

Arun District Council

Annual Audit Letter for the year ended 31 March 2015

October 2015

Ernst & Young LLP





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21 October 2015

Dear Members

Annual Audit Letter 2014/15

The purpose of this annual audit letter is to communicate the key issues arising from our work to the Members and external stakeholders, including members of the public.

We have already reported the detailed findings from our audit work in our 2014/15 audit results report to the 24 September Audit & Governance Committee, representing those charged with governance. We do not repeat them here.

The matters reported here are those we consider most significant for the Council.

We would like to take this opportunity to thank officers for their assistance during the course of our work.

Yours faithfully

Paul King
Executive Director
For and on behalf of Ernst & Young LLP
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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 accountable officer of each audited body and via the [Audit Commission's website](#).

The Statement of responsibilities 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 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 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

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

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 having proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

As auditors we are responsible for:

- forming an opinion on the financial statements and on the consistency of other information published with them
- reviewing and reporting by exception on the Council's AGS
- forming a conclusion on the arrangements the Council has to secure economy, efficiency and effectiveness in its use of resources
- undertaking any other work specified by the Audit Commission and the Code of Audit Practice.

Summarised below are the results of our work across all these areas:

Area of work	Result
Audit of the financial statement of Arun District Council for the financial year ended 31 March 2015 in accordance with International Standards on Auditing (UK & Ireland).	On 25 September 2015 we issued an unqualified audit opinion on the Council's financial statements.
Form a conclusion on the arrangements the Council has made for securing economy, efficiency and effectiveness in its use of resources.	On 25 September 2015 we issued an unqualified value for money conclusion.
Report to the National Audit Office on the accuracy of the consolidation pack the Council needs to prepare for the Whole of Government Accounts.	We reported our findings to the National Audit Office on 25 September 2015.
Consider the completeness of disclosures on the Council's AGS, identify any inconsistencies with other information which we know about from our work and consider whether it complies with CIPFA/ SOLACE guidance.	No issues to report.
Consider whether we should make a report in the public interest on any matter coming to our notice in the course of the audit	No issues to report.
Determine whether we need to take any other action in relation to our responsibilities under the Audit Commission Act	No issues to report.

As a result of the above we have also:

Issued a report to those charged with governance of the Council with the significant findings from our audit.

Our Audit Results Report was issued on 24 September 2015 to the Audit & Governance Committee.

Issued a certificate that we have completed the audit in accordance with the requirements of the Audit Commission Act 1998 and the Code of Practice issued by the Audit Commission.

Issued on 25 September 2015.

In January 2016 we will also issue a report to the Audit & Governance Committee, as those charged with governance of the Council summarising the certification (of grant claims and returns) work we have undertaken.

2. Key findings

2.1 Financial statement audit

The Council's Statement of Accounts is an important tool to show both how the Council 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 Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission and issued an unqualified audit report on 26 September 2015.

Our detailed findings were reported to the 24 September 2015 Audit & Governance Committee.

The main issues identified as part of our audit were:

Significant risk 1: Risk of management override

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

We also raised a relatively small number of other issues relating to qualitative aspects of accounting practices issues faced during the audit, in particular the need for the Council to improve the approach it takes to the valuation of property, plant and equipment assets.

2.2 Value for money conclusion

As part of our work we must also conclude whether the Council has proper arrangements to secure economy, efficiency and effectiveness in the use of resources. This is known as our value for money conclusion.

In accordance with guidance issued by the Audit Commission, our 2014/15 value for money conclusion was based on two criteria. We consider whether the Council had proper arrangements in place for:

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

We issued an unqualified value for money conclusion on 25 September 2015.

Although our audit did not identify any significant matters we did note that financial pressures on the Council are increasing and its financial resilience is continuing to reduce. The Council's own financial modelling, assuming a two per cent council tax increase and additional income through fees and charges, shows that the budget would move to a recurrent deficit without calling on balances by 2017/18. Based on the Council's current projections balances would be fully exhausted by 2019/20. This also assumes no major changes to the current LG financing regime and that levels of income from both New Homes Bonus and local retention of business rates, on which the Council is currently reliant, continue into the future. Although these assumptions are reasonable they constitute further areas of uncertainty.

We also considered the proposed development of the Regis Centre and Hothampton sites in Bognor Regis, and the Council's previous contractual relationship with the private sector property developer and regeneration specialist St Modwen, as part of our value for money conclusion work. We found that full costs directly attributable to the St Modwen development could not be identified, but that we would not expect the Council to be able to discretely identify those costs. We also concluded that those costs were unlikely to be material to our responsibilities. We did, however, note that both actual and opportunity costs relating to the development had been incurred over the last ten years with the form of work to re-develop the sites having still not been decided upon or started. We concluded that the Council should have responded more quickly to factors which caused delays in the project, such as the wider economic downturn, to minimise the costs incurred.

