



Accountants &
business advisers

Lewes District Council

Annual Governance Report
2011/12

September 2012

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Code of Audit Practice and Statement of Responsibilities of Auditors and Audited Bodies

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission contains an explanation of the respective responsibilities of auditors and of the audited body. Reports and letters prepared by appointed auditors are addressed to members or officers. They are prepared for the sole use of the audited body and no responsibility is taken by auditors to any member or officer in their individual capacity or to any third party.

We accept no responsibility for any reliance that might be placed on reports and letters for any purpose by third parties, to whom it should not be shown without our prior written consent.

[Code of Audit Practice](#)

[Statement of Responsibilities](#)

1 Executive summary

- 1.1 The purpose of this report is to communicate to you the significant findings from the audit of Lewes District Council's financial statements and arrangements to secure economy, efficiency and effectiveness in the use of resources. A summary is set out below:

Area of audit	Findings and conclusion
Financial statements	
Financial statements	<p>No material misstatements were identified as a result of our audit work.</p> <p>Some uncorrected non-trivial but not material errors have been identified and these are detailed in Appendix B.</p> <p>We have also suggested a number of amendments to disclosures and aspects of the presentation of the financial statements. Suggested amendments have been made and we are continuing to discuss any further points with management as our outstanding work is completed.</p> <p>Some areas of work are still outstanding at the time of drafting this report. Should these result in any significant issues, we will give an oral update to the Audit and Standards Committee.</p> <p>While we identified a number of specific risks in planning our audit work, no significant issues arose from our work and our audit was completed in accordance with our plans.</p> <p>Subject to satisfactory completion of the outstanding work, we anticipate issuing an unqualified true and fair opinion on the financial statements for the year ending 31 March 2012.</p>
Annual governance statement	We are satisfied that the Annual Governance Statement is not inconsistent or misleading with other information we are aware of from our audit of the financial statements.
Whole of government accounts	At the time of writing this report our work to review the consistency of the whole of government accounts return with the audited financial statements is in progress. We will provide an oral update to the Audit and Standards Committee.
Internal controls	<p>The key financial systems are generally adequate as a basis for preparing the financial statements, although we noted a deficiency in internal control in the following area:</p> <ul style="list-style-type: none"> There have been some instances of purchase orders exceeding the officers' formal authorisation limits or being placed by officers who are not on the authorised signatory list.
Use of resources	
Value for money conclusion	We are satisfied that, in all significant respects, the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2012. We propose issuing an unqualified value for money conclusion.

Acknowledgement

- 1.2 We would like to thank staff for their co-operation and assistance during the audit and throughout the period.

2 Introduction

- 2.1 International Standards on Auditing (ISAs) (UK and Ireland) and the Code of Audit Practice require that we report to those responsible for financial governance and reporting (those charged with governance) the key findings of our audit prior to issuing our opinion on the financial statements and our value for money conclusion. This report summarises the results of our audit work completed to date in respect of the financial statements and arrangements to secure economy, efficiency and effectiveness in the use of resources for the year ending 31 March 2012.
- 2.2 Our report is presented to the Audit and Standards Committee in accordance with the provisions of ISA (UK & Ireland) 260 *Communication with those charged with governance*, ISA 265 *Communicating Deficiencies in Internal Control to Those Charged with Governance* and Management, and the Audit Commission's *Code of Audit Practice*.
- 2.3 The contents of this report have been discussed and agreed with the Director of Finance. We have reported orally to management the non-significant findings from our audit.

Findings

- 2.4 Recommendations in response to the key findings identified by our audit of the financial statements and use of resources work are provided in the action plan at Appendix A. These recommendations have been discussed with appropriate officers and their responses are included.
- 2.5 We would highlight that in this report we do not provide a comprehensive statement of all weaknesses that may exist in the financial and operational systems, but only those matters which have come to our attention as a result of the audit procedures performed. We have only restated weaknesses already reported by Internal Audit where we consider these to be significant.

Fee outturn

- 2.6 The Audit Commission's *Standing Guidance for Auditors* requires us to report the outturn fee position for the year against the budgeted fee included within your Audit Plan. The table below sets out this analysis:

Work area	Planned Fee £	Actual Fee £	Variance £
Code audit			
Financial statements	79,500	79,500	-
Value for money conclusion	22,150	22,150	-
Audit Commission Scale Fee	101,650	101,650	-
Risk based work in 2011/12 relating to the Agresso upgrade	-	2,150	2,150
Total Code Audit fee	101,650	103,800	2,150
Audit Commission Rebate for International Financial Reporting Standards	(7,079)	(7,079)	-
Code fee net of reduction	94,571	96,721	2,150
Certification of claims and returns, including grants report	34,141	34,141	-

- 2.7 The variance to our fee for the audit of the financial statements relates to the additional work completed on the transfer of data following the major upgrade in the Agresso system.
- 2.8 A number of the grant claim audits are currently in progress or do not require certification until later in the year and therefore the actual fee remains an estimate of the expected final position. The final position will be reported in our grants report to be issued on completion of this work.

