

# LEWES DISTRICT COUNCIL

Annual Audit Letter 2013/14

October 2014

# EXECUTIVE SUMMARY

## Background

This Annual Audit Letter summarises the key issues arising from the work that we have carried out during the year. It is addressed to the Council but is also intended to communicate the significant issues we have identified to key external stakeholders and members of the public.

## Responsibilities of auditors and the council

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.

Our responsibility 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 Statement of Accounts
- whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

We are also required to review and report on the Council's Annual Governance Statement, Whole of Government Accounts (WGA) submission, whether we have exercised our statutory powers under the Audit Commission Act 1998 in any matter, and our grant claims and returns certification work.

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 audit.

BDO LLP  
7 October 2014

## STATEMENT OF ACCOUNTS

1

We issued an unqualified true and fair opinion on the financial statements on 29 September 2014.

Three misstatements were identified and corrected as a result of our audit work. As these corrections relate to capital transactions and valuations, there is no impact on the General Fund or HRA balance.

We have not identified any significant deficiencies in internal controls during our audit. However, we 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.

## USE OF RESOURCES

2

We issued an unqualified value for money conclusion on 29 September 2014.

The Council maintains healthy levels of earmarked reserves and balances and Members have agreed a policy to use reserves to fund investment and non-recurring expenditure rather than to support on-going expenditure.

The Medium Term Financial Strategy was updated during the year and Members continue to consider options for achieving additional savings, with these likely to arise from the continued organisational development process and Programme Nexus that commenced in June 2014.

## OTHER MATTERS

3

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).

The Council's WGA submission is below the threshold for audit and we are required only to review the total amounts included in the Data Collection Tool for property, plant and equipment and for the net pension liability. We reported that these values in the Data Collection Tool were consistent with the audited financial statements.

## GRANT CLAIMS AND RETURNS CERTIFICATION

4

We have completed our review of the Housing Pooled Capital Receipts return and have no matters to report. Our work on the Housing Benefits subsidy claim for 2013/14 is in progress.

# STATEMENT OF ACCOUNTS

1

OPINION

We issued an unqualified true and fair opinion on the financial statements on 29 September 2014.

## Financial performance

The General Fund reported a deficit on services of £1.63 million. The deficit included additional costs for staff severance arrangements and an IT modernisation programme. After adjusting for £0.74 million of capital items, £0.85 million of pension costs in excess of cash payable to the pension fund, and £0.28 million of other items in the Movement in Reserves Statement, the Council reported a surplus on the General Fund balance of £0.24 million. Some £0.58 million of the General Fund balance has been transferred to earmarked revenue reserves, resulting in a net reduction to the General Fund balance of £0.34 million.

The HRA reported a surplus on services of £13 million which included revaluation gains of £11.57 million. After adjusting for £1.52 million of capital expenditure funded from the HRA balance, £1.19 million set aside to repay borrowing and £11.07 million of other items in the Movement in Reserves Statement, the HRA reported a deficit of £0.74 million.

## Financial statements

The following misstatements were identified and corrected.

We noted in recent years that the Council has not amended the cost and depreciation figures within the property, plant and equipment note where there have been revaluations of land and buildings. Our review found that the gross book value and depreciation values were overstated by £59.99 million, although there was no impact on the net book value.

While the Council has correctly recorded the valuation of HRA assets within the financial statements, we noted an error with the entries made to adjust the previously recorded values as the Council had incorrectly recorded £3.87 million as an upwards revaluation within the revaluation reserve. This should have been included as part of the reversal of prior year impairments as disclosed within the CIES.

The Council has completed a detailed programme of capital works on its housing stock which requires that the original costs of the items being replaced, such as kitchens, bathrooms and heating systems, are de-recognised and replaced by the value of the works completed in the year. This adjustment required a management estimate of the value of the assets to be de-recognised. During the course of the audit the Council identified an additional £0.91 million of assets to be de-recognised.

As these corrections relate to capital transactions and valuations, there is no impact on the General Fund or HRA balance.

There are no remaining unadjusted audit differences.

## Internal controls

We have not identified any significant deficiencies in internal controls during our audit.

However, we observed the following deficiency when testing controls:

We 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.

Management has agreed to review and strengthen this control.

# USE OF RESOURCES

2

## CONCLUSION

We issued an unqualified value for money conclusion on 29 September 2014.

