

LEWES DISTRICT COUNCIL

REPORT TO THE AUDIT AND STANDARDS COMMITTEE

Audit for the year ended 31 March 2014

September 2014

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OVERVIEW

Significant audit findings

This summary covers the significant findings from our audit of Lewes District Council ('Council') for the year ended 31 March 2014. However, you should read the entirety of this report, as there may be other matters raised that you consider important.

AREA OF AUDIT

SUMMARY

Financial statements We have substantially completed our work, although there are a number of outstanding items to be received and/or completed at the time of drafting this report. Further detail on the status of our work is set out on the following page.

Our final audit materiality is £1,410,000, with a value £4,240,000 for errors involving PPE that do not impact on the CIES, (see appendix III) and we have reported all non-trivial unadjusted audit differences greater than £28,000.

No material misstatements were identified as a result of our audit work.

There are no unadjusted audit differences.

Subject to satisfactory completion of the outstanding work, we anticipate issuing an unqualified true and fair opinion on the financial statements for the year ended 31 March 2014.

Control environment We are required to report to you the significant deficiencies we found in internal controls during the course of our audit. We have not identified any significant deficiencies during our audit.

An area for improvement was identified which we have discussed with management.

Governance reporting We are satisfied that the annual governance statement is not inconsistent or misleading with other information we were aware of from our audit of the financial statements and complies with "Delivering Good Governance in Local Government"

Whole of Government Accounts (WGA) The Council's WGA is below the threshold for full assurance review. However, we are required to review the consistency of property, plant and equipment and pension balances included in the WGA data collection tool with those recognised in the statement of accounts. This work is currently in progress.

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 2014. We anticipate issuing an unqualified value for money conclusion.

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

OVERVIEW

Audit status and timetable to completion

We set out below the current status of the audit and our timetable to completion.

AUDIT STATUS

We have substantially completed our audit work in respect of the financial statements and use of resources for the year ended 31 March 2014. The following matters are outstanding at the date of this report.

We will update you on their current status at the Audit and Standards Committee.

- Final clearance of any review points arising
- Review of the final version of the Annual Governance Statement
- Confirmation of the final amendments required to the financial statements
- Subsequent events review
- Management representation letter, as attached in Appendix VI, to be approved and signed.
- Completion of our review of the WGA submission

TIMETABLE TO COMPLETE

The anticipated timetable to complete is as follows:

ACTIVITY	DATE
Audit and Standards Committee meeting	22 September 2014
Signing of financial statements	By 26 September 2014
Submission of WGA assurance report	03 October 2014

INDEPENDENCE

Integrity, objectivity and independence and appropriate safeguards

Under Audit Commission Standing Guidance and Auditing and Ethical Standards, we are required as auditors to confirm our independence to 'those charged with governance'. In our opinion, and as confirmed by you, we consider that for these purposes it is appropriate to designate the Audit and Standards Committee as those charged with governance.

Our internal procedures are designed to ensure that all partners and professional staff are aware of relationships that may be considered to bear on our objectivity and independence as auditors. The principal statements of policies are set out in our firm-wide guidance. In addition, we have embedded the requirements of the Standards in our methodologies, tools and internal training programmes. The procedures require that audit engagement partners are made aware of any matters which may reasonably be thought to bear on the firm's independence and the objectivity of the audit engagement partner and the audit staff. We have considered such matters in the context of our audit for the year ended 31 March 2014.

FEES AND NON AUDIT SERVICES

A summary of fees for audit and non-audit services for the period from 1 April 2013 to date is set out below:

Audit fees	60,990
Certification fees	⁽¹⁾ 11,706
TOTAL FEES	72,696

⁽¹⁾ work remains on going on the housing benefit subsidy return and the fees shown above is current scale fee.

OTHER RELATIONSHIPS

We are not aware of any financial, business, employment or personal relationships between the audit team, BDO and the Council.

LONG ASSOCIATION THREATS

The Audit Commission's Standing Guidance requires that the audit engagement partner should not act for more than five years, exceptionally increased to seven years, and the audit manager for 10 years.

Key audit staff	Years involved
Richard Bint - Audit engagement partner	7
Stuart Frith - Audit Manager	3

INDEPENDENCE DECLARATION AND APPROPRIATE SAFEGUARDS

We have not identified any potential threats to our independence as auditors.