Independence

- 2.9 We confirm that we are not aware of any relationships that may bear on our independence and objectivity as auditors and that our independence declaration, included in the Audit Plan for 2011/12, has remained valid throughout the period of the audit.

3 Financial statements

- 3.1 We are required to provide an opinion on whether your financial statements give a true and fair view of your financial position and income and expenditure and whether they have been prepared properly, in accordance with appropriate legislation and relevant accounting guidance, this being the *2011 Code of Practice on Local Authority Accounting in the United Kingdom* (the 'Code').
- 3.2 To do this we carry out risk based procedures designed to obtain sufficient appropriate audit evidence to determine with reasonable confidence whether the financial statements are free from material misstatement and evaluate the overall presentation.
- 3.3 In carrying out our work we determine and apply a level of materiality. Materiality is the expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole, or individual elements of the financial statements as appropriate. Consequently, the audit cannot be relied upon to identify *all* risks or potential and actual misstatements.
- 3.4 We consider misstatements of less than £25,000 to be trivial to the financial statements, unless the misstatement is indicative of fraud, and have not reported them.

Reporting to those charged with governance

- 3.5 We have set out below those matters relevant to our audit that, under auditing standards, require reporting to those charged with governance or which we believe should be reported to you to assist you with your governance duties.

Significant risks of material misstatement

- 3.6 Auditing Standard require that we bring to your attention areas that require additional or special audit consideration and are, therefore, considered a significant risk. These may include weaknesses in controls or areas requiring a higher degree of judgement by management.
- 3.7 We reported our risk assessment in the 2011/12 Audit Plan issued in January 2012. We have since undertaken a more detailed assessment of risk following our completion of the interim review of financial controls, publication of the final Code and review of the Council's draft financial statements, and concluded that there are no changes to the significant risks previously reported.
- 3.8 The significant audit risks identified during our risk assessment and communicated to you in our Audit plan, and our audit response to those risks, are set out below:

Management override and accounting estimates

- 3.9 We are required to consider management override of controls to be a significant risk in all audit engagements under auditing standards as discussed in our 2011/12 Audit Plan.
- 3.10 Our review of management journals and accounting estimates did not indicate any material management bias or override of controls in preparing the financial statements.

Revenue Recognition

- 3.11 Auditing standards presume that there are risks of fraud in revenue recognition. These risks may arise from the use of inappropriate accounting policies or failure to apply the Council's stated accounting policies or from an inappropriate use of estimates in calculating revenue.
- 3.12 Our review the use of stated accounting policies and consideration of the use of estimates in the calculation of revenue has not indicated any risk of fraud in revenue recognition.

Financial management system upgrade

- 3.13 The Council upgraded its financial management system (Agresso) from version 5.4 to version 5.5 in October 2011. This major upgrade introduced significant changes and required all data in the previous version to be transferred to the new version. This presented a significant audit risk in relation to the accuracy and completeness of the general ledger and subsidiary systems data transferred.
- 3.14 The Agresso update was implemented in conjunction with Rother District Council and Hastings Borough Council. A Joint Project Board, as chaired by Lewes, oversaw the implementation of the project, with a project manager coordinating development work on behalf of all three councils and reporting to the Project Board as appropriate. A review of the project management arrangements across the three councils was performed by the internal audit service from Rother District Council.
- 3.15 The audit work completed in this area has not identified any mis-statements with the transfer of data and we are satisfied the data used in the preparation of the financial statements is therefore appropriate.

Self financing Housing Revenue Account

- 3.16 The Localism Act (2011) introduced the concept of a 'self-financing' Housing Revenue Account (HRA), which means that 2011/12 is the last year of the current housing subsidy system. From 1 April 2012, local housing authorities will retain all income from social housing rent and use it locally to maintain their housing stock. The development aims to establish a more predictable and stable basis for authorities to plan over the longer term.
- 3.17 Our audit work in this area has confirmed that the Council has made the appropriate payments and completed the necessary accounting entries within the financial statements. We have not identified any mis-statements in this area.

New Fixed Asset Register

- 3.18 The Council purchased a new fixed asset register system, RAM, in early 2010/11. The implementation of a new fixed assets register presented a significant audit risk in respect of the accuracy and completeness of data transferred from the old system to the new system.
- 3.19 However, the Council has deferred the implementation of the new fixed asset register system and this therefore is no longer a significant audit risk to the 2011/12 financial statements.

