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# Annual Audit Letter 2011/12

Lewes District Council

OCTOBER 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.

[Local Government Code of Audit Practice](#)

[Statement of Responsibilities of Auditors and of Audited Bodies](#)

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# Executive summary

This Annual Audit Letter summarises the findings of the work we have completed in respect of the year ending 31 March 2012. Our detailed findings and recommendations were reported to Management and the Audit and Standards Committee in our Annual Governance Report (on 27 September 2012).

## ✓ Accounts

- The financial statements give a true and fair view of the Council's financial affairs and income and expenditure for the year and were properly prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.
- The Annual Governance Statement was not misleading or inconsistent with other information of which we were aware.

## ✓ Internal control

- Internal controls remain adequate.
- We were able to rely on the work of Internal Audit.

## ✓ Whole of Government Accounts

- An unqualified opinion was given on the assurance statement.

## ✓ Use of resources

- 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 ended 31 March 2012.
- We issued an unqualified value for money conclusion.

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# Introduction

## **The purpose of this letter**

The purpose of this Letter is to summarise the key issues arising from the work that we have carried out during the year. Although this Letter is addressed to the Members, it is also intended to communicate the significant issues we have identified, in an accessible format, to key external stakeholders, including members of the public.

The Letter will be published on the Audit Commission's website at [www.audit-commission.gov.uk](http://www.audit-commission.gov.uk) and also on the Council's website.

## **Responsibilities of the auditors and the Council**

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing auditors to local public bodies in England.

As the Council's external auditors, we have a broad remit covering financial and governance matters. We target our work on areas which involve significant amounts of public money and on the basis of our assessment of the key risks to the Council achieving its objectives.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

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## **Scope of the audit**

Our main responsibility as the appointed auditor is to plan and carry out an audit that meets the requirements of the Audit Commission's Code of Audit Practice (the Code). Under the Code, we are required to review and report on:

- the Council's financial statements
- whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

## **Reporting the audit**

We provided reports to "those charged with governance" (the Audit and Standards Committee) and management on the findings of the audit focusing on key issues regarding internal control, financial governance, accounting arrangements and use of resources. We aim to provide management with clear recommendations to assist with governance and service improvements that will add value to the audit.

Reports issued during the year were:

- Audit Fee Letter issued May 2011
- Grants and Certification Work (2010/11 returns) issued December 2011
- Annual Audit Plan issued January 2012
- Annual Governance Report to those charged with governance issued September 2012
- Annual Audit Letter issued October 2012.

## **Acknowledgement**

Our aim is to deliver a high standard of audit which makes a positive and practical contribution that supports the Council's own agenda.

We recognise the value of your co-operation and support and would like to take this opportunity to express our appreciation for the assistance and co-operation provided during the course of the audit.

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# Key findings

## ABOUT THE COUNCIL

Lewes District Council is located in the west of East Sussex. The Council covers an area of 292 square kilometres, with just over half of this, including the historic town of Lewes, being within the South Downs National Park. The Council serves a population of 96,400, with most people living in the urban areas of Lewes, Seaford, Newhaven, Peacehaven and Telscombe.

The Council spends around £77 million each year on services. This includes £33 million on housing and council tax benefits and £28 million on services such as refuse collection, recycling and street cleaning; planning and development control; council tax collection and electoral registration; and community services such as maintaining parks and open spaces and operating leisure centres and swimming pools.

About £12 million of total expenditure is spent on the management, maintenance and other charges related to the Council's 3,200 dwellings. There have also been some additional expenditure charges made to the income and expenditure account in the year as a result of government policy, with the £56 million loan raised to cover the introduction of the self financing Housing Revenue Account technically treated as a cost.

## ACCOUNTS

### Financial statements

The Council's arrangements for preparing and publishing its annual financial statements remain effective. We issued an unqualified true and fair opinion on the financial statements on 27 September 2012.

No material misstatements were identified as a result of our audit work. We identified two non-trivial misstatements the Council decided not to correct for:

- grant claim debtor amount of £59,000 incorrectly included within the year end trade receivable amount

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- misclassification of £107,000 within Property, Plant and Equipment following the change in use of a property.