2.3 Whole of Government Accounts

We 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.

2.4 Annual Governance Statement

We are required to consider the completeness of disclosures in the Council's AGS, identify any inconsistencies with the other information which we know about from our work, and consider whether it complies with relevant guidance.

We completed this work and identified one area, concerning progress with the Council's Local Plan, where further disclosure was required to reflect the position at the Council. The Council were already aware of this omission and planned to update the statement. The final AGS was updated to reflect current progress with the Local Plan.

2.5 Objections received

We did not receive any objections to the 2014/15 financial statements from members of the Public.

2.6 Other powers and duties

We identified no issues during our audit that required us to use powers under the Audit Commission Act 1998, including reporting in the public interest.

2.7 Independence

We communicated our assessment of independence to the Audit & Governance Committee as part of our audit plan in March 2015, and as part of our audit results report in September 2015. In our professional judgement the firm is independent and the objectivity of the executive director and audit staff has not been compromised within the meaning of regulatory and professional requirements.

2.8 Certification of grant claims and returns

We will issue the Annual Certification report for 2014/15 in January 2016.

3. Control themes and observations

As part of our work, we obtained enough understanding of internal control 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 must tell the Council about any significant deficiencies in internal control we find during our audit.

We did not identify any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in the Council's financial statements. We did, however, bring a small number of issues to the attention of the Audit & Governance Committee as those charged with governance and raised a small number of associated recommendations which were accepted by the Council.

As part of our work we also found that the Council's strategic risk register has not been formally updated since December 2013. Given the failure to update the strategic risk register and operational risk registers that underpin it we are not able to currently conclude that risk management is properly integrated in the Council's business processes. We note that this issue, and a plan of action and timetable to address it, has been disclosed in the Council's 2014/15 Annual Governance Statement. We also raised a related recommendation in this area as part of our audit results report which the Council has accepted.

4. Looking ahead

Description	Impact
<p>Highways Network Asset (formerly Transport Infrastructure Assets)</p> <p>The Invitation to Comment on the Code of Accounting Practice for 2016/17 (ITC) sets out the requirements to account for Highways Network Asset under Depreciated Replacement Cost from the existing Depreciated Historic Cost. This is to be effective from 1 April 2016.</p> <p>This requirement is not only applicable to highways authorities, but to any local government bodies that have such assets.</p> <p>This may be a material change of accounting policy for the Council. It could also require changes to existing asset management systems and valuation procedures. Nationally, latest estimates are that this will add £1,100 billion to the net worth of authorities.</p>	<p>The Council will need to demonstrate it has assessed the impact of these changes. Even though it is not a highways authority, the requirements may still impact if it is responsible for assets such as:</p> <ul style="list-style-type: none">• HRA infrastructure• Footways• Unadopted roads on industrial or HRA estates• Cycleways• Street Furniture <p>The Council is aware of the issue, but it is not clear at this stage to what extent it has been considered and is expected impact on the Council.</p>
<p>Earlier deadline for production and audit of the financial statements from 2017-18</p> <p>The Accounts and Audit Regulations 2015 were laid before Parliament in February 2015. A key change in the regulations is that from the 2017-18 financial year the timetable for the preparation and approval of accounts will be brought forward.</p> <p>As a result, the Council will need to produce draft accounts by 31 May and these accounts will need to be audited by 31 July.</p>	<p>These changes provide challenges for both the preparers and the auditors of the financial statements.</p> <p>The Council is aware of this challenge and the need to start planning for the impact of these changes. This will necessarily include review of the processes for the production and audit of the accounts, including areas such as the production of estimates, particularly in relation to pensions and the valuation of assets, and the year-end closure processes.</p> <p>The Council needs to consider and start to implement the detailed steps it needs to take to allow it to close down the general ledger and produce the financial statements more quickly in readiness for the deadline changes in 2017/18.</p>

5. Fees

Our fee for 2014/15 is in line with the scale fee set by the Audit Commission and reported in our March 2015 Audit Plan.

	Final fee 2014/15	Planned fee 2014/15	Final fee 2013/14
Total Audit Fee – Code work	£76,137	£76,137	£75,237
Total Audit Fee – Certification of claims and returns*	£12,070	£12,070	£11,986

** 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.*

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