AUDIT SCOPE AND OBJECTIVES

SCOPE AND OBJECTIVES

The audit scope is determined by the Audit Commission's Code of Audit Practice for local government (2010), International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission. This requires that we form an opinion on whether:

1 The financial statements give a true and fair view of the financial position as at 31 March 2014 and of the income and expenditure for the year then ended.

2 The financial statements have been prepared properly in accordance with statutory requirements and proper practices have been observed in their compilation.

3 The financial statements have been prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting.

4 The information given in the statement of accounts and explanatory foreword is consistent with the financial statements.

5 The annual governance statement is not inconsistent with our knowledge and complies with relevant guidance.

6 The Whole of Government Accounts return is consistent with the audited financial statements and that it is properly prepared.

7 The audited body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

FINANCIAL STATEMENTS

Key audit and accounting matters

SIGNIFICANT AND OTHER RISKS OF MATERIAL MISSTATEMENT

We reported our risk assessment¹, which brought to your attention areas that require additional or special audit consideration and are considered a significant audit risk, in the 2013/14 Audit Plan issued in June 2014. We have since undertaken a more detailed assessment of risk following our review of the draft financial statements, and we have not included any additional significant risks.

We report below our findings of the work designed to address these significant risks, our review of significant accounting estimates and management judgements, and any other relevant audit and accounting issues arising.

Key: ■ Significant risk/issue ■ Significant accounting estimates and management judgements ■ Other relevant audit and accounting

SIGNIFICANT AUDIT RISK AREAS

RISK	RELATED CONTROLS / RESPONSE TO RISK	WORK PERFORMED	CONCLUSION
MANAGEMENT OVERRIDE OF CONTROLS	ISA (UK&I) 240 requires us to presume that a risk of management override of controls is present and significant in all entities. By its nature, there are no controls in place to mitigate the risk of management override.	We reviewed the appropriateness of journal entries and other adjustments made in the preparation of the financial statements. We also reviewed accounting estimates for evidence of possible bias.	No issues have been identified in our review of the appropriateness of journal entries and other adjustments made in the preparation of the financial statements. Our work on accounting estimates has not identified any evidence of bias.
REVENUE RECOGNITION	ISA (UK&I) 240 assumes that there is a rebuttable presumption that there is a material risk of fraud arising from revenue recognition. We have rebutted this presumption for all income streams except for fees and charges income. We have confirmed that the Council has put in place controls to ensure the occurrence, completeness and accuracy of the income from these sources.	We have documented the systems in place for the raising and recording of the Council's main revenue streams. We have also substantively tested a sample of fees and charges income to ensure that accounting policies had been correctly applied in determining the point of recognition of income and that income was completely and accurately recorded.	We are satisfied that revenue income appears to have been appropriately identified and recorded within the financial statements.

FINANCIAL STATEMENTS

Key audit and accounting matters (continued)

SIGNIFICANT ACCOUNTING ESTIMATES AND MANAGEMENT JUDGEMENTS

WORK PERFORMED	CONCLUSION
<p>PPE - de-recognition of HRA assets replaced in year</p> <p>As in prior years the council has completed a detailed programme of capital works on its Housing stock, ensuring these continue to be fit for purpose.</p> <p>The accounting for these improvements requires that the original costs of the items being replaced, such as kitchens, bathrooms and heating systems, are de-recognised within the councils fixed asset register and replaced by the value of the works completed in the year.</p> <p>This adjustment has, in light of the current limited information available to the council, required a management estimate of the value of the assets to be de-recognised, which we have reviewed as part of the audit of the financial statements.</p>	<p>Our initial review of the value of assets de-recognised, as disclosed in the draft financial statements, indicated that this did not include all of the assets replaced and as such a revised calculation would be required and amendments made to the financial statements.</p> <p>We have reviewed and discussed the revised calculation provided by the council and, based on the supporting information provided, we are satisfied that the final figure disclosed in the financial statements is materially correct.</p> <p>We are also aware that following the implementation of the Council's fixed asset register, and completion of the associated entries within it, the council will be able to produce an improved analysis of the adjustment for the 2014/15 financial statements.</p>
OTHER RELEVANT AUDIT AND ACCOUNTING ISSUES	CONCLUSION
<p>WORK PERFORMED</p> <p>We have noted in prior years that for a number of years the council has not, as required by the code of practice, amended the cost and depreciation figures for PPE where there have been revaluations of the associated land and buildings.</p> <p>While there is no impact on the net book value of the assets disclosed within the financial statements, the figures require amendment to ensure the gross book values disclosed accord with the detailed valuations received.</p> <p>We have reviewed the accounts to ensure that the appropriate adjustment has been made to the financial statements.</p>	<p>CONCLUSION</p> <p>On review of the draft financial statements it was identified that the required adjustment had not been made, and as a result the gross book value and depreciation values were overstated by £59.99 million, although there was impact on the net book value.</p> <p>The need for an amendment has been discussed further with officers and calculations of appropriate amendments to the financial statements have been proposed. These amendments were to be made to the prior period figures within the PPE note to the financial statements (note 13).</p> <p>We have reviewed the resultant disclosures, and gross book and depreciation values included within the notes, and are satisfied that the adjustments have been appropriately made to the notes to the financial statements.</p>
<p>PPE - removal of accumulated depreciation balances</p>	