Accounting practices

Financial statements preparation

- 3.20 The requirement for Members to approve the draft financial statements by 30 June was removed by the Accounts and Audit Regulations 2011, however these regulations introduced the requirement for the Responsible Financial Officer to sign and present the financial statements for audit by 30 June. The financial statements were signed and presented for audit on 29 June 2012.
- 3.21 As part of our planning for the audit, we prepared a detailed document request which outlined the information that we would require to complete the audit. The Council provided us with a range working papers on 9 July 2012, in line with the agreed timetable. Additional working papers were provided throughout the audit process as necessary.

Testing of transactions and balances

- 3.22 As part of our audit approach, all material balances were subject to audit testing and agreement, on a sample basis, to supporting documentation. Issues arose in respect of the following matters, which we bring to your attention:

HRA Community Rooms

- 3.23 The Council has a number of Housing Revenue Account (HRA) properties that are used as community rooms, where HRA residents can meet and socialise. These rooms are both individual properties and also flats within separate buildings.
- 3.24 These properties were not included in the last full valuation of HRA properties at 1 April 2010. Management carried out its own assessment of the value of these properties and, based on this, they were included in the financial statements at a net book value of £408,000. We recommended in the 2010/11 Annual Governance Report that the Council ensure the properties were professionally valued and any necessary amendments posted to the financial statements.
- 3.25 In line with this management have obtained further information from the District Valuer, who has confirmed a fair value of nil for the properties on an existing use basis. However, this valuation remains inconsistent with that which they are included in the financial statements (£397,000)
- 3.26 As in 2010/11, we have discussed the position with management and consider that their explanations for the value do not appear unreasonable. However, the Code requires that all properties are required to be carried at fair value that has been professionally assessed at least every five years. Therefore in the light of the DV valuation we have included the amount by which the valuation exceeds that of the District Valuer as an unadjusted misstatement in Appendix B.

Valuation of HRA Properties

- 3.27 The Council has, as in prior years, obtained a valuation of its HRA assets and has included appropriate adjustments within the draft financial statements. As part of our audit we have

reviewed the overall value from the detailed valuation against that within the financial statements, noting the reasons for any differences arising.

- 3.28 This comparison identified the value of Council dwellings per the valuation at 1 April 2012 and that per the year end fixed asset register were different by £379,080. The majority of this variance is attributable to two properties:
- one in Abergavenny Road, which was sold between valuation being requested and the year end (£156k)
 - one in Reed Court which was converted from accommodation to office space (£107k).
- 3.29 While we are satisfied the valuations attributed to the above have been correctly excluded from the Council Dwellings valuation in the financial statements at 31 March 2012, investigation of the specific reasons for the changes has indicated that the Reed Court conversion occurred in 2009. As a result the value of HRA properties was overstated in both the 2009/10 and 2010/11 accounts, with there being a similar understatement in the value of other land and buildings in both years.
- 3.30 We note that the value by which other Land and Buildings has been understated will not be exactly the same as the value of the overstatement of the Council Dwelling valuation as the property, following its change of use to an office, will be valued on a different basis. This difference in valuation is also likely to give rise to differences in the value of depreciation charged.
- 3.31 As we have been unable to ascertain an alternate value for the property we have assessed the amount by which the value of HRA assets and Other Land and Buildings are misstated on the basis of the over valuation of HRA assets. This is shown as an unadjusted error in Appendix B.

Accounting policies

- 3.32 The following changes have been introduced by the 'Code', resulting in changes in accounting practice:
- The adoption of FRS30 *Heritage Assets*, requiring that heritage assets are carried at valuation, with comprehensive disclosure note requirements
 - Amendments to the related party disclosures required in respect of central government departments, government agencies, NHS bodies and other local authorities to clarify the nature of those related party relationships and simplify the information disclosed.
 - New disclosure requirements for exit packages to detail the number and cost of exit packages agreed in the year
 - The introduction of disclosure requirements in relation to the nature and amount of trust funds (a previous Statement Of Recommended Practice requirement that has been reinstated).
- 3.33 The Council has dealt with the implementation of these changes in an appropriate manner and assisted the audit in the review of the changes required.