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:

- the organisation 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 is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

## Financial resilience

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 response to Government's financial settlements. There continues 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.

In 2013/14, General Fund expenditure exceeded income by £0.338 million, which is after transferring £0.582 million to earmarked revenue reserves. This is a favourable outturn compared to the anticipated net expenditure of £0.484 million. At 31 March 2014 the Council had a General Fund balance of £2.341 million, an HRA balance of £2.728 million and earmarked revenue reserves of £10.634 million.

The Council's revenue budget for 2014/15 requires savings of £0.596 million and a contribution from the General Fund balance of £0.749 million 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 is currently forecasting further required savings of £2.362 million over this five year period to 2019/20. Members continue 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.

## Challenging economy, efficiency and effectiveness

The Council has previously made effective use of cost and income benchmarking reviews to identify service areas where service improvements have been made.

This process has been largely overtaken by the 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 aim to reshape services and how these are provided, including better the use of technology and smarter use of office accommodation by flexible working. The next stage involves reviewing organisational development around the four business units, evaluation of options for partnership working, development of multi-functional and multi-skilled teams, improving commercial awareness and assessing the staffing arrangements necessary for any new structure.

In the most recent performance report, the Council has demonstrated strong performance for the majority of its indicators including:

- 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 - effective working with East Sussex County Council (disabled facilities and homelessness) and Brighton and Hove Council (empty properties).
- Money - collection rates for Council Tax, Business rates and Housing rents, prosecution of benefit frauds and facilitating events to bring money into the local economy.

# OTHER MATTERS

3

REPORT BY EXCEPTION

We have no other matters to report.

## Annual Governance Statement

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).

## Whole of Government Accounts

The Council's WGA submission is below the threshold for audit and we are required only to review the total amounts included in the Data Collection Tool for property, plant and equipment and for the net pension liability. We reported that these values in the Data Collection Tool were consistent with the audited financial statements.

# GRANT CLAIMS AND RETURNS CERTIFICATION

4

## CERTIFICATION WORK

The 2012/13 Housing and Council Tax Benefit subsidy claim was subject to qualification.

### Certification findings 2012/13

We presented our most recent Grant claims and returns certification report in February 2014, which included the results of the audited returns for 2012/13.

We certified three returns amounting to over £67 million. The Housing Pooled Capital Receipts return and National non-domestic rates return were certified without amendment or qualification.

Our audit of the Housing and Council Tax Benefits subsidy claim found a number of errors in processing benefit claims regarding the classification of homelessness cases, use of applicable rates to calculate benefits for homelessness cases, income assessments, and recording child tax credit income and working tax credit income.

Following further discussion and the provision of additional supporting information by the Council, DWP has amended its assessment of the impact on the claim made a deduction of approximately £4,000 from the final settlement.

### Work in progress for 2013/14

We have completed our review of the Housing Pooled Capital Receipts return and have no matters to report. There is no requirement to audit the National non-domestic rates return in 2013/14.

Our work on the Housing Benefits subsidy claim for 2013/14 is in progress.

We will report the findings from this work in December 2014.

# APPENDIX

## Reports issued

We issued the following reports during the year.

REPORT	DATE
Planning letter	April 2013
Grant Claims and Returns Certification Report	February 2014
Audit Plan	April 2014
Final Audit Report	September 2014
Annual Audit Letter	October 2014


## Fees update

We reported our original fee proposals in our Audit Plan issued in April 2014. Our fees to date and any variance to the original proposal are shown below.

AUDIT AREA	PROPOSED FEES £	FEES UPDATE £
Scale fee	60,990	60,990
Certification work	11,706	<i>(note 1)</i> 11,706
Total fees for audit services	72,696	72,696

*Note 1 - Our work on the audit of the grant claims and other returns for 2013/14 is in progress and we will report the findings from this work and the final fees separately.*

Certification work fees have reduced from £14,150 in 2012/13 to £11,706 to reflect the reduced work required for housing benefits, council tax benefits and NDR income. In previous years, we were able to take assurances of amounts included in the financial statements for council tax benefits (now local council tax reduction scheme) and NDR net yield from this work. We will report the final fee outturn once this has been agreed with management and the Audit Commission.



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 council and may not be quoted nor copied without our prior written consent. No responsibility to any third party is accepted.

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