FINANCIAL STATEMENTS

Key audit and accounting matters (continued)

OTHER RELEVANT AUDIT AND ACCOUNTING ISSUES

WORK PERFORMED	CONCLUSION
<p>PPE - valuation of specific assets within the statements</p> <p>As part of the audit we have reviewed the classification and associated valuation of the Council's assets to ensure they are appropriately reflected within the financial statements.</p> <p>This work has included consideration of events after the date of the balance sheet to ensure these have been reflected in the financial statements where necessary.</p>	<p>Our review has identified two assets where there have been changes in classification since year end:</p> <ul style="list-style-type: none"> • Southover Lodge - which in June 2014 was approved for sale by the Council. • Southover Grange - which will be sold during 2014/15 as part of a fair value Land & Building swap agreed with the County Council. <p>In view of the date of agreement to the transactions, we have considered the potential impact of the change (in terms of materiality) and are satisfied that the value within the financial statements is not materially misstated.</p>
<p>IAS 19 RESTATEMENT</p> <p>In line with the changes to the code of practice, the Council has had to restate its financial statements for the prior period to reflect changes in the accounting requirement of IAS19.</p>	<p>We have reviewed the adjustments completed by the Council in response to the changed requirements and are satisfied that the appropriate amendments have been made to the financial statements.</p>
<p>ACCOUNTS DISCLOSURES</p> <p>As part of our work on the financial statements we complete a detailed review of the accounts disclosures made, specifically considering whether the disclosures in the financial statements are in line with the code of practice and accounting standards.</p>	<p>As a result of this review, as well as discussions arising from the audit, we have identified some amendments to the financial statements and these have been made to the revised financial statements.</p>

FINANCIAL STATEMENTS OPINION

Subject to satisfactory completion of the outstanding work, we anticipate issuing an unqualified true and fair opinion on the financial statements for the year ended 31 March 2014.

CONTROL ENVIRONMENT

Significant deficiencies and other observations

We are required to report to you, in writing, significant deficiencies in internal control that we have identified during the audit. These matters are limited to those which we have concluded are of sufficient importance to merit being reported to you.

As the purpose of the audit is for us to express an opinion on the financial statements, you will appreciate that our audit cannot necessarily be expected to disclose all matters that may be of interest to you and, as a result, the matters reported may not be the only ones which exist. As part of our work, we considered internal control relevant to the preparation of the financial statements such that we were able to design appropriate audit procedures. This work was not for the purpose of expressing an opinion on the effectiveness of internal control. We only restate weaknesses already reported by internal audit where we consider these to be significant deficiencies.

Key: ■ Significant deficiency in internal control ■ Other deficiency in internal control ■ Other observations

AREA	OBSERVATION	IMPLICATION	RECOMMENDATION
PURCHASE ORDER AUTHORISATION	Testing of controls in relation to the purchase system has again found instances where purchase orders placed were either in excess of officer's formal authorisation limits, or were placed by officers who were not on the authorised signatory list.	If orders placed are outside of formal authorisation arrangements, the Council may incur expenditure which is unnecessary or fraudulent.	The Council should ensure that its stated procedures, to ensure all purchase orders are appropriately authorised, are being adhered to.

We made the observations reported to you above during the course of our normal audit work. Management responses to our recommendations are included in appendix IV.

GOVERNANCE REPORTING

Governance matters and quality of reporting

FINANCIAL STATEMENTS PREPARATION

The draft financial statements, within the statement of accounts, were prepared and provided to us for audit on 30 June 2014.