Accounting estimates

Valuation of fixed assets

- 3.34 Land and buildings are required to be carried at fair value which is either existing use value, depreciated replacement cost for specialised properties or open market value. The Council revalues land and buildings where material changes in the value have occurred in the year or as a minimum every five years as part of a rolling programme. The Council does not adjust for price indices between formal valuations, which the Code accepts as accepted practice.
- 3.35 Valuation reports for land and buildings and useful economic lives are prepared by an independent valuer with specialist knowledge and experience valuing local authority estates, having regard to local prices and the public sector. Management accepts the valuation information provided by the expert and valuation adjustments are made to the financial statements where required.
- 3.36 We are satisfied the valuer is suitably independent of the Council, objective and experienced in undertaking this work. Our review of the valuations provided, when compared to other price index information available, and useful economic lives allocated to buildings and significant components showed that they are not unreasonable.

Estimated pension liability

- 3.37 The net pension liability of the Council comprises its share of the market value of assets held in the East Sussex Pension Fund and the estimated future liability to pay pensions for its current, deferred and retired members of the pension scheme.
- 3.38 An actuarial estimate of the pension fund liability is calculated by an independent firm of actuaries with specialist knowledge and experience. The estimate has regard to local factors such as mortality rates and expected pay rises along with other assumptions around inflation.
- 3.39 Management has agreed the assumptions made by the actuary and these are included in the financial statements. We have requested written representations from the Council, included at Appendix C, to confirm that the assumptions applied by the actuary are reasonable and consistent with its knowledge of the business of the Council.
- 3.40 We are satisfied that the actuary is suitably independent of the Council, objective and experienced in undertaking this work. Our review of the assumptions applied in estimating the pension liability suggest that these are not significantly different from those being applied by the actuaries of other local authorities.

Recoverability of debtor balances

- 3.41 The Council calculates the annual allowance for the impairment of debtors based on its assessment of recoverability. Management reviews all debts, and specific amounts considered irrecoverable are included in the assessed impairment amount at year end. Most categories of the Council's debtors are not subject to substantial fluctuation and management applied percentages to the aged profile of these debts, based on past

experience and future expectations of recoverability, to estimate the allowance for doubtful debts.

- 3.42 We have reviewed the methodology applied by the Council in estimating the allowance for doubtful debts and we are satisfied it is reasonable.

Pension Cost Allocation

- 3.43 In order to reflect the pension costs associated with its staff across the financial statements (the General Fund and HRA) the Council uses an allocation methodology to apportion them appropriately. This methodology is used to apportion the pension interest cost and expected return on pension assets.
- 3.44 Review of the detailed calculation has indicated that, in some respects, there has been a change in some aspects of the methodology when compared to the prior year, which impacts on the comparability of the 2 years' figures.
- 3.45 The revised approach prepares the analysis based on the payroll costs attributable to the General Fund and HRA as a proportion of the total payroll costs analysed after the year end. This is considered as appropriate as because HRA employment costs are not allocated to until the year end. It is intended that the apportionment methodology developed will continue to be followed in future periods. It has not been possible to obtain data that would allow the amounts for the prior year to be restated.

Municipal Mutual Insurance (MMI)

- 3.46 MMI was the predominant insurer of public sector bodies prior to ceasing its underwriting operations in September 1992 having suffered substantial losses. In common with most of MMI's public sector members, Lewes elected to participate in the 'Scheme of Arrangements', effectively becoming 'Scheme Creditors'. This means they may have to pay back part of all of the claims for which they have received settlements since 1993 in the event of the Scheme of Arrangements being triggered. Also in common with other public sector bodies, the Council discloses this potential requirement as a contingent liability in its financial statement.
- 3.47 Although MMI are committed to run-off with full payments of agreed claims, the company's liabilities have increased in recent years, particularly following a recent Supreme Court ruling which has reinstated a number of claims previously rejected by MMI such that they now need to be paid. The reinstatement makes it more likely that the scheme of arrangements will be triggered and payback may be required.
- 3.48 As at 31 March 2012 the Scheme of Arrangements had not been triggered, although there is now an expectation that it will be triggered within the next 12 months. Should this occur, the MMI's financial statements for the year ended 30 June 2011 suggest claw-back of claims of approximately 10%, although significant new claims which could increase this to 25%. Should there be a claw back at these levels the Council would be liable for a maximum of £67,500.

- 3.49 In light of this change in the MMI position the Council should continue to keep the matter under review for future years to satisfy itself that it has assessed and disclosed the position appropriately within the financial statements.

Disclosures

- 3.50 We identified a small number of departures from the expected presentation of the financial statements or where notes and other disclosures had not been presented in accordance with the Code. The principal amendments made are:
- Presentational adjustments relating to the recording of revaluation movements, which has affected notes 8, 13, 14 and 32
 - A number of other minor amendments to disclosures made following review of the disclosure checklist and formatting of the accounts.
- 3.51 We have discussed these with the Council and appropriate amendments have been made to the accounts.

