disclosures that were required in relation to going concern and our internal consultation process undertaken to ensure that events and conditions in relation to the going concern assumption are adequately disclosed.

Note 2

To engage EY Real Estate, our internal property specialists, to review a sample of valuations of investment properties and EUV assets.

Note 3

To audit the restatement of prior year figures in relation to changes to the internal reporting structure which affected the Comprehensive Income and Expenditure Statement, the Expenditure and Funding Analysis and the related notes to the accounts. There was also a prior year restatement in relation to the subsidy contribution the Council receives from the DWP towards its housing benefit expenditure which was not disclosed under Grant Income – Grants credited to services.

These additional fees in note 1, 2 and 3 have been agreed with the Director Corporate Services and is subject to approval by the PSAA.

**Our fees for the work on the Housing Benefit Subsidy claim will be finalised after the completion of the work, due by 31 January 2021 but our planned fee includes £9,500 in relation to the level of extended testing we are expecting to undertake based on errors identified in the prior year. The HBAP process requires us to undertake extended testing in the current year based on cumulative knowledge and experience, referred to as CAKE testing.

Audit Fees (cont'd)

Scale Fee Rebasing: Changes in work required to address professional and regulatory requirements and scope associated with risk

Janet Dawson, our Government & Public Sector Assurance Lead, wrote to all Chief Finance Officers and Audit Committee (or equivalent) chairs on 11 February 2020 on the subject of the sustainability of UK local public audit. Amongst other issues her letter stated that we did not believe the existing scale fees provide a clear link with both a public sector organisation's risk and complexity, and the audit profession's context for cost and fee increases, including the attractiveness of audit, investment in technology, innovation and the regulatory environment.

Around the same time, PSAA consulted on its 2020/21 audit fees (PSAA fee consulation), discussing the challenging environment, new standards and regulatory requirements. They noted an appropriate forum for fee discussions from these impacts would be between the auditor and Chief Financial Officer, to take place as soon as possible as part of planning discussions for 2019/20 audits.

The subsequent review by Sir Tony Redmond (Redmond Review) has also highlighted that audit fees in the local authority sector have dropped significantly at the same time that audit fees in other sectors have significantly risen, and that no assessment of the amount it would cost to audit each local authority based on their level of audit risk has been made in the past ten years due to the methods applied by the Audit Commission and then PSAA. As such there is no guarantee that the fee paid by each local authority accurately reflects the risk profile or amount of audit work required for their external audit.

To address these issues we undertook an analysis of the changes in professional and regulatory requirements since our last tender to PSAA was submitted, and any other known changes in audit risk. For instance, where applicable, significant commercial property investments, creation of joint ventures, subsidiaries and other similar arrangements.

We identified the proposed fee rebasing under the headings of:

- Changes in risk;
- Increased regulatory requirements; and
- Client readiness and ability to support a technologically enabled audit.

As requested by PSAA, we discussed this with management on 4 June 2020 (delayed from March 2020 due to the impact of the coronavirus pandemic)

We did not reach agreement. While management recognised many of these pressures and can see how they are reflected in the changes in the audit work, their view was that this is a decision for PSAA.

Having not reached agreement, and in light of managements comments, we will now submit the proposed rebasing to PSAA for their review and decision. We would like to thank management for their contribution to this debate and the positive manner in which they engaged with us, although we did not reach agreement

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ED None

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