As part of our planning for the audit, we prepared a detailed document request which outlined the information we would require to complete the audit. As in previous years, a file of audit working papers was made available to us prior to the start of the audit.

CONCLUSIONS AND AUDIT ISSUES

We have no significant matters to report.

ANNUAL GOVERNANCE STATEMENT

We are required to review the draft annual governance statement and to be satisfied that it is not inconsistent or misleading with other information we are aware of from our audit of the financial statements, the evidence provided in the Councils review of effectiveness and our knowledge of the Council.

CONCLUSIONS AND AUDIT ISSUES

We are satisfied that the annual governance statement is not inconsistent or misleading with other information we were aware of from our audit of the financial statements and complies with “Delivering Good Governance in Local Government” (CIPFA / SOLACE).

STATEMENT OF ACCOUNTS

We are required to read all the financial and non-financial information in the explanatory foreword to the financial statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit.

CONCLUSIONS AND AUDIT ISSUES

We are satisfied that the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

WHOLE OF GOVERNMENT ACCOUNTS

Consistency of the Data Collection Tool

SCOPE OF THE REVIEW OF THE DATA COLLECTION TOOL

We are required to perform tests with regard to the WGA return prepared by the Council for use by the Department of Communities and Local Government for the consolidation of the local government accounts, and by HM Treasury at Whole of Government Accounts level.

This work requires checking the consistency of the WGA return with the audited financial statements, and reviewing the consistency of income and expenditure transactions and receivables and payable balances with other government bodies.

CONCLUSION AND AUDIT ISSUES

The Council's WGA is below the threshold for full assurance review. However, we are required to review the consistency of property, plant and equipment and pension balances included in the WGA data collection tool with those recognised in the statement of accounts. This work is currently in progress.

ASSURANCE STATEMENT

This work has yet to be completed.

USE OF RESOURCES

Scope of the review

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).

AUDIT COMMISSION SPECIFIED CRITERIA

Our principal work in arriving at our value for money conclusion was comparing the Council's performance against the requirements specified by the Audit Commission in its guidance to auditors.

This is based on the following two reporting criteria:

- The organisation has proper arrangements in place for securing financial resilience. The focus of the criteria is that the Council has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.

- The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

The focus of the criteria is that the Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

We draw sources of assurance relating to their value for money responsibilities from:

- the Council's system of internal control as reported on in its annual governance statement
- the results of the work of the Commission, other inspectorates and review agencies
- any work mandated by the Commission
- any other locally determined risk-based value for money work that auditors consider necessary to discharge their responsibilities.

FOCUS OF REVIEW

We have reviewed the Council's arrangements against risk indicators and key issues facing the sector including the Government's spending review, funding over the medium term, risks arising from welfare reform, and risks from the localisation of business rates.

In our audit plan we reported the following significant risk to the Council:

- Identification of further efficiency savings to support the medium to long term delivery of the Council's Medium Term Financial Strategy

We also review the Council's relative performance against the VfM Profile Tool and Financial Ratios Analysis Tool produced by the Audit Commission, issues arising from VfM Briefings provided by the Audit Commission, and the key assumptions in the Medium Term Financial Strategy.

USE OF RESOURCES

Financial resilience

The financial resilience criterion has three aspects: financial governance, financial planning and financial control.

FINANCIAL RESILIENCE

AUDIT ISSUES AND IMPACT ON CONCLUSION

During 2013/14 the Council's financial governance arrangements have enabled clear leadership to be shown on financial matters through the Cabinet and the Corporate Management Team in the continued response to the known financial settlements. There has also continued to be strong budget monitoring together with member and officer involvement in the review of key financial matters. Clear leadership has ensured the Council's overall financial position is clearly understood within the organisation.

No areas of concern

The Council's overall arrangements for ensuring financial control remain effective. The financial statements record that the Council's General Fund expenditure for the year exceeded income by £0.338 million. This is in contrast with the budget which had anticipated net expenditure of £0.484 million. Included in the deficit is a net contribution of £1.400 million the Council made to its earmarked reserves. At 31 March 2014 the Council had a general fund balance of £2.341 million, an HRA balance of £2.728 million and earmarked reserves of £10.634 million.

The Council's revenue budget for 2014/15 requires savings of £596,000 and a contribution from the general fund balance of £749,000 due to reductions in the Council's grant settlement and identified spending pressures. The budget includes a net contribution of £1.380 million to earmarked reserves. The Council has a well embedded process of financial planning, with the key aspect being the annual budget setting process, supported by the medium term budget outlook, which was updated during the year to cover a six year period to 2019/20.