Uncorrected misstatements

- 3.52 We are required to report to you uncorrected misstatements that relate to the current financial year (including those arising in previous periods that have an effect on the current year financial statements) and the effect that they would have individually, or in aggregate, on the financial statements, except for those that are clearly trivial. These are set out below and their potential impact is summarised at Appendix B:

Other matters

- 3.53 We are required to communicate 'audit matters of governance interest that arise from the audit of the financial statements' to you which includes:
- Significant deficiencies in internal control identified during the audit
 - Matters specifically required by other auditing standards to be communicated to those charged with governance (e.g. issues relating to fraud, compliance with laws and regulations, subsequent events etc.)
 - Other audit matters of governance interest.

Accounting and internal control systems

- 3.54 We have reviewed the Council's key financial and operational systems which contribute to the preparation of materially accurate financial statements. The purpose of the audit is for us to express an opinion on the financial statements. Our audit is not designed to identify all deficiencies in the system of internal control or to identify all improvements which might be necessary to address the deficiencies identified.
- 3.55 The audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control; and we report only those deficiencies that have come to our attention as a

result of our audit work and that we have concluded are of sufficient importance to merit your attention.

3.56 The financial systems we have considered are:

- | | |
|--------------------------------|-------------------------------------|
| • Main accounting | • Council tax |
| • Cash and bank | • Housing and Council tax benefits |
| • Payments and creditors | • National Non Domestic Rates |
| • Other income and debtors | • Investments and investment income |
| • Payroll and employment costs | • Information technology |
| • Property, Plant & Equipment | • Housing Rents |

3.57 Where possible, we sought to use the work of Internal Audit and thereby avoid unnecessary duplication of audit effort. Internal Audit has satisfactorily carried out a programme of work and we were able to place reliance on their work for the testing of the effectiveness of specific controls.

3.58 We noted one area where deficiencies in internal controls should be improved or where the control environment could be strengthened. We have restated deficiencies in internal controls previously reported by Internal Audit where we consider these to be significant.

Purchases - ordering

3.59 Internal audit's testing of financial controls in relation to the purchase system has found instances where purchase orders exceeded officers' formal authorisation limits or were placed by officers who were not on the authorised signatory list. In the previous year we reported that official purchase orders were not always being completed and authorised before committing the Council to expenditure.

3.60 While detailed investigation of the individual control failures confirmed that, in all cases, the expenditure was appropriate, the Council should ensure that all orders are appropriately authorised per the authorised signatory list. We have included a recommendation to this effect in the action plan at Appendix A.

Annual Governance Statement

3.61 We have reviewed the Annual Governance Statement and are satisfied that it is not inconsistent or misleading with other information we are aware of from our audit of the financial statements.

Whole of government accounts

3.62 Our work to review the consistency of the Whole of Government Accounts return with the audited financial statements is in progress and an oral update will be given at the Audit and Standards Committee meeting on 27 September.

Foreword to the Statement of Accounts

3.63 We read the Foreword to the Statement of Accounts for consistency with our knowledge and understanding although this review does not form part of our true and fair opinion on the financial statements.

- 3.64 The Foreword includes the required content specified by the Code although we have made a number of suggestions where information could be included to provide a more comprehensive view of key issues in the financial statements
- 3.65 In common with other local authorities, the financial commentary in the Foreword is presented in the Council's budget format which differs to the presentation in the Comprehensive Income and Expenditure Statement. It would be helpful if the Council included a reconciliation of the budget format in the Foreword with the financial statements.

Written representations

- 3.66 We are required by ISAs to obtain written confirmation from you of certain representations that have been made during the course of our audit. The draft letter of representation has been attached as Appendix C.
- 3.67 We do not anticipate any changes being required before providing our opinion on the financial statements.

Audit report

- 3.68 Subject to satisfactory resolution of the following outstanding issues and final clearance of the audit, we anticipate issuing an unqualified audit opinion on the financial statements:
- receipt of confirmation letter on the amounts invested with the Debt Management Office
 - completion of review of the financial instrument disclosures
 - number of unresolved issues on cash flow statement
- 3.69 We will provide an oral update on these outstanding issues at the Audit and Standards Committee.

4 Use of resources

- 4.1 We are required to be satisfied that proper arrangements have been made to secure economy, efficiency and effectiveness in the use of resources (value for money).
- 4.2 Our principal work in arriving at our value for money conclusion was comparing the Council's performance against characteristics specified by the Audit Commission in its guidance to auditors. As in 2010/11 the focus of our work involved reviewing the financial resilience of the organisation and its arrangements for securing economy, efficiency and effectiveness in the use of resources.
- 4.3 Our Audit Plan highlighted that although there were no significant risk in relation to the use of resources, in light of the current financial climate and the reductions in central Government funding, we would review the risk of the Council not delivering against its savings targets for the year. This work was completed as part of our review of whether the Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness
- 4.4 The review of financial resilience work considered the Council's arrangements for financial governance, financial planning and financial control, while consideration of the economy, efficiency and effectiveness has focused on the Council's arrangements for prioritising resources and improving efficiency and productivity. The key issues arising from our work are summarised below.