We also reported a judgemental misstatement, which arose as the Council's financial statements include Property, Plant and Equipment with a value that is £397,000 in excess of that assessed by its external professional valuer. This results from the Council taking a different view from the valuer.

We also suggested a number of amendments to disclosures and aspects of the presentation of the financial statements which were made by the Council.

We identified specific risks in planning our audit work and undertook additional procedures to assess the accounting for the introduction of the Self financing Housing Revenue Account and review processes surrounding the upgrading of a key financial system. No significant issues arose in these areas or from our audit of the financial statements. Our work was completed in accordance with our plans based on the comprehensive working papers produced by the Finance Team.

### **Annual Governance Statement**

We were satisfied that the Annual Governance Statement was not inconsistent or misleading with other information we were aware of from our audit of the financial statements.

### **Internal control**

Working with Internal Audit, we identified a small number of areas where deficiencies in internal controls should be improved or where the control environment could be strengthened. Action has been taken to ensure the authorisation of purchase orders remains within officers' formal limits and are only placed by officers who are on the authorised list.

### **WHOLE OF GOVERNMENT ACCOUNTS**

As the Council is below the reporting threshold for a full review, we completed only a limited assurance review of the Whole of Government Accounts to agree the information included for property, plant and equipment balances and pensions disclosures. The short form assurance statement we were required to issue for 2011/12 was unqualified.

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## **USE OF RESOURCES (VALUE FOR MONEY)**

Our unqualified value for money conclusion was given on 27 September 2012 and confirmed that, in all significant respects, the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year.

### **Financial resilience**

Our financial resilience work reviewed the Council's arrangements for financial governance, financial planning and financial control, including improvements in arrangements over the prior year.

The Council has continued to exhibit clear financial leadership from the top of the organisation, with member and officer involvement in reviewing financial matters ensuring the financial position is documented and impacts on developed financial plans. This has assisted the Council achieving the surplus of £1.272 million against its budget for the year. This allowed the transfer of £879,000 to earmarked reserves and at 31 March 2012 the Council had a General Fund balance of £2.063 million and earmarked reserves of £9.281 million.

The approved revenue budget for 2012/13 requires savings of £586,000, as well as a contribution of £480,000 from the General Fund balance in response to continued reductions in the Council's grant settlement and spending pressures within service provision. Indeed the Council is expecting to have to make further savings over the two years from 2013/14 to 2014/15.

To assist with the delivery of service the Council has implemented Programme Nexus, which is the strategic framework the Council will use to drive change at the Council over the period up to April 2015. This will be the key delivery vehicle for achieving Council's priorities and aspirations, whilst ensuring there is a focus on, and considerations of, the available resources.

The Council continues to recognise that the short term future will be extremely challenging and, through its annual budget preparation and medium term financial planning processes, is confident that the current level of available reserves provides it with sufficient funding to support core services and key priorities over the period.



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## **Challenging economy, efficiency and effectiveness**

Our review of economy, efficiency and effectiveness has considered the Council's arrangements for prioritising resources and improving efficiency and productivity.

Over a number of years the Council has sought to achieve value for money, using a value for money cost / income benchmarking review by CIPFA to help identify service areas with potential to yield additional income or reduce costs in comparison to other Councils. The associated programme of service reviews commenced in 2010/11, with a number having been completed. This has resulted in a greater emphasis on benchmarking, with a number reports taken to the Scrutiny committee during 2011/12.

The process is now being enhanced by Programme Nexus, launched in November 2011, an integrated programme of projects seeking to review and develop the provision of Council services for the future. 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.

The Council continues to identify and consider appropriate procurement savings opportunities through the East Sussex Procurement Hub. There are good examples of both recent and on-going initiatives, such as the continued piloting of a two year procurement exercise for a range of council tax and business rates information and correspondence, as well as partnership working in respect of Private Sector Leasing and Empty Homes.

The Council considers there is further scope to increase productivity and efficiency whilst reducing overhead costs, through greater use of technology and implementing flexible working practices for its office accommodation, and these are being actively pursued during 2012/13. These initiatives underpin savings in the Council's deficit reduction plan.