The Council is currently forecasting further required savings of £2.362 million over this five year period to 2019/20, although this make assumptions about future changes to central funding levels which will only become clearer after the elections in 2015 and the subsequent Government Spending Review. The Council continues to consider options for achieving additional savings, with these likely to arise from the continued organisational development process that has commenced implementation from June 2014.

The Council maintains healthy levels of earmarked reserves and balances which underpins the future required savings projections, and Members have agreed a policy to principally use these reserves to fund investment and non-recurring expenditure rather than to support on-going expenditure.

Programme Nexus remains the principal way in which the Administration's priorities and policy aspirations in this period are delivered whilst ensuring resources are considered. Over the course of the year the Council has reviewed its internal structures to ensure it is best equipped to allow the best use of its financial resources and continues, under the Programme Nexus approach, to consider the best structure and arrangements in light of the known funding position.

USE OF RESOURCES

Challenging economy, efficiency and effectiveness

The economy, efficiency and effectiveness criterion has two aspects: prioritising resources and improving efficiency and productivity.

CHALLENGING ECONOMY EFFICIENCY AND EFFECTIVENESS

AUDIT ISSUES AND IMPACT ON CONCLUSION

The Council has previously made effective use of value for money cost / income benchmarking reviews to identify service areas where further service improvements could be made. This process has resulted in the Council completing a range of service reviews, ensuring that there is a greater emphasis within these on the use of benchmarking to support decision making on service developments. The output has also, in line with linked service and financial planning arrangements in place, influenced the Council's service planning and budget setting processes and throughout its service planning and MTFs development the Council continues to challenge resource allocation within the budget and financial plan.

No areas of concern

This process has now been overtaken by the ongoing Programme Nexus project and the associated steps within this to shape the Council to ensure it is fit for the future. There are a number of strands to the programme that are aiming to reshape Council services and how they are provided / delivered. A June 2013 report to Cabinet outlined the next steps for Programme Nexus, and has resulted in better the use of technology and smarter use of office accommodation by flexible working, as well as the recent senior officer restructure and ongoing voluntary redundancy programme.

A key aspect of this development is the need to ensure the Council is appropriately staffed, resourced and skilled to provide effective service to its residents, and that these services are provided in a cost efficient and effective way. The Council is now actively involved in the next stage of its organisational development which is focused around the four business units that have been identified:

- Corporate HQ, Service delivery, Place shaping and Corporate services.

Developing plans recognise that aspects of the units are specific to the Council and would be difficult to share, but that others (specifically Service delivery and Corporate services) offer significant opportunities for efficient use of IT and potential for sharing functions. The plans and strategy for the next stage include a number of key steps such as the evaluation of options for partnership working, development of multi-functional and multi-skilled teams, improving the commercial awareness of the Council and assessing the staffing arrangements necessary for any new structure.

The overall plans were discussed and approved by Cabinet in June 2014 and will be implemented across 2014/15 and beyond. It is clear that the potential for partnership working with other public sector organisations will play a key role within the implementation of this strategy.

USE OF RESOURCES

Challenging economy, efficiency and effectiveness

CHALLENGING ECONOMY EFFICIENCY AND EFFECTIVENESS (continued)

AUDIT ISSUES AND IMPACT ON CONCLUSION

In its most recent performance report, covering performance against the three key commitments in the year to 31 March 2014, the Council has reported strong performance for the majority of its indicators. Some of the key highlights for each commitment include:

- Customers - high collection rates for waste, prompt processing of planning applications, strong customer satisfaction with the new Southover House reception and efficient processing of benefit claims.
- Partnership - strong working with both East Sussex County Council (disabled facilities and homelessness) and Brighton and Hove Council (empty properties).
- Money - High collection rates for Council Tax, Business rates and Housing rents, prosecution of benefit frauds and facilitating events to bring money into the local economy (e.g. Artwave and Gentlemen of the Road)

The performance delivered during 2013/14 confirms that while the Council is faced with continuing financial pressures, it has managed to achieve many of its targets, although there are areas where there remains scope to deliver further improvements.

USE OF RESOURCES 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 ended 31 March 2014. We anticipate issuing an unqualified value for money conclusion.