Financial resilience

- 4.5 In 2011/12 the Council has continued to exhibit robust budget monitoring alongside member and officer involvement in reviewing financial matters. Clear leadership is shown from the top of the organisation, ensuring the Council's overall financial position is understood within the organisation.
- 4.6 The financial statements record the Council achieved a surplus of £1.272 million against its budgets for the year, with the result that it was able to increase its general fund balance substantially after £879,000 was transferred to earmarked reserves together with £211,000 of new homes bonus grant in the year, this matter not having been included in the budget. At 31 March 2012 the Council had a general fund balance of £2.063 million and earmarked reserves of £9.281 million.
- 4.7 The Council's 2012/13 revenue budget requires savings of £586,000 and a contribution from the general fund balance of £480,000 due to further reductions in the Council's grant settlement and spending pressures. The Council is expecting to have to make further savings of £981,000 over the two years from 2013/14 to 2014/15, although the financial implications of the replacement of the Government's Formula Grant mechanism with the Business Rates Retention Scheme from April 2013 are not yet known.
- 4.8 The Programme Nexus report presented to Cabinet in November 2011 outlined the strategic framework for driving change at the Council over the period up to April 2015. It is seen as

the key delivery vehicle for the Administration's priorities and policy aspirations in this period, whilst ensuring resources are considered appropriately.

- 4.9 Management continues to report that the next four years will be extremely challenging, but that it believes that the current level of the general fund, earmarked and other useable reserves provide a sufficient buffer to support delivery of the Council's core services and key priorities over the period and provide resilience during the current economic climate.

Challenging economy, efficiency and effectiveness

- 4.10 Previous use of resources work has identified that they that the Council has used a full CIPFA value for money cost / income benchmarking review, to identify service areas that had potential to yield additional income or reduce costs when compared to the nearest neighbour group.
- 4.11 The Council's programme of service reviews commenced in 2010/11, with a range of them having been completed. It is now being further enhanced by Programme Nexus, which is an integrated programme of substantial and complementary projects that are seeking to reshape both the Council services and how they are provided.
- 4.12 Service reviews have helped to ensure that there is a greater emphasis on benchmarking, demonstrating how costs in areas of above average spend and support service costs can be reduced, and continues to influence service planning and budget setting processes.
- 4.13 The budget review process for 2012/13 comprised several phases but ensured the realigned priorities and resources from the 2011/12 process were maintained in light of the difficult financial position over the short to medium term.
- 4.14 The Council is participating in a number of procurement savings opportunities through the East Sussex Procurement Hub. The Head of Revenues continues to pilot a two year procurement on behalf of East Sussex Councils for the printing and issue of Council tax bills, Council tax and housing benefit notifications, business rates bills and ongoing Council tax and business rates recovery correspondence. This initiative underpins identified savings in the Council's deficit reduction plan and the intention is to run a larger procurement in due course, open to all Councils.
- 4.15 Management continues to believe there is scope to increase productivity and efficiency whilst reducing overhead costs, by maximising the use of technology and smarter use of office accommodation through flexible working practices with these all, and in particular flexible working, being actively pursued during 2012/13.
- 4.16 Review of 2012/13 budget monitoring reports to Cabinet indicates that the Council is currently on track to deliver its savings plans for the year.

Audit report (value for money conclusion)

- 4.17 Our value for money conclusion is based on considering our overall risk assessment, focusing on the two criteria set by the Audit Commission, and the results of risk based audit work, as well as consideration of the processes underpinning your review of the effectiveness of your controls as described in your Annual Governance Statement.

- 4.18 We are satisfied that, in all significant respects, the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2012. We propose issuing an unqualified value for money conclusion.

Appendix A: Action Plan

Conclusions from work	Recommendations	Management responses	Responsibility	Timing
Financial statements				
<p><u>MMI</u></p> <p>MMI was the predominant insurer of public sector bodies prior to ceasing its underwriting operations in September 1992 having suffered substantial losses. Although MMI are committed to run-off with payments of agreed claims, liabilities have increased in recent years, particularly following a recent Supreme Court ruling which has reinstated a number of claims previously rejected. The reinstatement makes it more likely that the scheme of arrangements will be triggered and payback may be required.</p>	<p>The Council should fully quantify the matter and keep under review for future years to satisfy itself that it has assessed and disclosed the position appropriately within the financial statements.</p>	<p>The Council will continue to consider carefully all of the information that is released to by the Board of MMI and the MMI Creditors' Committee, etc. From the information currently available, the Council's possible liability (if a 25% clawback is invoked) would be £67,500. The Council has earmarked resources in a specified General Fund Reserve and within the HRA Balance to cover the potential MMI liability along with the uninsured losses. These resources will be sufficient to cover an MMI clawback at the level indicated.</p>	Head of Finance	Ongoing
Internal controls				
<p><u>Purchase orders</u></p> <p>Internal audit's testing of the purchases system found a few instances where purchase orders exceeded officers' formal authorisation limits or were placed by officers not on the authorised signatory list</p>	<p>The Council should ensure that all purchase orders are appropriately authorised.</p>	<p>Instructions setting out the detailed requirements in respect of raising and authorising purchase orders, goods receipting and invoice certification will be reissued to all relevant staff. Authorised signatory lists are kept under continual review. Work is underway to move departments to electronic purchase ordering by means of the Agresso system. Authorisation workflow controls within the Agresso system, will reduce the risks inherent in the current manual processes.</p>	Head of Finance	Ongoing

Appendix B: Uncorrected misstatements

The table below details the potential differences recorded during the audit that have not been adjusted for within the financial statements:

Uncorrected misstatements	Income Over/ (Under) £'000	Expenses (Over)/ Under £'000	Assets (Over)/ Under £'000	Liabilities Over/ (Under) £'000	Reserves Over/ (Under) £'000
Factual misstatements					
Misstatement of PPE due to incorrect classification of Reed Court property. – maximum error.			107 (107)		
Judgemental misstatements					
Overstatement due to community rooms: - PPE and revaluation reserve - I&E due to depreciation charge		11	(397)		397 11
Projected misstatements (extrapolation of errors)					
Total net misstatements					
- Net understatement of costs					
- Net overstatement of net assets					

Appendix C: Draft letter of representation

Representations for the preparation of the Statement of Accounts (as set out below), which includes the financial statements, will be sought from the Director of Finance (as the Responsible Financial Officer) and from Members on behalf of the Council in relation to its responsibility to approve the Statement of Accounts and the Annual Governance Statement.

PKF (UK) LLP
Farringdon Place
20 Farringdon Road
London
EC1M 3AP

27 September 2012

Dear Sirs

Financial statements of Lewes District Council for the year ended 31 March 2012

This representation letter is provided in connection with your audit of the financial statements of Lewes District Council for the year ended 31 March 2012 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view, have been properly prepared in accordance with the relevant financial reporting framework and have been prepared in accordance with the requirements of applicable law.

I confirm to the best of my knowledge and belief, and having made appropriate enquiries of directors and management of the Council, the following representations given to you in connection with your audit of the Council's financial statements:

FINANCIAL STATEMENTS

Responsibility for the financial statements

I acknowledge as the Director of Finance and s151 Officer my responsibilities for the Statement of Accounts, which include the financial statements, and for ensuring that these are prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom.

Accounting policies

I confirm that the selection and application of the accounting policies used in the preparation of the financial statements are appropriate.

Significant assumptions

The following significant assumptions used in making accounting estimates, including those measured at fair value, are reasonable and appropriate:

Pension fund assumptions

I confirm that the actuarial assumptions underlying the valuation of the Local Government Pension Scheme (LGPS) scheme liabilities, as applied by the scheme actuary, are reasonable and consistent with my knowledge of the business. These assumptions include:

- | | |
|---------------------------------|------|
| • Rate of inflation (RPI / CPI) | 2.5% |
| • Rate of increase in salaries | 4.8% |

- Rate of increase in pensions 2.5%
- Rate for discounting scheme liabilities 4.8%
- Take up option to convert the annual pension into retirement grant 50%

I also confirm that the actuary has applied up-to-date mortality tables for life expectancy of scheme members in calculating scheme liabilities.

Pension fund investments fair values

Where required, the value at which assets and liabilities are recorded in the pension fund net assets statement is, in my opinion, the market value. I am responsible for the reasonableness of any significant assumptions underlying the valuation. Unquoted, private equity and infrastructure investments held by fund managers within funds are valued at fair value by the fund managers. Where there is no active market where prices can be readily observed for these funds, I am satisfied that appropriate assumptions have been applied by the fund managers when valuing the share of the fund held by the pension fund.

Valuation of housing stock

The useful economic lives of the housing stock and its constituent components, used in the valuation of the housing stock and the calculation of the depreciation charge for the year are consistent with those advised to me the Council's building surveyor.