APPENDICES



APPENDIX I: DEFINITIONS

TERM	MEANING
The Council	Lewes District Council
Management	<p>The person(s) responsible for achieving the objectives of the Council and who have the authority to establish policies and make decisions by which those objectives are to be pursued. Management is responsible for:</p> <ul style="list-style-type: none"> the financial statements (including designing, implementing, and maintaining effective internal control over financial reporting) putting in place proper arrangements to secure economy, efficiency and effectiveness in the use of resources and to ensure proper stewardship and governance, and regularly to review the adequacy and effectiveness of them.
Those charged with governance	<p>The person(s) with responsibility for assurance and the Council's arrangements for governance, managing risk, maintaining an effective control environment, and reporting on financial and non-financial performance. This includes overseeing the financial reporting process.</p> <p>Those charged with governance for the Council are the Audit and Standards Committee.</p>
ISAs (UK & Ireland)	International Standards on Auditing (UK & Ireland)
IAS	International Accounting Standards
IFRS	International Financial Reporting Standards as adopted by the European Union
Materiality	The size or nature of a misstatement that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable user of the financial statements would have been changed or influenced as a result of the misstatement.
Code	Code of Practice on Local Authority Accounting in the United Kingdom issued by CIPFA / LASAAC
SeRCOP	Service Reporting Code of Practice for Local Authorities issued by CIPFA / LASAAC
CIES	Comprehensive Income and Expenditure Statement

APPENDIX II: AUDIT DIFFERENCES

We are required to bring to your attention audit differences identified during the audit, except for those that are clearly trivial, that the Audit and Standards Committee is required to consider. This includes: audit differences that have been corrected by management; and those that remain uncorrected along with the effect that they have individually, or in aggregate, on the opinion in the auditor's report.

CORRECTED AUDIT DIFFERENCES

There were no differences that have been corrected in the revised draft financial statements that affect the reported surplus for the year. However, a number of other amendments have been made, as detailed in the 'Key Audit and Accounting Matters' section of this report.

UNADJUSTED AUDIT DIFFERENCES

There are no unadjusted audit differences.

APPENDIX III: MATERIALITY

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 or actual misstatements. Materiality may relate to both quantitative and qualitative matters, and for quantitative considerations the numerical level materiality is assessed at may be different for different information in the financial statements. Nevertheless, within this context, we provide an indication of the quantitative levels used for planning purposes. Materiality is re-assessed every year in the context of authoritative audit practice.

MATERIALITY

Planning materiality		£1,410,000
Final materiality levels	All balances	£1,410,000
	PPE balances where there is no impact on the CIES	£4,240,000
Clearly trivial threshold		£28,000

Planning materiality was based on 2% of gross expenditure, using the draft outturn.
We have no reason to revise our final materiality level.

APPENDIX IV: RECOMMENDATIONS AND ACTION PLAN

CONCLUSIONS FROM WORK	RECOMMENDATIONS	MANAGEMENT RESPONSE	RESPONSIBILITY	TIMING
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CONTROL ENVIRONMENT

Purchases system

Testing of controls in relation to the purchase system found instances where purchase orders placed were either in excess of officers formal authorisation limits, or were placed by officers who were not on the authorised signatory list.

The Council should ensure that its stated procedures, to ensure all purchase orders are appropriately authorised, are being adhered to.

APPENDIX V: STATUTORY AND PROFESSIONALLY REQUIRED COMMUNICATIONS

COMMUNICATION REQUIRED	DATE COMMUNICATED	TO WHOM	METHOD
Accounting practices, accounting policies, estimates and judgements and financial statement disclosures (ISA 260)		Financial statements section of this report	
Significant difficulties encountered during the audit (ISA 260)		No issues	
Significant matters discussed or subject to correspondence with management (ISA 260)		No issues	
The final draft of the representation letter (ISA 260)		Appendix VI	
Independence (ISA 260)		Independence section of this report	
Fraud and illegal acts (ISA 240)		No issues	
Non compliance with laws and regulations (ISA 250)		No issues	
Significant deficiencies in internal control (ISA 265)		Control environment section of this report	
Misstatements, whether or not corrected by the entity (ISA 450)		Appendix II	
Significant matters in connection with related parties (ISA 550)		No issues	
Events or conditions that may cast significant doubt on the entity's ability to continue as a going concern (ISA 570)		No issues	
Matters relating to the audit of the group (ISA 600)		No issues	
Expected modifications to our audit report or inclusions of emphasis of matter / other matter (ISA 705 / 706)		No issues	
Material inconsistencies with other information in documents containing audited financial information (ISA 720)		No issues	
Objections from the public or exercise of statutory powers under the Audit Commission Act 1998		No issues	