Carrying value of land and buildings

I am satisfied that the carrying value of land and buildings is materially consistent with the fair value at 31 March 2012, and that no adjustment is required to those assets that were revalued as part of the five-year rolling programme in previous years.

Fair value measurements and disclosures

I confirm that the significant assumptions used in making accounting estimates, including those measured at fair value, are reasonable. Specifically, the judgements in assessing the fair value of the outstanding loans to the Public Works Loans Board (PWLb) are reasonable and in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

Plans or intentions

I confirm that the Council has no plans or intentions that may materially alter the carrying value and, where relevant, the fair value measurements or classification of assets and liabilities reflected in the financial statements.

Litigation and claims

I have disclosed to you all known actual or possible litigation and claims, the effects of which should be considered when preparing the financial statements and these have been accounted for and disclosed in accordance with the applicable financial reporting framework.

Related parties

I confirm that related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of the applicable financial reporting framework.

Subsequent events

There have been no events since the balance sheet date which necessitate revision of the figures included in the financial statements or inclusion of a note thereto. Should any material events occur, which may necessitate revision of the figures included in the financial statements or inclusion of a note thereto, I will advise you accordingly.

Uncorrected misstatements

I believe that the uncorrected misstatements identified during the audit are immaterial both individually and in aggregate to the view given by the financial statements as a whole. A list of these items is attached as an appendix to this letter.

Going concern

I confirm that we are satisfied that it is appropriate for the financial statements to have been drawn up on the going concern basis. In reaching this conclusion I have taken into account all relevant matters of which I am aware and have considered a future period of at least one year from the date on which the financial statements will be approved.

Comparative information

We confirm that, in respect of the restatement to implement the Heritage Assets accounting policy changes the adjustments relate to a change in accounting policy as we believe that the new accounting policy is more appropriate, and accordingly to ensure the consistency of accounting treatment between periods it is necessary to restate the current and corresponding periods on the basis of the new policy.

INFORMATION PROVIDED**Completeness of information**

All the accounting records have been made available to you for the purpose of your audit. I have provided you with all other information requested and given unrestricted access to persons within the Council from whom you determined it necessary to obtain audit evidence. All other records and related information, including minutes of all management and Committee meetings held during the year and up to the date of this letter have been made available to you.

All transactions undertaken by the Council have been recorded in the accounting records and are reflected in the financial statements.

There is no relevant audit information needed by you in connection with preparing your audit report of which you are unaware.

Internal control

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

I have communicated to you all significant deficiencies in internal control of which I am aware.

Fraud

I have disclosed to you the results of my assessment of the risk that the financial statements could be materially misstated as a result of fraud.

I have disclosed to you my knowledge of fraud or suspected fraud affecting the Council involving management, employees who have significant roles in internal control or others where the fraud could have a material effect on the financial statements

I am not aware of any fraud or suspected fraud affecting the financial statements, nor have any allegations of fraud or suspected fraud affecting the financial statements been communicated to me by employees, former employees, councillors, regulators or others.

Compliance with law and regulations

I am not aware of any actual or possible instances of non-compliance with laws and regulations whose effects should be considered when preparing the financial statements of the Council.

Related parties

I confirm that I have disclosed to you the identity of the Council's related parties and all the related party relationships and transactions of which I am aware.

Liabilities, contingent liabilities or guarantees

There are no liabilities, contingent liabilities or guarantees to third parties other than those disclosed in the financial statements.

Title to assets

The Council has satisfactory title to all assets and there are no liens or encumbrances on the assets except for those disclosed in the financial statements.

Contractual agreements

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.

Yours faithfully

John Magness
Director of Finance

Representations of the Council

We confirm to the best of our knowledge and belief, and having made appropriate enquiries of other officers and members of the Council, the following representations given to you in connection with your audit of the Council's financial statements.

Responsibility for the financial statements

We acknowledge our responsibilities to make arrangements for the proper administration of the Council's financial affairs and to approve the Statement of Accounts, which include the financial statements. The Director of Finance is responsible for the preparation of the Statement of Accounts, which include the financial statements, in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom.

Uncorrected misstatements

We have considered the uncorrected misstatements in the financial statements as listed in Appendix 1 to this letter together with the explanations provided by the Director of Finance for not correcting these misstatements, and we consider them to be immaterial to the view given by the financial statements.

Annual Governance Statement

We confirm that the Council has conducted a review during the year of the effectiveness of its system of internal control. We are satisfied that the Annual Governance Statement appropriately reflects the circumstances of the Council and includes an outline of the actions taken, or proposed, to deal with significant internal control issues.

Yours faithfully

Councillor Ian Eiloart
Audit and Standards Committee Chair

Signed on behalf of the Council

Note: Appendix 1 referred to in this letter relates to Appendix B in this report