APPENDIX VI: DRAFT REPRESENTATION LETTER

TO BE TYPED ON CLIENT HEADED NOTEPAPER

BDO LLP
55 Baker Street
London
W1U 7EU

23 September 2014

Dear Sirs

Financial statements of Lewes District Council for the year ended 31 March 2014

We confirm that the following representations given to you in connection with your audit of the Council's financial statements (the 'financial statements') for the year ended 31 March 2014 are made to the best of our knowledge and belief, and after having made appropriate enquiries of other officers and members of the Council.

The Director of Finance has fulfilled his responsibilities for the preparation and presentation of the financial statements as set out in the Accounts and Audit Regulations 2011 and Statement of responsibilities of auditors and of audited bodies local government (March 2010) issued by the Audit Commission, and in particular that the financial statements give a true and fair view of the financial position of the Council as of 31 March 2014 and of its income and expenditure and cash flows for the year then ended in accordance with proper practices as set out in the CIPFA /LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code) and for making accurate representations to you.

We have fulfilled our responsibilities on behalf of the Council, as set out in the Accounts and Audit Regulations 2011, to make arrangements for the proper administration of the Council's financial affairs, to conduct a review at least once in a year of the effectiveness of the system of internal control and approve the annual governance statement, to approve the Statement of Accounts (which include the financial statements), and for making accurate representations to you.

We have provided you with unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence. In addition, all the accounting records have been made available to you for the purpose of your audit and all the transactions undertaken by the Council have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of all management and other meetings have been made available to you.

In relation to those laws and regulations which provide the legal framework within which the Council's business is conducted and which are central to our ability to conduct our business, we have disclosed to you all instances of possible non-compliance of which we are aware and all actual or contingent consequences arising from such instances of non-compliance.

There have been no events since the balance sheet date which either require changes to be made to the figures included in the financial statements or to be disclosed by way of a note. Should any material events of this type occur, we will advise you accordingly.

We are responsible for adopting sound accounting policies, designing, implementing and maintaining internal control, to, among other things, help assure the preparation of the financial statements in conformity with generally accepted accounting principles and preventing and detecting fraud and error.

We have disclosed to you the identity of all related parties and all the related party relationships and transactions of which we are aware. We have appropriately accounted for and disclosed such relationships and transactions in accordance with the applicable financial reporting framework.

We have no plans or intentions that may materially affect the carrying value and where relevant, the fair value measurement, or classification of assets or liabilities reflected in the financial statements.

We confirm that the significant assumptions used in making accounting estimates, including those measured at fair value, are reasonable. In particular:

Pension fund assumptions - We 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:

Rate of inflation	2.8%
Rate of increase in salaries	4.6%
Rate of increase in pensions	2.8%
Rate for discounting scheme liabilities	4.3%
Take up option to convert the annual pension	50%

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 us the Council's building surveyor.

Carrying value of land and buildings - We are satisfied that the carrying value of land and buildings is materially consistent with the fair value at 31 March 2014, and that no adjustment is required either to those assets that were revalued as part of the five-year rolling programme in previous years, or to those assets (Southover Lodge and Southover Grange) that have been subject to change since the year end.

Fair value measurements and disclosures - We 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 are reasonable and in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

After making appropriate enquiries of other members of the Council and other officers regarding disclosure of information to you as auditors, we confirm that so far as we are aware, there is no relevant audit information needed by you in connection with preparing your audit report of which you are unaware.

We confirm that the above representations are made on the basis of enquiries of councillors, management and staff with relevant knowledge and experience (and, where appropriate, of inspection of supporting documentation) sufficient to satisfy ourselves that we can properly make each of the above representations to you.

We confirm that the financial statements are free of material misstatements, including omissions.


Yours faithfully

John Magness
Director of Finance

[date]

Councillor Ian Eiloart
Signed on behalf of the Audit and Standards Committee

[date]



The matters raised in our report prepared in connection with the audit are those we believe should be brought to your attention. They do not purport to be a complete record of all matters arising. This report is prepared solely for the use of the organisation and may not be quoted nor copied without our prior written consent. No responsibility to any third party is accepted.

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